

# INVESTMENTS POLICY

## 1. PURPOSE

The intent of this policy is to outline Whitehorse City Council's investment policy and guidelines regarding the investment of surplus funds, with the objective to ensure security of funds and maximise earnings within approved risk guidelines.

The policy provides mandatory rules and specific guidelines for Council officers to follow in managing cash flow requirements and investing surplus/available funds for Whitehorse City Council.

This policy provides a safeguard that investment management of money will conform to Federal and State regulations and standards.

## 2. SCOPE

This policy applies to all officers and Councillors of the Whitehorse City Council, including officers who are engaged on a contract or consulting basis.

For the purpose of this policy, investments are defined as arrangements that are undertaken or acquired for producing income and apply only to the cash investments of Whitehorse City Council. This policy applies to the investment of all surplus funds held by Whitehorse City Council.

## 3. POLICY

It is the policy of Whitehorse City Council to invest public funds in a manner, which will meet Council objectives. This policy will, as a minimum, conform to all Federal and State statutes governing the investment of public funds.

### 3.1 Objectives

The primary objectives, in priority order, of Whitehorse City Council investment activities shall be:

- **Safety: Preservation of Capital and Protection of Principal** - security of principal is the foremost objective of the investment program. Investments of Whitehorse City Council shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
- **Maintenance of Liquidity:** Whitehorse City Council's investment portfolio will remain sufficiently liquid to enable the entity to meet all operating requirements which might be reasonably anticipated.
- **Diversification:** The goals for the selection of a portfolio of specific investments are to establish levels of credit quality, diversification by issuers and diversification by security type.
- **Return on Investment:** The expected return from investments should be compared to the budgeted amount in the Annual Budget on a quarterly basis.
- **Achieving the UBS Australia Bank Bill Benchmark:** For performance purposes, the portfolio will be compared to the UBS Australia Bank Bill Index over a rolling one year period.
- **Corporate Social Responsibility:** Council will consider financial institutions that are committed to supporting community activities, committed to sustainable and responsible practices and/or offer suitable ethical investment options.

### 3.2 Delegation of Authority

The General Manager Corporate Services is authorised to invest Whitehorse City Council's operating funds at their discretion in investments consistent with this Investment Policy and legislation.

An explicit delegation of authority to persons responsible for investment transactions will be approved by the Chief Executive Officer to ensure that no person may engage in an investment transaction except as provided under the terms of this policy.

### 3.3 Prudence

The standard of prudence to be used by Finance officers shall be applied in the following context when managing the overall portfolio.

- **The Prudent Person Rule**

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investments, considering the probable safety of their capital as well as the probable income to be derived.

- **Standard of Prudence**

The delegated officer acting in accordance with written procedures and the investment policy and exercising due diligence shall not be personally responsible for an individual security's credit risk or market price changes.

- **Conflict of Interest**

Council officers involved in the investment process should act impartially and with integrity, avoiding all conflicts of interest. Consistent with Council's Conflict of Interest Policy, Council officers are required to disclose any actual or perceived conflicts of interest that may arise in the performance of their duties.

Council officers will not seek advice or appoint advisors that manufacture or distribute financial Instruments.

- **Knowledge of Financial Instruments**

Council officers will be required to take every means possible to ensure a high level of understanding of financial instruments and issuing institution. Council officers are required to be sufficiently trained in the fundamentals of investment products. Council officers should seek independent expert advice from qualified investment advisors where required. Advisors are required, as a minimum, to hold an Australian Financial Services Licence.

### 3.4 Safekeeping

Purchased investment securities will be held in safe custody. The trust department of a bank may be designated as custodian for safekeeping securities purchased from that bank. The custodian shall issue a safekeeping receipt to Whitehorse City Council listing the specific instrument, selling broker/dealer, issuer, coupon, maturity, purchase or sale price, transaction date, and other pertinent information. A Registrar of Investments will be maintained on a daily basis.

- **Written Procedures:** Establishment of written procedures for the operation of the investment program will be drawn up by the Assistant Accountant Banking & Treasury and approved by the Manager Finance & Corporate Performance.
- **Content:** Procedures should include reference to securities safe custody, wire transfer agreements (EFT), banking service contracts and collateral/depository agreements.

## 4. ACCOUNTING METHOD

### 4.1 Accounting Standards

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

- AASB 7 Financial Instruments: Disclosures;
- AASB 13 Fair Value Measurement;
- AASB 132 Financial Instruments: Presentation;
- AASB 136 Impairment of Assets;
- AASB 139 Financial Instruments: Recognition and Measurement.

Whitehorse City Council shall also comply with the Local Government Act 1989 and the Local Government (Planning & Reporting) Regulations 2014.

#### **4.2 Investment Return**

Investment returns are calculated as total return, including interest earned, premiums and discounts.

#### **4.3 Investment Costs**

Investments will be carried at par. Investments shall not be sold for less than their value without written approval from the Chief Executive Officer.

### **5. INTERNAL CONTROLS**

#### **5.1 Annual Review**

The Manager Finance & Corporate Performance shall maintain a system of written internal controls, which shall be reviewed annually.

Internal controls should be tested by the internal auditor in line with the Internal Audit Strategy or upon any extraordinary event (e.g. turnover of key personnel, the discovery of any inappropriate activity). The Manager Finance & Corporate Performance shall also act in an internal control capacity.

### **6. REPORTING REQUIREMENTS**

#### **6.1 Reports to Governing Body**

The Manager Finance & Corporate Performance will provide to the Council and Audit Advisory Committee a quarterly investment and investment earnings report. This report will include but not necessarily be limited to: portfolio activity, instruments held, market valuation, , interest earnings compared with budget and benchmarks as well as any narrative necessary for adequate clarification.

#### **6.2 Management Reports**

The Manager Finance & Corporate Performance or delegate shall maintain up-to-date computer reports of portfolio activity providing reports which are timely and available both daily and weekly. A minimum monthly report is generated for management purposes and as a permanent record of investment activity. A formal review will be conducted by the Manager Finance & Corporate Performance or delegate annually to ensure compliance with policy and regulations.

### **7. DIVERSIFICATION AND SUITABLE INVESTMENTS**

Diversification will be sought within the following guidelines with the purpose to reduce overall portfolio risk while attaining market average rates of return. The Council will diversify its investments by security type and institutions. In selecting authorised investments consideration should be given to credit rating on counterparty limits.

#### **7.1 Diversification by Credit Rating**

The goal for selection of specific investments is to establish levels of credit quality, diversification by issuers and by security type. An optimal mix, though subjective, enhances portfolio liquidity and safety.

<b>S &amp;P Credit Short Term Rating</b>	<b>S &amp;P Credit Long Term Rating</b>	<b>Exposure Limit of Total Portfolio</b>
A-1+	AAA-to AA-	Up to 100%
A-1	A+ to A-	Up to 50%
A-2	BBB+ to BBB-	Up to 10%

#### **7.2 Diversification by Financial Institution**

When placing an investment, no single institution shall comprise more than 35% of our portfolio. Where the exposure limit of an investment category is exceeded as a result of an investment being redeemed, the exposure limits are to be adjusted at the next available opportunity when funds are able to be reinvested.

### 7.3 Suitable Investment Products

Different products have differing levels of use, practicality and desirability at different times of the economic cycle. It is the responsibility of the Manager Finance & Corporate Performance to manage the investments by using these products to the best advantage whilst operating in the context of this policy. In the retail market environment, some products can be redeemed early if the need arises at a market premium applicable at that time. Early redemption can be both advantageous and disadvantageous depending on different circumstances applicable both historically and at the redemption date.

- **Cash / 11am - Short Term Instrument**

Cash funds are invested on overnight deposit up until 4pm each business day. Notice of withdrawal of funds to be submitted to the bank by 11am on day of deposit.

**Benefits:** Usually 0.10% below the Reserve Bank of Australia cash rate. Ready access. No fees.

- **Term Deposit - Short Term Instrument**

One of the most common types of investments, term deposits, are offered by all banks and are competitive.

**Benefits:** Wide range of maturity dates available.

As a result of the implementation of the Basel III capital reforms term deposits cannot be broken without a 31 day notice period.

- **Investments that Comply with Section 143 of the Local Government Act 1989**

See section 7.4 below.

### 7.4 Legislative Provisions

Investment of Council funds are to be in accordance with Council's power of investment under the Local Government Act 1989 – Section 143. Section 143 of the Local Government Act 1989 provides that:

Council may invest money in:

- (a) Government Securities of the Commonwealth;
- (b) securities guaranteed by the Government of Victoria;
- (c) with an authorised deposit-taking institution;
- (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; or
- (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 section'.

#### **Minister for Local Government Authorised Investments**

The Minister has determined that Section 143(f) investments may be made in:

- (1) a certificate of deposit, whether negotiable, convertible or otherwise, issued by a bank defined by Section 3 of the Trustee Act 1958;
- (2) a bill of exchange which at the time of acquisition has a maturity date of not more than 200 days and which if purchased for value confers on the holder in due course a right of recourse against a bank, as defined by Section 3 of the Trustee Act 1958, as the acceptor or endorser of the bill for an amount equal to the face value of the bill;
- (3) The VFM Australian Fixed Interest Trust and the VFM Short Term Money Market Trust,
- (4) Deposits in Credit Unions and Building Societies,
- (5) Managed Investment Schemes that:
  - (a) have a rating of AAm or a rating of AAF from Standard and Poors (S&P) Australian Ratings;
  - (b) are registered under Section 601 EB of the Corporations Law; and

- (c) are liquid within the meaning of Section 601 KA(4) of the Corporations Law and have a constitution that provides for members to withdraw from the scheme.

## **7.5 Prohibited Investments**

This investment policy prohibits any investment carried out for speculative purposes and non-cash investments. The following investments are prohibited by this Investment Policy:

- derivative based investments (excluding floating rate notes);
- principal only investments or securities that provide nil or negative cash flow;
- subordinated debt instruments e.g. Collateralised Debt Obligations (CDOs);
- highly structured products;
- stand alone securities issued that have underlying futures, options, forward contracts and swaps of any kind; and
- any securities issued in non-Australian currency.

This policy also prohibits the use of borrowing to purchase a financial instrument.

## **8. INVESTMENT MATURITY AND RISK**

### **8.1 Maturity Limitations**

Maturity limitations shall depend upon whether the funds being invested are considered short term or long term funds. All funds shall be considered short term except those reserved for capital projects, specific council reserves and assessment repayments being held for debt retirement. Investments shall be limited to maturities not exceeding five years.

<b>Overall Portfolio Term to Maturity Limitations</b>	
Portfolio % less than 1 year	min 40%, max 100%
Portfolio % less than 6 months	min 25%
Portfolio % greater than 1 year	max 60%
Portfolio % greater than 2 years	max 25%

### **8.2 Short Term Portfolio**

Investment maturities for operating funds shall be scheduled to coincide with projected cash flow needs and timed to comply with the following guidelines: 25% minimum to mature under six months, 25% maximum to mature over one year out to sixty months. Maturity will also be laddered to provide for interest rate fluctuations and to minimise investment interest risk. Careful monitoring of interest rate fluctuation will provide a basis for evaluating risk and return.

### **8.3 Long Term Portfolio**

For the purpose of this policy, investments with a maturity date past one year are classified as long term. The purpose of such investments is to take advantage of market interest rate movements at different times of the economic cycle and the requirements established for the specific council reserves.

### **8.4 Investment Risk**

Council's approach to risk management in investments includes the avoidance of unnecessary risk and exposure. It will be necessary to examine all the risk characteristics of the instruments such as liquidity, maturity, the degree of options and other structuring embedded in the instrument.

## **9. COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS**

### **9.1 Competitive Selection**

Prior to investing, the Assistant Accountant Banking & Treasury shall conduct research with a competitive survey of investments offered. Rates are compared against established benchmarks and at least three bids or offers from approved firms will be sought. The Manager Finance & Corporate Performance will recommend to the General Manager Corporate Services the bid or offer

which provides the highest rate of return within the maturity required and within the parameters of these policies.

When evaluating potential investments the Assistant Accountant Banking & Treasury will consider financial institutions that are both committed to supporting community activities, committed to sustainable and responsible practices and/or offer suitable ethical investment options. Council will positively view financial institutions that demonstrate a commitment to the principles for responsible investment reinforced by the UN Global Compact Finance Initiative. The selection, however, must also consider and not be in conflict with the other objectives of the investment policy.

## **9.2 Specific Maturity**

If a specific maturity date is required, either for cash flow purposes, specific council reserves or for conformance to maturity guidelines, bids will be requested for instruments, which meet the maturity requirement. If no specific maturity is required, a market trend (yield curve) analysis will be conducted to determine which maturities would be most advantageous.

## **10. MONITORING AND ADJUSTING THE PORTFOLIO**

Portfolios can benefit from active management. The Assistant Accountant Banking & Treasury will routinely monitor the contents of the portfolio, the available markets and the relative value of competing instruments with consideration given to credit quality and benchmarks. The portfolio may be adjusted accordingly within its parameters if there are advantageous transactions.

## **11. PERFORMANCE EVALUATION**

The return on investments should be compared to the budgeted amount in the Annual Budget on a quarterly basis to determine whether the budgeted income from investments is being achieved. This will allow Council officers to identify any variances, investigate the reasons for any variances, and recommend appropriate action if necessary.

## **12. RELATED POLICIES, PROCEDURES & LEGISLATION**

Local Government Act 1989  
Employee Conduct Policy  
Conflict of Interest Policy  
Investment Procedure

## **INTERNAL USE ONLY**

## **13. REVIEW**

Responsible Manager: General Manager Corporate Services, Manager Finance & Corporate Performance  
Date Adopted: xxxxx 2017  
Next Review Date: xxxxx 2021  
This policy has been reviewed for Human Rights Charter compliance.

## **14. APPENDICES**

Appendix 1 – Council Reserve Investment Strategy

## COUNCIL RESERVE INVESTMENT STRATEGY

### Development Reserve

The Development Reserve Principles were developed and reviewed by the Councillor Budget Committee.

To maintain the long term viability and value of the Council Development Reserve, the following principles apply for its ongoing management.

1. The Council Development Reserve shall not be used for recurring operational expense but for or as part funding of projects which:
  - are meaningful to a broad section of the community;
  - are consistent with Council provided services; and
  - are of a meaningful consequence and scale.
2. When considering withdrawing funds from the Council Development Reserve, Council will evaluation all financial impacts and consequences including:
  - reduced interest income that results from a drawdown; and
  - new annual recurring lifecycle costs as a result of undertaking the project.
3. Interest Income shall be reinvested in the Council Development Reserve if a continuing operating surplus is maintained. Decision to reinvest is to be made annually as part of Council's budget consideration.

### Aged and Disability Reserve

This reserve holds in trust the net proceeds secured from the sale as a "going concern" of Council's residential aged care facilities.

Principles for access to the Aged and Disability Infrastructure Capital Reserve monies:

1. Access to this reserve must have legitimate relevance to the Aged and Disability related client groups and must incorporate and be consistent with the healthy positive ageing strategy Draft by Council in 2006 (Adopted in 2013).
2. Use of the monies will support the target groups identified under the Commonwealth and State funded Aged and Disability Community Care programs provided by Council. The key target groups include frail aged, people with a disability (identified as eligible to receive Community Care services), and their carers.
3. The monies in this reserve have been specifically dedicated for use in building infrastructure only and cannot be used to support recurrent funding activities of a routine operational nature e.g. building maintenance.
4. Interest generated by the reserve should be compounded.

### Open Space Reserve

The Open Space Reserve must be used for land acquisition or capital works projects and should be directed by the *Whitehorse Open Space Strategy* in accordance with the requirements of Section 20 of the *Subdivision Act 1988*.

1. The Council must set aside for public open space any land which is vested in the Council for that purpose.
2. The Council must use any payment towards public open space it receives under this Act or has received under section 569B(8A) of the *Local Government Act 1958* but has not applied under subsection (8C) of that section or the proceeds of any sale of public open space to:
  - (a) buy land for use for public recreation or public resort, as parklands or for similar purposes;
  - or

- (b) improve land already set aside, zoned or reserved (by the Council, the Crown, a planning scheme or otherwise) for use for public recreation or public resort, as parklands or for similar purposes; or
  - (c) with the approval of the Minister administering the *Local Government Act 1989*, improve land (whether set aside on a plan or not) used for public recreation or public resort, as parklands or for similar purposes.
3. 60% of the predicted new Open Space Contributions received annually, are to be held within the Open Space Reserve for the purpose of acquiring open space. The remaining 40% is to be spent in accordance with section 20 of the *Subdivision Act 1988*.
  4. The interest generated by the Open Space Reserve shall be transferred annually to the reserve.

#### **Waste Management Reserve**

This reserve is used to rehabilitate landfill sites throughout the municipality. It was established in 2013/14 as a result of the federal government's introduction of the carbon tax levy. The reserve contains the funds from the difference between the initial carbon tax per tonne that was announced at the time and the actual price charged by independent landfill operators during the time of operation of the carbon tax. The carbon tax levy has now been abolished.