



Investment Policy

REM REFERENCE	TBA		
POLICY TYPE	Council: adopted by Council resolution		
APPROVAL	Council		
DATE ADOPTED	XX May 2026		
DIRECTORATE	Corporate and Commercial Services		
POLICY OWNER	Manager Financial and Integrated Planning		
NEXT REVIEW	May 2030		
REVISION RECORD	<table><tr><th>VERSION</th><th>REVISION DESCRIPTION</th></tr></table>	VERSION	REVISION DESCRIPTION
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1. Purpose

The purpose of this Policy is to provide a framework for the optimum investment of Council's funds at the most favourable rate of interest available to it at the time, whilst having due consideration of risk, liquidity and security for its investments.

This Policy recognises the legislative requirements and obligations for the investment of Council's funds. It is Council's intention to comply with investment regulations and directions of the *Local Government Act 2020*, and where inconsistent, the Policy is to be read as subject to these.

Consideration is to be given to the preservation of capital, liquidity and return of investments with the primary objectives of for the investment portfolio being:

- Compliance with legislation, regulations and other guidelines issued by the Minister
- Preservation of the amount invested
- To ensure there is sufficient funds to meet all reasonably anticipated cash flow requirements and
- To maximise the return on invested funds, including meeting or exceeding the performance benchmarks in this policy while minimising risk of loss.

2. Scope

This Policy applies to Council officers who have the delegated authority to invest Council's surplus funds.

3. Governance Principles and Council Plan Alignment

3.1. Governance Principles

3.2. **A Council must, in the performance of its role, give effect to the overarching governance principles (*Local Government Act 2020 (Act)* s9). In accordance with the Act, this Policy aligns with the following governance principle/s:**

Principle (a) Council decisions are to be made and actions taken in accordance with the relevant law;

Principle (b) priority is to be given to achieving the best outcomes for the municipal community, including future generations;

Principle (c) the economic, social and environmental sustainability of the municipal district, including mitigation and planning for climate change risks, is to be promoted;

Principle (g) the ongoing financial viability of the Council is to be ensured;

3.3. Council and Wellbeing Plan Alignment

Strategic Outcome 4: Council Performance and Leadership – A forward-thinking and responsive council that values community input, committed to optimising services, ensuring robust governance and making sustainable decisions.

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4. Policy

4.1. Authorised investments

4.1.1. All investments must be denominated in Australian dollars and are limited to those allowed by the *Local Government Act 2020* (Section 103), relevant regulations and Minister's guidelines. Section 103 states that:

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. (In 2022 the Minister approved investments in the Victorian Funds Management Corporation (VFMC) as an authorised manner of investments for councils).

4.1.2. There are two types of Council investments that re to be invested in accordance with the investment guidelines stated above, these being:

- At call investment (Council's account for day-to-day operations and transactions
- General investment (the investment of excess funds from day to day operating in line with this policy).

4.1.3. Environmentally Responsible Investments (ERI):

Council's preference is to enter into environmentally responsible investments where:

- a) the investment is compliant with legislation and this Policy's objectives
- b) the rate of return is favourable relative to comparable investments on offer to Council at the time of investment (must be less than 10 basis points)

Environmentally productive activities are considered to be:

- a) resource efficient – especially water and energy
- b) renewable energy
- c) production of environmentally friendly products, such as those that avoid and reduce waste, for example, through the use of recycled content)

4.1.4. Community Benefit

Investments will be considered where there is a demonstrated community benefit to the Frankston municipality where:

- a) the investment is compliant with legislation and this Policy's objectives
- b) the rate of return is favourable relative to comparable investments on offer to Council at the time of investment (must be less than 10 basis points)

4.2. Prohibited Investments

This policy prohibits any investment carried out for speculative purposes, including the following:

- a) Derivative based investments.
- b) Principal only investments or securities that provide nil or negative cashflow.
- c) Stand-alone securities issued that have underlying futures, options, forward contracts and swaps of any kind.
- d) Any securities issued in non-Australian currency including crypto currency; and
- e) 'Enhanced cash Funds' or similar products that fall within the definition of a Collateralised Debt of Obligation (CDO).

4.3. Risk Management Guidelines

4.3.1. Preservation of capital

Preservation of capital is the principal objective of the investment portfolio. Investments are to be managed 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.

In determining the institutions that Council will invest in, investments with institutions that have the following credit ratings (or equivalent) will be made, subject to the limits below.

4.3.2. Liquidity

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 call on investment.

4.3.3. Diversification

The goal for the selection of an investment portfolio of specific investments are to establish level of credit quality, diversification by issuers and diversification by security type

4.3.4. Return on investment

The investment is expected to achieve a prudent rate of return that takes into account the Council having a low risk tolerance in regard to investments.

4.3.5. Credit Risk

The risk that a party or guarantor to a transaction will fail to fulfil its obligations. In the context of this document, it relates to the risk of loss due to the failure of an institution/entity with which an investment is held to pay the interest and/or repay the principal of an investment.

4.3.6. Market Risk

The risk that fair value or future cash flows will fluctuate due to changes in market prices, or benchmark returns will unexpectedly overtake the investment's return.

4.3.7. Maturity Risk

The risk relating to the length of term to maturity of the investment. The longer the term, the greater the length of exposure and risk to market volatilities.

4.3.8. Rollover risk

The risk that income will not meet expectations or budgeted requirement because interest rates are lower than expected in future.

4.4. Prudent person

- 4.4.1. 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 Council's investment portfolios to safeguard the portfolio and not invest for speculative purposes.

4.5. Ethics and conflict of interest

- 4.5.1. 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 actual or perceived conflict of interest to the Chief Executive Officer.
- 4.5.2. If used, independent Investment Advisors are to declare that they have no actual or perceived conflicts of interest and receive no inducements in relation to Council's investments.

4.5.3. At times, it may be advantageous to deal with third parties that are remunerated on a transaction rather than retainer basis. Council will use such suppliers to its advantage, and have regard to:

- a) Administrative cost savings;
- b) Ability to access higher (retail) rates where exceeding the direct transaction costs;
- c) Access to ADIs that would not normally be available to Council directly;
- d) Limited access or initial public offerings deals, or other secondary market opportunities that are only available from specific sources;
- e) The costs of other distribution channels that do not involve transaction remuneration
- f) If Council uses an independent Advisor or third party supplier/dealer, it will take steps to ensure that:
 - i. Suppliers used are appropriately licensed, reputable and capable
 - ii. Funds and identification data are sufficiently secured
 - iii. Third party arrangements do not materially worsen Council's credit risks by creating exposure to the dealer
 - iv. Remuneration arrangements are reasonable and transparent
 - v. Deposits are always placed direct with the authorised ADI

4.6. Credit Quality Limits

4.6.1. The portfolio credit guidelines to be adopted will refer to the Standard and Poor's ratings system criteria. Moody's may also be used to assess investment ratings where available.

4.6.2. In the event of disagreement between agencies as to the rating ("split ratings") Council shall use the higher in assessing compliance with portfolio Policy limits, but for conservatism shall apply the lower in assessing new purchases. However, the primary control of credit quality is the prudential supervision and government support and explicit guarantees of the ADI sector, not ratings.

4.6.3. The maximum holding limit in each rating category at the time of making an investment decision for Council's portfolio shall be:

Overall portfolio rating limits	
Long term rating range (or Moody's equivalent)	Maximum limit
AAA category	100%
AA category	100%
A category	60%
BBB	30%
Unrated category	10%

4.6.4. Counterparty limits

Exposure to individual counterparties/financial institutions will be restricted by their rating so that single entity exposure is limited, as detailed in the table below.

These limits do not apply to Federal/State or Managed Funds. It should be noted that the Federal government does not guarantee the capital value or unit price of any Managed Fund investments.

Individual institution or Counterparty limits	
Long term rating range (or Moody's equivalent)	Maximum limit
AAA category	100%
AA category	40%
A category	30%
BBB category	15%
Unrated category	5%

4.7. Minimum and maximum investments

- 4.7.1. The minimum investment principal should exceed \$1 million, but a single investment parcel should not exceed \$5 million.

4.8. Term to Maturity Limits

- 4.8.1. Council's investment portfolio shall be structured around the time horizon of investment to ensure that liquidity and income requirements are met.
- 4.8.2. Once the primary aim of liquidity is met, Council will ordinarily diversify its maturity profile as this will ordinarily be a low-risk source of additional return as well as reducing the volatility of Council's income. However, Council always retains the flexibility to invest as short as required by internal requirements or the economic outlook.
- 4.8.3. The factors and/or information used by Council to determine minimum allocations to the shorter durations include:
- Council's liquidity requirements to cover both regular payments as well as sufficient buffer to cover reasonable foreseeable contingencies
 - Medium term financial plans and major capital projects forecasts
 - Known grants, asset sales or similar one-off inflows
 - Seasonal patterns to Council's investment balances
- 4.8.4. If at any time investment threshold limits are exceeded to fund cashflow, the portfolio is to be rebalanced with new investments as soon as practical.
- 4.8.5. Short Term Portfolio
Investment maturities for operating funds shall be scheduled to coincide with projected cash flow needs.
- 4.8.6. 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.

Investment Horizon Description	Investment Horizon Description	Maturity Date Maximum
Short term funds	Up to 1 year	100%
Medium to Long term funds	1 - 3 years	70%
Long term funds	3 - 5 years	50%

4.9. Performance Benchmarks

- 4.9.1. The performance of each investment will be assessed against the benchmarks listed in the table below. It is Council's expectation that the performance of each investment will be greater than or equal to the applicable benchmark by sufficient margin to justify the investment considering its risks, liquidity and other benefits of the investment.
- 4.9.2. It is also expected that Council will take due steps to ensure that any investment, notwithstanding a yield above the benchmark rate (taking into account term), is executed at the best pricing reasonably possible.

Investment	Benchmark	Time horizon
11am account, call accounts, bank balance	Official RBA cash rate	< 1 month
Terms deposits/bank bills and other authorised investments	Applicable RBA Bond Index plus 0.25%	1 month to 10 years

4.10. Quotations for Investments

- 4.10.1. Not less than three (3) quotations shall be obtained from authorised institutions whenever a direct investment is proposed and ideally quotes should be received from a larger range of ADI.
- 4.10.2. The best quote on the day will be successful having regard to the limits set in this policy.

4.11. Investments in Managed Funds

4.11.1. Investments in Managed Funds:

- will need a separate specific Council resolution;
- must be in a manner approved by the Minister either generally or specifically, to be an authorised manner of investment in line with the Local Government Act 2020 (Section 103);
- must be managed by the Victorian Funds Management Corporation (VFMC); and

- must take into account overall working capital and cash flow needs

4.12. Divestment of funds

- 4.12.1. Where the organisational cash requirements indicate a shortfall in available funds, investments can be recalled with the approval of the Chief Financial Officer. Finance officers must adhere to the requirements of the financial institutions where the funds are held.

4.13. Accounting

- 4.13.1. Council will comply with relevant Accounting Standards in valuing its investments and quantifying its investment returns.
- 4.13.2. In addition to recording investment income according to Accounting Standards, published reports may show a break-down of its duly calculated investment returns into realised and unrealised capital gains and losses, and interest
- 4.13.3. Other relevant issues will be considered in line with relevant Accounting Standards, such as discount or premium, designation as held-to-maturity or on a fair value basis, and impairment.
- 4.13.4. Documentary evidence must be held for each investment and details thereof maintained in an investment register. The documentary evidence must provide Council legal title to the investment.
- 4.13.5. For audit purposes, certificates must be obtained from the banks/fund managers/custodian confirming the amounts of investment held on Council's behalf at 30 June each year.

4.14. Safe Custody Arrangements

- 4.14.1. Where necessary, investments may be held in safe custody on Council's behalf, as long as the following criteria are met:
- Council must retain beneficial ownership of all investments
 - Adequate documentation is provided, verifying the existence of the investments at inception, in regular statements and for audit and
 - The Custodian conducts regular reconciliation of records with relevant registries and/or clearing systems.
 - The institution or custodian recording and holding the asset will be:
 - An institution with an investment grade Standard and Poor's, Fitch or Moody's rating
- 4.14.2. An institution with adequate insurance, including professional indemnity insurance and other insurances considered prudent and appropriate to cover its liabilities under any agreement.

4.15. Reporting

- 4.15.1. Reporting on Council's Investment portfolio occurs as a part of the Quarterly Financial Report which is endorsed at a Council meeting. quarterly Investment Activity Report is to be submitted to the Audit and Risk Committee and Council as part of the Quarterly Financial Report. The report at a minimum will include:

- Investments held at market value by security type
- Investment held at market value by issuer
- investments held with non-fossil fuel lenders

4.16. Internal Controls

4.16.1. 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 the Manager Financial and Integrated Planning, Director Corporate and or a person acting in any of these roles
- The Investment authorisation process must be carried out in accordance with any other relevant policies and procedures.
- All documentation relating to investments must be obtained and stored in an electronic form within Council's Records Management System

4.16.2. Transfer of funds

Funds may be transferred electronically or via direct debit and these transfers will be authorised by two officers who have delegation to approve transfers from the general fund bank account in Council's banking system.

Interest earned on investments being rolled over must be redeemed to Council's general fund bank account at the time of maturity. Exemptions apply for interest earned on investments tied to capital funding / capital grants.

All funds that are being redeemed, or interest being paid, must be directly credited to Council's general fund bank account.

5. Roles and Responsibilities

Role	Responsibility
Councillors	Responsible for the implementation of this Policy to the CEO.
Chief Executive Officer	Responsible for: • the day-to-day management of this policy • authority to invest Council's surplus funds to the Chief Financial Officer, who must ensure adequate skill, support and oversight.
Directors	Responsible for oversight of investment portfolio management and long term cash management.
Manager Role	Responsible for authorising new investments, quarterly review of the investment register and quarterly reporting of investment summary.

Coordinator Financial Accounting	Responsible for monitoring and reconciling the investment portfolio, initiating redemption or re-investment as appropriate and ensuring compliance with the policy.
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6. Policy non-compliance

Failure to comply with this Policy has the potential to expose Council to financial loss, risks non-compliance with the Act and damage of Council's reputation. In accordance with Councils staff code of conduct, which requires all staff to comply with all Council Policies, it is essential that the investment criteria outlined in this Policy be strictly adhered to.

7. Definitions

Term	Definition
<i>Act</i>	Local Government Act 2020
<i>ADI</i>	Authorised Deposit-Taking Institutions (ADIs) are corporations that are authorised under the Banking Act 1959 to take deposits from customers
<i>BBSW</i>	The Bank Bill Swap (BBSW) reference rate is the average of mid-rate bank-bill quote from brokers on the BBSW Panel. The BBSW is calculated daily. Floating rate securities are most commonly reset quarterly to the 90-day BBSW.
<i>Council Funds</i>	Surplus monies that are invested by Council in accordance with Section 103 of the Act.
<i>CDO</i>	Collateralised Debt of Obligation
<i>Credit Rating</i>	An assessment of how likely a bank is to go out of business or default
<i>FRN</i>	A Floating Rate Note (FRN) is a medium to long term fixed interest investment where the coupon is a fixed margin ("coupon margin") over a benchmark, also described as a "floating rate". The benchmark is usually the BBSW and is reset at regular intervals - most commonly quarterly.
<i>RBA</i>	Reserve Bank of Australia
<i>Standard & Poors (S&P)</i>	Is the world's leading index provider and the foremost source of independent credit ratings.

8. Related documents

8.1. Legislation

- *Local Government Act 2020*



- *Banking Act 1959*
- *Victorian Funds Management Act 1994*
- Local Government (Planning and Reporting) Regulations 2014

8.2. Documents and resources

- Australian Accounting Standards
- Ministerial Guidelines and Circulars
- 10-Year Financial Plan
- Annual Budget
- Procurement Policy
- Financial sub-Delegation

9. Implementation of the Policy

This Policy will be implemented immediately following the Council resolution to adopt this policy.