



INVESTMENT POLICY

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Responsible Officer:	Manager Financial Strategy
Owner:	Financial Strategy
Responsible Director:	Corporate Performance
Relevant Legislation/Authority:	<ul style="list-style-type: none">• Local Government Act 1989• Australian Accounting Standards – AASB 139: Financial Instruments – Recognition and Measurement• Australian Prudential Regulation Authority
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1. PURPOSE

The purpose of this policy is to provide guidance for managing, investing and redeeming invested funds for the City to responsibly invest the community's resources and maximise return, whilst managing risk and complying with Local Government Act 1989.

2. BACKGROUND

The Investment Policy balances both the responsibility of maximising earnings whilst managing the security and risk over Council's invested funds so funds are secure and available when required. Investment of Council's money is in accordance with the Local Government Act 1989.

3. SCOPE

This policy covers the governance requirements for investing Council funds to maximise returns while managing risk and being compliant with the Local Government Act 1989.

4. DEFINITIONS

The following details the Standard and Poors investment ratings:

- **AAA** – Highest credit quality – This rating indicates the lowest expectation of credit risk. They are assigned only in the case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
- **AA** – Very high credit quality – This rating indicates expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
- **A** – High credit quality – This rating indicates expectations of low credit risk. The capacity for payment of financial commitments is considered strong. The capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
- **BBB** – Good credit quality – this rating indicates that there is currently an expectation of low credit risk. The capacity for payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions is more likely to impair this capacity.
- **A1+** – Extremely strong degree of safety regarding timely payment.
- **A1** – A strong degree of safety.
- **A2** – A satisfactory capacity for a timely payment.

5. PRINCIPLES

5.1 Funds for Investment

To invest the City's funds not required for short term financial commitments in a manner that will provide the highest investment return with maximum security. Funds should, to the extent that the future can be forecast, be available for recurrent or capital expenditure where required and invested productively if not required.

Protection of principal is essential in the investment program. Investments of the City will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

Investments will be made with good judgement and care, not for speculation, and considering the probable safety of the capital as well as the probable income to be derived. Where, all else being equal, the City gives consideration to those financial institutions which demonstrate a positive commitment within the region and to the ethical investment criteria detailed in section 6.6. The capital investment must not drop below face value.

5.2 Authority to Invest

Investments of the City's funds are to be in accordance with the City's power of investment under the Local Government Act 1989 – Section 143 Investments.

Investment decision making is the responsibility of the Manager Financial Strategy, Senior Financial Accountant and Director Corporate Performance, who will act within the Local Government Act and other relevant regulations.

5.3 Authorised Investments

The City funds must only be invested in investments authorised under Section 143 of the Local Government Act 1989. An excerpt of the current section is below:

A Council may 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;
- (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) If 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.

6. POLICY

6.1 Risk Management Guidelines

The City's investment portfolio is to comply with three key criteria:

- (a) Portfolio Credit Framework: limit overall credit exposure of the portfolio.
- (b) Counterparty Credit Framework: limit exposure to individual institutions.
- (c) Term to Maturity Framework: limits based upon maturity of securities.

a) Portfolio Credit Framework

To control credit quality on the entire portfolio, the following credit framework limits the percentage of the portfolio, based upon Council's average annual balance, exposed to any particular Standard & Poors (S&P) credit rating category:

Long-Term Credit Ratings	Short-Term Credit Ratings	Direct Securities Maximum
A Category or above	A-1 and above	100% max
Below Category A	Below A-1	80% max

Investments issued into following adoption of this policy are to be restricted to **Authorised Deposit Taking Institutions** (ADI's – such as banks, building societies and credit unions) regulated by, and subject to the prudential standards of, the Australian Prudential Regulation Authority (APRA). Refer <http://www.apra.gov.au/ADI/ADIList.cfm> for a listing of approved ADIs. The City is not to invest with an Institution with a Standard & Poors credit rating of lower than B, or non-rated Institutions.

b) Individual Institution Credit Framework

Exposure to an individual institution will be restricted by their S&P rating so that single entity exposure is limited, as detailed in the table below:

Long-Term Credit Ratings	Short-Term Credit Ratings	Direct Securities Maximum (per institution)
AAA Category	A-1+	40%
AA Category	A-1	35%
A Category or below	A-2	30%

Percentage holdings in each security should be based on average investment holdings, excluding at call amounts.

The short-term credit rating limit will apply in the case of discrepancies between short and long-term ratings.

In the event that a credit rating of a security or of the company/body issuing the security falls below the required minimum, the City will make all necessary arrangements to withdraw deposits as soon as practical.

c) Term to Maturity Framework

The investment portfolio is to be invested within the following terms to maturity constraints:

Overall Portfolio Term to Maturity Limits	
Portfolio % < 12 months	100% max; 60% min
Portfolio % > 12 months < 36 months	40% max

6.2 Liquidity

The investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated, with investment maturities scheduled to coincide with projected cash flow needs.

6.3 Title

All funds invested will be invested under the name of the “City of Greater Bendigo” and no rights, powers or access to those funds is to operate in favour of any other party.

In the case of Restricted Funds, the funds may be invested under the name of “City of Greater Bendigo LSL Account” or “City of Greater Bendigo Waste Reserve Account”.

6.4 Quotations

No less than three quotations shall be obtained from authorised institutions when 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 under “Portfolio Mix”, refer section 6.1 (b) of this Policy.

6.5 Reporting

Accounting for investments will comply with the Australian Accounting Standards and the Local Government Act 1989.

Compliance with the Policy is to be reviewed on a monthly basis by the Financial Strategy Unit, and reported to the Director Corporate Performance. A report on investments showing values of investments and returns will be part of the regular quarterly reporting to the Finance Committee. Any inadvertent breaches of the Investment Policy will be presented to the Finance Committee.

6.6 Environmental & Ethical considerations

Where investments offer the same rates of return, Council officers will preference investments with institutions that do not invest or finance in a material way industry or areas referred to in Schedule 1, alongside other risk based restrictions referred to in Section 6.1 of this Policy.

Council’s investment strategy will give preference to authorised deposit-taking institutions that state they do not finance fossil fuel projects where:

- the investment transaction is compliant with the credit risk and institutional risk parameters specified in this policy, and
- the rate of investment is within 0.05 percentage points when compared against other investments available to Council at the time.

7. ROLES AND RESPONSIBILITIES

All investments are to be jointly authorised by the Director Corporate Performance and the Manager Financial Strategy. In their absence the Chief Executive Officer may authorise the investment.

Rollover of current investments with the same institution for similar maturity can be performed by either the Senior Financial Accountant or Manager Financial Strategy, provided the rollover will ensure continued compliance with this policy.

8. RELATED DOCUMENTS

Employees are encouraged to access the related internal documents which are available on the intranet and/or external resources which are available as per the below.

These include:

All investments are to be classified as held to maturity financial instruments in accordance with AASB 139: Financial Instruments – Recognition and Measurement, and to be recorded at their fair value.

9. HUMAN RIGHTS COMPATIBILITY

The implications of this policy have been assessed in accordance with the requirements of the Victorian Charter of Human Rights of Responsibilities Charter.

10. ADMINISTRATIVE UPDATES

It is recognised that, from time to time, circumstances may change leading to the need for minor administrative changes to this document. Where an update does not materially alter this, such a change may be made administratively. Examples include a change to the name of a Business Unit, a change to the name of a Federal or State Government department, and a minor update to legislation which does not have a material impact. However, any change or update which materially alters this document must be made through consultation with the staff Consultative Committee and with the approval of EMT or where required, resolution of Council.

11. DOCUMENT HISTORY

Date Approved	Responsible Officer	Unit	Change Type	Version	Next Review Date
<i>June 2018</i>	<i>LL</i>	<i>Financial Strategy Unit</i>	<i>Review (administrative), Update</i>	<i>Increase version number each time document is updated/changed</i>	<i>June 2022</i>

Further information or advice on this policy should be directed to Financial Strategy.

Schedule 1 – Industries or criteria which will be applied to section 6.6

1. Fossil Fuels and their subsidiaries

Investing Procedure

As a general procedure the following must be undertaken when investing funds in accordance with this policy.

- (a) Calculate surplus funds to be invested taking into account future cash flows. This as a minimum would require assessment of payroll periods, creditor runs and revenue streams such as rates, Victorian Grants Commission grants and debtors.
- (b) Review other investment maturity dates, along with items noted in Step (a). Gauge the current maturity dates, and if possible plan to have new investment fall due before days when cash outflow will be high. E.g. payroll or creditor runs.
- (c) Once the investment amount has been calculated review the interest rates from various financial institutions attempting to maximize the return while ensuring compliance with part 6.
- (d) Complete Investment Summary sheet (Section 8 - Attachments), ensure a reason for investment selection on Investment Summary Form is included and make recommendation.
- (e) If authorised to complete the roll over, finalise arrangements with the institution. If investment is new, forward to Manager Financial Strategy and/or Director Corporate Performance as appropriate for decision and approval.
- (f) Once Investment Summary Form is completed and authorised, proceed with notifying the successful financial institution and begin steps to have cheque drawn if necessary or organise with Institution when notifying, to have EFT transaction take place.
- (g) Place Investment Summary Form with remittance in investment folder. Update Investment Schedule.