



## Investment Policy 2021

Department/Unit	Business and Performance	First Implemented	21/01/2009	Review Date	30 June 2024
Origin	Manager Business and Performance	Reviewed	June 2021	Version	5
Authorising Officer	Chief Executive Officer	Effective From	22/06/2021	TRIM Reference	E34

### Purpose/Objective

The purpose of this Investment Policy is to clearly guide the investment of funds (“the Funds”) which are surplus to immediate cashflow requirements of the day-to-day operation of Council.

Importantly, this policy recognises the relationship between risk and return. After consideration of risk, liquidity requirements and the investment types permitted under the policy, the financial management of the Funds will seek to obtain the most favourable rate of return at the time consistent with a conservative level of risk.

### Policy Statement

This Investment Policy aims to clearly state the types of institutions in which Council can invest, the maximum proportion of funds that are placed with individual organisations and the types of investments.

This policy is designed to ensure that all decisions relating to this policy are made in a consistent and open manner.

### Risk, Liquidity and Returns

The prime objective of this policy is to reasonably ensure that the value of the investment portfolio is not exposed to capital loss. The selection of investments must address this objective.

Having met the objective of ensuring the security of value, the second objective of this policy is for sufficient liquidity within the portfolio of investments to ensure that the cashflow requirements of the Council can be met in a timely manner.

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After meeting these objectives, the investment portfolio is expected to accumulate a rate of return which is at least in line with the market interest rates prevailing at the time. It is noted that the level of interest rate returns equates to the amount of risk. The framework of this policy recognises that the marketplace is reasonably well informed and consequently enhanced rates of return are only received from investments with an enhanced level of risk unless there are peculiar circumstances.

### Investment Strategy

It is expected that term to maturity of individual investments will be selected to address both the liquidity requirements of the Council and the Risk Management Guidelines within this policy.

A medium term Floating Rate Note may be considered a suitable investment, but only where the interest rate profile can be argued to meet Council liabilities and in all respects the investment meets the Risk Management Guidelines within this policy.

Further, this policy recognises that the term for which the interest rate is fixed within an investment might be less than or equal to the term to maturity of the investment. However, it is noted that the management of investments for the Council should not speculate on interest rates.

As a matter of procedure, whenever an investment is considered, a minimum of 3 quotations shall be obtained from authorised institutions. The best quote, net of any brokerage, on the day will be selected after allowing for all associated costs and having due regard to this policy.

### Risk Management Guidelines

All securities must be held in the name of the Council. Investments, including both principal and interest, must comply with the following:

**Table 1: Portfolio Credit Framework**

Maximum % of Portfolio	S&P Rating or Equivalent (refer Table 3)	
	Long Term Rating	Short Term Rating
100%	AAA	A1+
100%	AA-, AA, AA+	A1

60%	A-, A, A+	A2
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**Table 2: Counterparty Credit Framework**

Maximum % of exposure to any one counterpart or institution	S&P Rating or Equivalent ( refer Table 3)	
	Long Term Rating	Short Term Rating
45%#	AAA	A1+
35%#	AA-,AA, AA+	A1
20%#	A-, A, A+	A2

# Any investments issued directly by either the Commonwealth of Australia or the Victorian State Government can have a total exposure of up to 100%.

Calculation of the % exposure to an institution includes the combination of investments excluding operating account balances.

**Table 3: Ratings**

	S&P	Moody's	Fitch
Long Term Ratings	AAA	Aaa	AAA
	AA-,AA, AA+	Aa1, Aa2, Aa3	AA-,AA, AA+
	A-, A, A+	A1, A2, A3	A-, A, A+
Short Term Ratings	A1+	P-1	F1+
	A1	P-1	F1
	A2	P-2	F2

If the Rating of any investment is downgraded such that it no longer falls within the policy guidelines, that investment will be divested as soon as it is practicable.

**Table 4: Term of Maturity**

Term to Maturity of the Portfolio	Maximum % of Portfolio
< 1 year	Max 100%
> 1 year	Max 60%
> 3 years	Max 30%
> 5 years	Max 0%

### Approved Investments

Section 103 of the *Local Government Act 2020* permits Council to 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 institution (ADI);
- 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, either generally or specifically, to be an authorised manner of investment for the purposes of section 103.

Investments can be made with institutions that would normally fall outside of the scope of the Risk Management guidelines listed above, only if they are subject to a government guarantee.

If the government guarantee is a limited guarantee, then the investment, including principal and interest, must not exceed that limit. The investment guaranteed by government will be deemed to have the same Rating as the government making the guarantee in the determinations under the Risk Management Guidelines within this policy.

### Prohibited Investments

This policy prohibits any investment made for speculative purposes, including:

- a) Derivative based investments
- b) Principal only investments or securities that provide potentially nil or negative returns
- c) Stand alone securities issued that have underlying Futures, Options, Forward Contracts and

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or Swaps of any type.

This policy prohibits the use of borrowing in order to enable any investment.

This policy prohibits any investment that is not denominated in Australian Dollars.

### **Ethics and Conflicts of Interest**

Officers shall not conduct any personal activities that would conflict with the proper execution or management of the Council investment portfolio. Officers are required to disclose any potential conflict of interest to the Council.

### **Delegation of Authority**

The Manager Business and Performance is authorised to approve investments which meet all the requirements of this Policy and the following criteria:

- ▶ Term to Maturity: up to 12 months
- ▶ Credit Rating, S&P or equivalent: either
  - Long term rating of at least AA-, or
  - Short Term Rating of at least A2

The CEO and Manager Business and Performance are jointly authorised to approve investments which meet the all the requirements of this policy.

The CEO may delegate the management of the Investment Portfolio to other persons, but any such delegation must be documented with appropriate internal controls.

### **Audit and Review**

The investment portfolio and its performance should be formally reported at least quarterly by the Manager Business and Performance to the CEO. The report should include:

- ▶ A list which includes each investment
- ▶ Investment amount
- ▶ Interest rate
- ▶ Placement date
- ▶ Term to maturity
- ▶ Maturity date
- ▶ Gross and net returns, by both the rate of return and the \$ amount of return

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- ▶ Percentage of funds invested with each institution
- ▶ The credit rating of each institution

Council's Audit and Risk Advisory Committee should review the investment portfolio report at their quarterly meeting. This review should include an assessment by the CEO of the execution of this policy.

## Definitions

**CEO:** the Chief Executive Officer of Mansfield Shire Council.

**Council:** Mansfield Shire Council.

## Scope

This policy covers the investment of any council funds and applies to any Council officer who has delegated responsibility for funds management.

## Responsibilities

Overall responsibility for the application of this Policy is held by the Chief Executive Officer.

Managers are responsible for ensuring their staff comply with the principles, practices and any associated procedures of this policy. Managers and employees are to be familiar with, and competent in, the application of this Policy, and are accountable for the delivery of this policy within their areas of responsibility.

The Business and Performance Department is the owner of this policy. Any reviews of this Policy must be made in consultation with the Manager Business and Performance with any associated procedures implemented by the Senior Accountant.

## References / Related Policies

- ▶ *Local Government Act 2020*
- ▶ Australian Accounting Standards
- ▶ Mansfield Shire Council Instruments of Delegation

## Implementation

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This Policy and was reviewed in June 2021 and is effective immediately.

## Review Date

This Policy is to be reviewed by 30 June 2024.

The CEO is authorised to approve variations to this policy required due to revised legislation.

## Authorisation to Implement Policy

Signed: \_\_\_\_\_

Councillor

Witnessed: \_\_\_\_\_

Chief Executive Officer

Approval dated:

**Mansfield Shire Council reserves the right to review, vary or revoke this Policy at any time.**