



# **FINANCIAL INVESTMENT POLICY**

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Ownership: Chief Financial Officer

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## Financial Investment Policy

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### Purpose

To provide a framework for the optimum investment of Council's funds at the most favourable interest rate available giving due consideration to the preservation of capital, liquidity and the security of investment.

### Scope

Applies to the General Manager, Chief Financial Officer, Finance and Strategy Accountant and Revenue Accountant who have delegated authority to manage Council's Investment Portfolio.

### Objectives

To ensure that:

- appropriate prudential limits are applied to managing Council's investment portfolio
- investments are placed in a manner that seeks to ensure security and safeguarding of the investment portfolio
- credit and interest rate risk are managed within identified thresholds and parameters
- investments are allocated to ensure there is sufficient liquidity to meet all reasonably anticipated cash flow requirements, as and when they fall due, without incurring the risk of significant costs due to the unanticipated sale of an investment
- investments achieve a market average rate of return in line with the Council's risk tolerance

### Legislative Framework

- *Local Government Act 1993*
- *Banking Act 1959*
- Local Government (General) Regulation 2005
- Ministerial Investment Order
- Local Government Code of Accounting Practice and Financial Reporting
- Australian Accounting Standards
- Office of Local Government Investment Policy Guidelines
- Office of Local Government Circulars

### Delegation of Authority

Authority for implementation of the Investment Policy is delegated by Council to the General Manager in accordance with the *Local Government Act 1993*.

The General Manager may in turn delegate the day-to-day management of Council's Investment to the Responsible Accounting Officer or staff, subject to regular reviews.

Officers with delegated authority to manage Council's investments are recorded and required to acknowledge they have received a copy of this policy and understand their obligations in this role.

### Prudent Person Standard

The investments will be managed with the care, diligence and skill that a prudent person would exercise. As trustees of public monies, officers are to manage the portfolio within the spirit of this Investment Policy and not for speculative purposes.

### 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. Any conflict of interest must be disclosed to the General Manager.

**Ethical Investing**


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Mosman Council seeks where possible to invest in institutions with a stated position against investment in the fossil fuel industry.

Subject to the requirements of this policy, where there is no higher risk or lesser rate of return, Council will place funds with institutions with a stated position against investment in the fossil fuel industry.

**Prohibited Investments**


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In accordance with the Ministerial Investment Order, this investment policy prohibits, but is not limited to, any investment carried out for speculative purposes. Further the use of leveraging (borrowing to invest) of an investment is also prohibited. However, nothing in this policy shall prohibit the short-term investment of loan proceeds where the loan is raised for non-investment purposes and there is a delay prior to spending occurring.

**Risk Management Guidelines**


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Investments obtained are to be considered in light of the following key criteria:

- Preservation of Capital – the requirement for preventing losses in an investment portfolio’s total value (considering the time value of money)
- Diversification – setting limits to the amounts invested with a particular financial institution or government authority to reduce credit risk
- Credit risk – the risk that a council has invested in fails to pay the interest and or repay the principal of an investment
- Market Risk - the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices
- Liquidity Risk - the risk an investor is unable to redeem the investment at a fair price within a timely period
- Maturity Risk - the risk relating to the length of term to maturity of the investment. The larger the term, the greater the length of exposure and risk to market volatilities

**Credit Quality Limits**


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Credit guidelines reference Standard and Poors’ ratings systems. Moodys’ ratings or Fitch ratings may also be used where available. The primary control of credit quality is the prudential supervision and government support and explicit guarantees of the Authorised Deposit Taking (ADI) sector, not credit ratings.

The amount invested in any Standard and Poors or equivalent rating category should not exceed:

<b>Long Term Rating (Standard &amp; Poors or equivalent)</b>	<b>Maximum Holding</b>
AAA Category	100%
AA Category	100%
A Category	60%
<A Category but ≥BBB	20%
Unrated – Subject to ADI Guarantee	10%

Any portion of an investment that is guaranteed by the Government of the Commonwealth of Australia is to be considered AAA rated. In this regard, \$250,000 of deposits with any one ADI is guaranteed.

**Individual Institution Limits**

The amount invested with any one institution should not exceed:

<b>Individual Institution Limits</b>		
<b>Long Term Rating Range (Standard &amp; Poors or equivalent)</b>	<b>Short Term Rating</b>	<b>Limit</b>
AAA Category	A-1+	60%
Australian Majors ( CBA, Westpac, ANZ,NAB)	A-1+	60%
AA Category	A-1+	30%
A Category	A-1	15%
≤ BBB Category	A-2	10%
Unrated Subject to ADI Guarantee	\$250,000 Limit	

**Management of Investments**

The following guidelines apply:

- Council will only make investments denoted in Australian dollars and described in the Minister's Orders as interest bearing deposits with an Authorised Deposit Taking Institution (ADI).
- All terms are to be for less than one year.
- Council will seek a minimum of three quotes from ADIs.
- Quotes may be obtained from third party dealers - this exposes Council to a broader section of the market and assists in obtaining the best possible return. These dealers obtain a fee from the ADI. The third party dealer does not offer advice regarding the risk and return of the investment. Council's staff assess this using the same criteria as when it directly approaches an institution.
- Council will only use dealers licensed by the Australian Securities and Investments Commission. At least one quote must be obtained directly from an ADI to ensure the dealer's quote is adequate.
- ADI's must provide Council with a certificate of deposit within twenty four hours of settlement.
- All investments will be benchmarked against the Bank Bill Swap Rate most relevant to the term. It is expected that the performance of each investment will be greater than the applicable benchmark by a sufficient margin to justify the investment taking into account risks, liquidity and other benefits.
- Before placing or rolling-over any investment the delegated officer must seek the concurrence and sign-off of another delegated officer. Sign-off must be from a more senior staff member.

**Monitoring and Reporting**

- Staff must report on investments held to Council each month.
- The report will detail open balances, monthly movements and closing balance. Each investment will be shown with relevant data such as rate, term, credit rating of institution and the relevant benchmark, which will detail performance against credit quality rating (aggregate) and individual institution limits (aggregate).
- Investments are also reported in the annual Financial Statements.

Council's statements will comply with relevant accounting standards and the Office of Local Government's Code of Accounting Practice and Financial Reporting.

**Review**

This policy will be reviewed every two years unless otherwise directed by Council or senior management.

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**Contact**

Chief Financial Officer - 9978 4011.

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**Amendments**

<b>Date</b>	<b>Amendment</b>	<b>Reference</b>
18 June 2013	Adopted	CS/44
16 December 2014	Adopted	
3 July 2018	Adopted	CS/24
5 April 2022	Reviewed to include Ethical Investing provisions	CS/15