

OVERVIEW

The intent of this policy is to outline Monash City Council's investment policy in a document designed to provide guidance on various matters to be considered when investing surplus funds, with the objective to maximize earning within approved risk guidelines and to ensure security of funds.

RESPONSIBILITIES

Chief Financial Officer for the corporate implementation, review and interpretation of this policy.

Manager Finance is authorised to invest Monash City Council's operating funds in investments consistent with this Investment Policy and legislation.

RELATED MATERIAL: *Local Government Act 2020 (LGA) Section 103*
Australian Accounting Standards

REVIEW: Chief Financial Officer

APPROVED BY: Council **TBC**

DATE: July 2021

MONASH CITY COUNCIL

INVESTMENT POLICY

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1. Introduction

The intent of this policy is to outline Monash City Council's investment strategy to provide guidance on various matters to be considered when investing surplus funds, with the objective to maximize earning within approved risk guidelines and to ensure security of funds.

2. Objectives

To invest Monash City Council's surplus funds, with consideration of risk and at the most favourable rate of interest available to it at the time, for that investment type, while ensuring that its liquidity requirements are being met.

While exercising the power to invest, priority is to be given to: preservation of capital; liquidity; and the return of investment.

- Preservation of capital is the principal objective of the investment portfolio. Investments are to be performed in a manner that seeks to ensure security and safeguarding the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters.
- The investment portfolio will ensure there is sufficient liquidity to meet all reasonably anticipated cash flow requirements, as and when they fall due, without incurring costs due to the unanticipated early sale of an investment.
- The investment is expected to achieve a prudent rate of return that takes into account the Council's risk tolerance. Any additional return target set by Council will also consider the risk limitation and prudent investment principles.
- Return on Investment. The expected return on investments will be monitored and compared to the Annual Budget and quarterly report.

3. Legislative Requirements

All investments are to comply with the following:

Local Government Act 2020 – (LGA) Section 103 (see attachment 1)

Australian Accounting Standards

4. Delegation of Authority

The Manager Financial Services is authorised to invest Monash City Council's operating funds in investments consistent with this Investment Policy and legislation. The Manager Finance will report to Chief Financial Officer for investment guidelines, approved lists and oversight of investment activities for the purposes of the Investment Policy.

5. Prudent Person Standard

The investment will be managed with the care, diligence and skill that a prudent person would exercise. Officers are to manage the investment portfolios to safeguard the portfolios in accordance with the spirit of this Investment Policy, and not for speculative purposes.

6. Ethics and Conflicts of Interest

Officers shall refrain from personal activities that would conflict with the proper execution and management of Council's investment portfolio. This policy requires officers to disclose any conflict of interest to the CEO.

7. Approved Investments

Investments are limited to those identified by Section 103 of the *Local Government Act 2020* and authorised investments as advised by the Minister for Local Government.

8. Fossil Fuel Divestment

Fossil fuel divestment is the conscious removal of investments in companies that are involved in fossil fuel projects, such as coal or gas. The fossil fuel industry is a leading generator of greenhouse gases, which have been attributed to negative impacts on climate and our environment.

The Council has no direct investment (or shareholdings) in any fossil fuel company or fossil fuel aligned company. Majority of Council investments reside in banks, which currently invest in financial institutions, which fund fossil fuel projects.

Council Commits to adopt a positive screening approach for Council's investment with financial institutions by actively investing with fossil free financial institutions within the parameters of Council's investment policy.

Council gives preference to fossil fuel free Authorised Deposit-Taking Institutions when making deposits if:

- a) the rate of return on investment is greater than or equal to the rates of other Authorised Deposit-Taking Institutions which comply with Council's investment policy and are available at the time;
- b) the financial institution and product is otherwise compliant with Council policy.

9. Prohibited Investments

This investment policy prohibits any investment carried out for purely speculative purposes including:

- Derivative based instruments (Derivatives are securities that derive their value from another security, for example futures and options. Also known as synthetics.);
- Principal only investments or securities that provide potentially nil or negative cash flow (the purchase of an investment using borrowed funds, where the interest on the borrowing is greater than the income derived from the investment);
- Stand-alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind; and
- The use of leveraging (borrowing to invest) of an investment (leveraging is a synonym for gearing for example, using derivatives investments to over-invest a portfolio).

10. Federal Government Bank Guarantee

The Australian Government has issued a Permanent Guarantee on all deposits in Authorised Deposit-taking Institutions (ADI's) up to \$250,000 (refer Attachment 2 Treasurers Statement Financial Claims Scheme Cap).

Monash Council has resolved with regards to the Guarantee scheme that Council:

- a) Invest only with Authorised Deposit-taking Institutions (ADI's); and
- b) Maximise Council investment opportunities with a range of ADI's within the allowed parameters as detailed in the Risk Management Guidelines contained within this Policy.

11. Accounting Standards

Monash Council shall comply with the Australian Accounting Standards (AASB) including:

- AASB7 Financial Instruments: Disclosures;
- AASB13 Fair Value Measurement;
- AASB132 Financial Instruments: Presentation;
- AASB136 Impairment of Assets; and
- AASB139 Financial Instruments: Recognition and Measurement

Monash City Council shall also comply with the *Local Government Act 2020* and the *Local Government (Planning and Reporting) Regulations 2014*.

12. Risk Management Guidelines

Investments obtained are to comply with three key criteria relating to:

- a) Portfolio Credit Framework: limit overall credit exposure of the portfolio;
- b) Counterparty Credit Framework: limit exposure to individual counterparties/institutions; and
- c) Term to Maturity Framework: limits based upon maturity of securities.

a) Portfolio Credit Framework

To control the credit quality on the entire portfolio, the following credit framework limits the percentage of the portfolio exposed to any particular credit rating category.

S&P Long Term Rating*	S&P Short Term Rating	Investment Maximum %
AAA	A1+	100%
AA	A1	100%
A	A2	75%
BBB	A3	35%

**Note: Under the terms of the Federal Government Guarantee, investments in Authorised Deposit-taking Institutions (ADI's), with a rating lower than BBB are permissible provided any funds invested in an ADI:*

- *Below the \$250,000 threshold and;*
- *Are covered by the Guarantee free of charge provision.*

b) Counterparty Credit Framework

Exposure to an individual counterparty/institution will be restricted by its credit rating so that single entity exposure is limited, as detailed in the table below:

S&P Long Term Rating	S&P Short Term Rating	Investment Maximum %
AAA	A1+	75%
AA	A1	75%
A	A2	55%
BBB	A3	20%

Note: If any of the local government investments are downgraded such that they no longer fall within the investment policy, they will be divested as soon as practicable.

c) Term to Maturity Framework

Investments cannot be for longer than 5 years. The investment portfolio is to be invested within the following maturity constraints:

Overall Portfolio Term to Maturity Limits	
Portfolio % <1 year	100 % Max; 50% Min
Portfolio % >1 year	50%
Portfolio % >3 year	40%
Portfolio % >5 year	0%

13. Measurement

The investment return for the portfolio is to be regularly reviewed. The market value is to be assessed annually to coincide with the preparation of the Annual Financial Statements.

14. Benchmarking

An appropriate benchmark is the starting point for evaluating investment outcomes against investment objectives. The benchmark communicates important information on how well investments are matched to risk and return expectations of the local government and helps to ensure that expectations are reasonable.

Market Yield (Benchmark) is the basis used by the delegated officer to determine whether market yields are being achieved. The performance of Council's portfolio shall be expected to be between 1-2% above the Inflation rate.

15. Reporting

A monthly investment report will be provided to the CEO, CFO & Manager Finance detailing the investments held at month-end, investment returns against relevant benchmarks and the investment maturity dates.

A quarterly report detailing the status of the investment portfolio will be provided to the Council. The report will detail the investment portfolio in terms of performance, percentage exposure of total portfolio, maturity date and changes in market value.

Documentary evidence must be held for each investment and details thereof maintained in an Investment Register.

Confirmation certificates must be obtained from the financial institutions confirming the amounts of investments held on the Council's behalf as at 30 June each year and reconciled to the Investment Register at that date.

16. Charter of Human Rights & Responsibilities

In meeting the requirements of the Charter of Human Rights and Responsibilities Act 2006, a review of the Investment Policy has been undertaken which did not find any impacts on human rights under the Human Rights Charter.

17. Gender Equity Act

In meeting the requirements of the Gender Equity Act 2020, a review of the Investment Policy has been undertaken and any recommendations have been incorporated in the Plan.

18. Review

This Investment Policy will be reviewed at least annually or as required in the event of legislative changes.

Attachment 1 -Local Government Act 2020 – Investments

Section 103 states:

“A Council may invest any money:

- (a) in Government securities of the Commonwealth;
- (b) in securities guaranteed by the Government of Victoria;
- (c) with an authorised deposit-taking institution¹;
- (d) with any financial institution guaranteed by the Government of Victoria;
- (e) on deposit with an eligible money market dealer within the meaning of the *Corporations Act*;
- (f) in any other manner approved by the Minister after consultation with the Treasurer either generally or specifically, to be an authorised manner of investment for the purposes of this sub-section.”

Australian Prudential Regulation Authority (APRA) Guidelines- Authorised Deposit-taking Institutions (ADIs)

Authorised Deposit-taking Institutions (ADIs) are corporations which are authorised under the *Banking Act 1959*.²

ADIs include:

- banks;
- building societies; and
- credit unions.

¹ Authorised deposit-taking institution or ADIs include banks, building societies and credit unions.

² Source: APRA Website

Attachment 2- Financial Claims Scheme Cap³

The Financial Claims Scheme (FCS) is an Australian Government scheme that was established during the 2008 global financial crisis to provide financial protection for consumers in the unlikely event of a failure of a bank, credit union, building society or general insurer.

The FCS provides protection for depositors of banks, credit unions and building societies that are incorporated in Australia (also known as authorised deposit-taking institutions or ADIs), for deposits up to \$250,000 per account holder per ADI. The scheme aims to return deposits to account holders within seven days of activation of the FCS.

The FCS can be activated by the Australian Government in the unlikely event that an ADI or general insurer fails. Once activated, the FCS will be administered by APRA.

The objectives of the FCS are to:

- protect depositors of ADIs, and claimants of general insurers, from potential loss in the unlikely event of the failure of these institutions;
- provide depositors with prompt access to their deposits that are protected under the FCS; and
- support the stability of the Australian financial system.

³Source <https://www.apra.gov.au/about-financial-claims-scheme>