

# Investment Policy



**Merri-bek**  
City Council

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Responsible Department	Business Transformation

## 1. Introduction

This policy is intended to provide guidance on the effective and responsible utilisation of Council's surplus cash funds within the government legislative framework and will conform to applicable Federal and State regulations.

Particular emphasis is directed towards ethical investment decisions that limit unnecessary exposure to risk and optimise return on investment whilst ensuring sufficient liquidity for Council's on-going operating commitments.

## 2. Context

### 2.1 Alignment

All investments shall comply with:

- The Victorian *Local Government Act 2020 (LGA) Section 103*
- Relevant regulations guidelines or directions issued by the Victorian Local Government Minister or Local Government Victoria
- Australian Accounting Standards.

### 2.2 Organisational Context

#### **Fossil Fuel Divestment Strategy 2015 – 2025**

Merri-bek City Council is concerned about the impact of the fossil fuel industry on greenhouse gas emissions. In addition, Council recognises the role of financial institutions in financing new fossil fuel projects in Australia.

The Fossil Fuel Divestment Strategy 2015 – 2025 guides how Council invests its funds to ensure that it does not support the fossil fuel industry directly and influences investment by financial institutions away from the fossil fuel industry.

The Strategy outlines four specific strategic goals:

1. Continue to maintain ZERO direct investments (e.g., shares) in companies that finance fossil fuel projects
2. Actively invest with non-fossil fuel aligned Authorised Deposit-taking Institutions (ADIs) within the Merri-bek City Council Investment Policy parameters
3. Advocate for fossil free financial institutions to improve their credit rating and financial rate of return
4. Work with large banks to improve their CSR and fossil free performance.

The policy considers the ability for the objectives of the Divestment Strategy to be met given the prevalence of indirect banking services to organisations in the Fossil Fuel Industry. Council has continued to advocate and work with our current and previous banking service providers to highlight the importance of this issue.

## 2.3 Legislative Parameters

Council's investment activities are regulated by the Victorian Local Government Act 2020 (The Act) and relevant regulations.

Section 103 of the Local Government Act 2020 states

A Council may invest any money —

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

## 3. Objectives

Merri-bek Council seeks a balanced investment portfolio which aims to deliver enhanced returns whilst providing security, convenience, and easy access to funds as cash flow requirements and Council investment decisions change.

This approach recognises the types and levels of cash reserves that Council holds from time to time, opportunities to maximise ratepayer value, the investments that suit Council's planned cash flow requirements and the importance of protecting ratepayer funds.

The objectives of this policy, in order of importance, are:

- Preservation of capital;
- Ensuring sufficient liquidity is maintained; and
- Maximising the return on cash balances.

## 4. Policy

Council may elect to invest in any or all options available under the Local Government Act, however, in order to reduce exposure to risk, the investment instrument must also meet the following criteria:

- Council may invest in term deposits and cash at call. All other types of investment will need specific Council resolutions and need to comply with the relevant legislative requirements.
- Investments are to be made in a manner that seeks to ensure the security and safeguarding of the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters and avoiding any transactions that would prejudice confidence in Merri-bek City Council.

- The investment portfolio must ensure there is sufficient liquidity to meet all reasonably anticipated cash flow requirements, as and when they fall due, without incurring significant costs due to the unanticipated sale of an investment.
- The investment is expected to achieve a predetermined market average rate of return that considers the Council's risk tolerance. Any additional return target set by Council must also consider the risk limitation and prudent investment principles.
- Long term investments must consider maximising ethical and sustainable outcomes and must observe specific prohibited investment types.
- Investment product must be issued by an Australian owned financial institution or an Australian based financial institution with a registered ABN and a Regional office in Australia.
- Investment products are limited to financial instruments in Australian dollars (AUD).
- Council investments will have an upper exposure limit of 35% of total funds invested with each institution and their subsidiaries.
- At least \$20 million of the investment portfolio must be convertible to cash at any time with a maximum of 60 days' notice.
- A minimum of 70 per cent of all short term and long-term investments are held are a green investment.
- Council will not invest in prohibited investments as outlined in section 4.1.
- Investments shall only remain in the following range of credit ratings published by the following rating services at all times:

Short Term Ratings between:

A-1+ (S&P) or P-1 (Moody's), and A-2 (S&P) or P-2 (Moody's)

Long-term ratings between:

AAA (S&P) or Aaa (Moody's) and AA- (S&P) or Aa3 (Moody's).

The criteria above should be applied to new investment opportunities using the Investment Decision Process flowchart attached to this policy.

#### **4.1 Prohibited Investments**

This Investment Policy prohibits any investment carried out for speculative purpose, including the following:

- Derivative based investments;
- Principal only investments or securities that provide nil or negative cash flow;

- Standalone securities issued that have underlying futures, options, forward contracts and swaps of any kind;
- Any securities issued in non-Australian currency; and
- 'Enhanced cash Funds' or similar products that fall within the definition of a Collateralised Debt of Obligation (CDO).

In order to filter and ensure Council upholds its mission in ethical and sustainable investing, strategies include:

- Negative screening – exclusion of companies that do not comply with specific social and environmental criteria;
- Positive screening – selection of companies that promote specific social and environmental criteria.

Investee companies are expected to conduct their business in a manner that recognises their inherent responsibility to employees and other stakeholders, as well as their obligations to their environment and society.

Council will exclude investment in companies that are directly engaged in the production of fossil fuels and coal mining and the operation of electronic gaming machines.

As custodians of public money this policy aims to:

- balance the security of investments with interest earning potential
- support environmentally and socially responsible investments.

## 4.2 Transactional Banking

At call balances must remain above the minimum of the total cash requirement predicted. Surplus cash above this amount should be considered for investment opportunities. This amount should be increased where any uncertainty exists within the forecast cash balances.

Cash will be recalled weekly to meet all cash requirements and minimise the likelihood of overdraft.

An upper limit for long term investments will be set at the start of each financial year having regard to long term cash reserve requirements.

When considering the operational requirements of managing at call balances, short- and long-term investments, the following principles must apply:

- Funds may be transferred electronically or via cheque and will be authorised by two officers who are authorised signatories on the general bank account.
- Interest earned on investments being rolled over must be redeemed to Council's general bank account at the time of maturity.

- All funds that are being redeemed, or interest being paid, must be directly credited to Council's general bank account.
- After ensuring all directions detailed in this policy have been met, the quote, which delivers the best value to Council, shall be successful.

### **4.3 Interest Rate**

Council's aim is to invest funds to obtain the best return possible with the least risk however consideration must be given to:

- Any fees applicable to transferring funds between Institutions.
- Given Council's Cash Flow Forecasts and the philosophy that investment funds should be reasonably accessible and not have maturity dates that are too long term, the maximum maturity permitted is 5 years.

### **4.4 Ethics**

Any investment institution must indicate their commitment to core values of integrity, trust, customer service and the highest ethical standards along with their strong commitment to Corporate Social Responsibility (CSR).

### **4.5 Sustainability**

Community involvement is important and shows an institution commitment to inclusion and sustainability. This can be shown through Community Stakeholder partnerships, Social Accountability Charters, philanthropic support to community organisations or the operation of Sustainability committees.

### **4.6 Term to Maturity of Investments**

The term to maturity of any Council direct investment may range from "at call" to five years.

It should be noted that at least \$20 million of the portfolio must be convertible to cash at any time with a maximum of 60 days' notice.

### **4.7 Quotation on Investments**

No less than three (3) quotations shall be obtained from authorised institutions whenever a new investment is proposed. The best quote on the day will be successful after allowing for administrative and banking costs, as well as having regard to the limits set above. Quotations are not required when an existing investment is being re-invested, rather than being cashed in.

### **4.8 Maximisation for Investment Return**

Council should aim to maximise where possible, favourable returns that do not jeopardise the security of funds invested. It would be anticipated that returns would exceed the Bank Bill Swap Rate (BBSW).

## **4.9 Investment Assessment**

The Unit Manager Finance is required to review and approve a risk assessment of all proposed/new investment opportunities for each different type of investment product to be considered. The Investment Risk Assessment must be documented and signed by the Unit Manager Finance prior to any investment decision being made.

The documented risk assessment will include:

- Type of investment product;
- Term of investment;
- Level and type of risk of investment;
- Any uncertainties on the rate of return;
- Risk Credit Rating;
- Where the funds are to be invested as authorised in the Local Government Act 2020;
- If any, the time lag to convert the investment to cash; and
- Penalties associated with breaking the term of the investment.

At least one staff member with relevant authority (who has not signed off on the Investment Risk Assessment form) should release the funds for investment.

## **4.10 Investment rating downgrades**

From time-to-time investment product credit ratings may be upgraded or downgraded. If an investment product that Council already holds is downgraded below that required in this policy, the Coordinator Financial Accounting will prepare a report to the Unit Manager Finance documenting:

- The affected investment and the circumstances around the downgrade;
- The significance of the rating downgrade;
- The remaining length of time until investment maturity;
- The penalty costs payable as a result of breaking the investment early; and
- Other movements in credit ratings for comparable institutions.

The Unit Manager Finance will then make a decision as to whether the investment should be redeemed early or not.

## **5. Roles and responsibilities**

The Unit Manager Finance may approve the investment of Merri-bek City Council's operating funds in accordance with this policy and legislation.

This responsibility includes:

- Actively managing the investment portfolio to increase the potential for better returns and at the same time ensure prudent investments with low risk
- Minimising the likelihood of overdraft
- Making investment decisions within the parameters of this policy
- Investment decisions relating to new investment opportunities must be referred to the Unit Manager Finance or Chief Executive Officer for approval using the attached Investment Risk Assessment Form and Investment Decision Process
- A register of investments shall be kept identifying the institutions where each investment is being held.

The Chief Financial Officer will report to Merri-bek City Council's Audit and Risk Committee for investment guidelines and investment activities for the purpose of the Policy.

## **6. Monitoring, Evaluating and review**

Internal Controls

The Chief Financial Officer will establish internal controls and processes that will ensure investment objectives are met and that the investment portfolios are protected from loss, theft or inappropriate use.

To minimise the potential for investment risk and unauthorised appropriation of Council funds, the following internal controls will apply:

- All placement and redemption of investments must be authorised by any two of the Investment Officers.
- The investment authorisation process must be carried out in accordance with any other relevant policies and procedures – such as the Accounts Payable and Electronic Funds transfer (EFT) processes.
- Each transaction will require written confirmation by the Financial Institution.

Reporting on Investments

- Investment activities and results must be reviewed on a monthly basis by the Unit Manager Finance and reported to the Executive team via the monthly finance report.
- A register of investments will be maintained together with an investment file containing all letters of advice from financial institutions.
- Interest revenue will be recognised as it is earned.
- Any variations to this policy are to be reported to the Audit and Risk Committee.



## 7. Definitions

Term	Definition
Authorised Deposit-Taking Institution (ADI)	ADI Authorised Deposit-Taking Institutions (ADI) are corporations that are authorised under the Banking Act 1959 to take deposits from customers. Examples are: <ul style="list-style-type: none"><li data-bbox="807 712 1262 741">• Commonwealth Bank of Australia</li><li data-bbox="807 768 1134 797">• National Australia Bank</li></ul>

	<ul style="list-style-type: none"> <li>• ANZ</li> <li>• Westpac</li> <li>• People's Choice Credit Union.</li> </ul>
At call cash	An at-call account allows you to access money straight away. At-call accounts differ to a Term Deposit in that they do not have a maturity date and the rate they pay can change at any time. This is referred to as a variable interest rate as opposed to a fixed rate.
Investments	Include all cash and cash equivalents either restricted or unrestricted, excluding cash on hand. This includes discretionary and non-discretionary cash-backed reserve funds.
Investment Portfolio	A collection of investments.
Investment Officers	Finance Staff that have been granted access to process transactional banking payments.
Short Term Investment	An investment that has a term to maturity of 12 months or less from the date the investment was made.
Long Term Investment	An investment that has a term to maturity of more than 12 months from the date the investment was made and is restricted to a maximum term.
Maximum Term	Term to maturity of an investment is restricted to 5 years or less from the date the investment was made.
Liquidity Risk	Includes the risk that, as a result of our operational liquidity requirements: <ul style="list-style-type: none"> <li>• we will not have enough funds to settle financial transactions when they fall due; or</li> <li>• we will be forced to sell investments at a value which is less than what they are worth; or</li> <li>• we may be unable to settle or recover financial assets.</li> </ul>

Credit Risk	Includes the risk that a financial institution will not complete its obligations under a financial instrument and cause a financial loss.
Credit Ratings	<p>Short Term Ratings</p> <ul style="list-style-type: none"> <li>• A-1 The obligator's capacity to meet its financial commitment on the obligation is STRONG. Where the capacity to meet a particular obligation is EXTREMELY STRONG that obligation is designated with a plus sign, i.e. A1+</li> <li>• A-2 The obligator's capacity to meet its financial commitment on the obligation is SATISFACTORY, being somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than those rated A-1.</li> </ul> <p>Long Term Ratings</p> <ul style="list-style-type: none"> <li>• AAA The obligator's capacity to meet its financial commitment on the obligation is EXTREMELY STRONG.</li> <li>• AA The obligator's capacity to meet its financial commitment on the obligation is VERY STRONG.</li> </ul>

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## 8. Associated Documents

- Fossil Fuel Divestment Strategy (D15/414549)