

## Investment Policy

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|-------------------------------------|---|---|--|
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Macedon Ranges Shire Council acknowledges the Dja Dja Wurrung, Taungurung and Wurundjeri Woi Wurrung Peoples as the Traditional Owners and Custodians of this land and waterways. Council recognises their living cultures and ongoing connection to Country and pays respect to their Elders past, and present. Council also acknowledges local Aboriginal and/or Torres Strait Islander residents of Macedon Ranges for their ongoing contribution to the diverse culture of our community.

| DOCUMENT HISTORY | Version | Date            | Author    |
|------------------|---------|-----------------|-----------|
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## Purpose/Objective

The objectives of this policy are to:

- Maximise investment returns subject to risk reduction controls
- Safeguard Council's investments.
- Provide guidance to staff in relation to managing Council's investments and cash flow to meet operating requirements.
- Align our investment approach to be consistent with Council's social and environmental obligations

## Background/Reasons for Policy

Council is granted power to invest its money – in accordance with the *Local Government Act 2020*. Council holds a significant amount of public funds so it is appropriate that there are controls in place to safeguard the money whilst ensuring optimal returns on investment.

## Gender Impact Assessment

In accordance with the Gender Equality Act 2020, a Gender Impact Assessment was not required in relation to the subject matter of this report.

### 1. Scope

This policy covers the governance requirements for investing Council funds to maximise returns while managing risk, incorporating consideration for Council's social and environmental commitments and ensuring compliance with the Act and other legislative requirements.

### 2. Legislative Requirements

#### **The Local Government Act 2020 (the Act):**

Section 101 of the Act provides Council with financial management principles as follows:

- a) revenue, expenses, assets, liabilities, investments and financial transactions must be managed in accordance with a Council's financial policies and strategic plans
- b) financial risks must be monitored and managed prudently having regard to economic circumstances
- c) financial policies and strategic plans, including the Revenue and Rating Plan, must seek to provide stability and predictability in the financial impact on the municipal community
- d) accounts and records that explain the financial operations and financial position of the Council must be kept.

Section 103 of the Act provides Council with the power to invest money as follows:

- a) in Government securities of the Commonwealth
- b) in securities guaranteed by the Government of Victoria
- c) with an 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 2001 (Clth)*
- 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.

### **Banking Regulations 2016**

The Australian Government introduced the Financial Claims Scheme (FCS) under the Banking Regulations 2016. The FCS protects money held by an account-holder with an ADI, whether in one or more accounts, up to a total value of \$250,000.

A list of approved ADIs can be found on the APRA website.

<https://www.apra.gov.au/list-of-authorised-deposit-taking-institutions-covered-under-financial-claims-scheme>

## **3. Funds Available for Investment**

Council Funds that are not required for short term financial commitments are invested in a manner in accordance with the investment portfolio management components of this policy (section 4). 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.

Protection of principal is essential in the investment program. Investments of Council will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The capital investment must not drop below face value.

## **4. Investment Portfolio Management**

Investments will be made with good judgement and care, not for speculation, and consider the probable safety of the capital as well as the probable income to be derived.

All else being equal, Council will give priority to those ADIs which demonstrate a positive commitment within the region and in accordance with Council's social and environmental considerations.

Council's investment Portfolio management is made up three key components:

- 4.1 Risk Management and Investment Diversification
- 4.2 Return on investment
- 4.3 Social and environmental considerations

## 4.1 Risk Management and Investment Diversification

Risk management and investment diversification of Council'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 S&P credit rating category:

| Long Term Credit Ratings (1) | Short Term Credit Ratings (1) | Maximum Exposure to this Credit Rating Group (2) |
|------------------------------|-------------------------------|--|
| AAA/AA-                      | A1+/A1                        | 100%   |
| A+/BBB-                      | A2/A3                         | 70%  |
| BB+/D                        | B                             | Nil  |

Following the adoption of this policy investments entered into are to be restricted to ADI's – such as banks, building societies and credit unions regulated by, and subject to the prudential standards of APRA.

Refer to the APRA website, (<https://www.apra.gov.au/register-of-authorized-deposit-taking-institutions>) for a listing of approved ADIs.

Council is not to invest with any unrated ADIs.

### (b) Individual Institution Credit Framework

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

| Long Term Credit Ratings (1) | Short Term Credit Ratings (1) | ADI limit (2) |
|------------------------------|-------------------------------|---------------|
| AAA/AA                       | A1+/A1                        | 45%           |
| A+/A-                        | A2                            | 40%           |
| BBB+/BBB-                    | A3                            | 35%           |
| BB+/D                        | B                             | Nil           |

#### Notes:

Financial institutions have ratings based on the long term (12 month +) and the short term (less than 12 months). The categories are based on S&P's investment ratings. See Appendix 1 for further details.

The percentages are of the total amount of money held by Council in investments and in bank accounts.

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

ADIs that are a subsidiary of another ADI will be considered to be a separate entity for the purpose of the institution limit.

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

### **(c) Term to Maturity Framework**

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

| <b>Overall portfolio Term to maturity Limits</b> |                   |
|--|-------------------|
| Portfolio % < 12 months                          | 100% max; 70% min |
| Portfolio % > 12 months < 36 months              | 30% max           |

### **4.2 Return on Investment**

Within the risk reduction controls (see section 4.1) and social and environmental considerations (see Section 4.3); Council investments shall be made with ADI's offering the highest rate of return at the time the money is invested.

The period of investment shall be determined in accordance with the level of returns offered and Council's Liquidity (section 5) whilst ensuring compliance with the criteria of section 4.

Funds held in Council's cash accounts (where interest rates are usually lower) shall be kept to the minimum required to safely meet operating cash flow requirements.

### **4.3 Social and Environmental Consideration**

Council will give preference to investing its funds in ADIs that do not invest in or finance the fossil fuel industry and support the International Campaign to abolish Nuclear Weapons (ICAN), providing that they meet the criteria in sections 4.1 and 4.2. In accordance with the Climate Change Action Plan, Council will aim to have at least 20% of its investments with ADIs that do not invest in or finance the fossil fuel industry.

A list of ADIs that do not invest in or finance the fossil fuel industry can be found at <https://www.marketforces.org.au/info/compare-bank-table/>

## **5. Liquidity**

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

## 6. Authorisation of Investments

The investment of Council's funds are to be in accordance with Council's power of investment under the Act– Section 103, Investments.

Authority is delegated to the Manager Finance and Reporting, Coordinator Accounting, and Director Corporate to place funds in investments permitted under Section 103 of the Act and other relevant regulations.

## 7. Quotations

No less than three quotations shall be obtained from ADIs when a new investment is proposed. The preferred quote on the day will be successful after considering compliance with the three key components of Section 5 of this policy.

## 8. Title

All funds invested will be invested under the name of the "Macedon Ranges Shire Council" and no rights, powers or access to those funds is to operate in favour of any other party.

## 9. Maturing Investments

The redemption of any funds (Principle and Interest) from maturing investments must be paid to Council's Operating Bank Account.

The rollover of current investments with the same institution for similar maturity can be performed by either the Coordinator Accounting or Manager Finance and Reporting, provided the rollover will ensure continued compliance with this policy.

## 10. Reporting on Investment Performance and Policy Compliance

All aspects of sections 4.1- 4.3 are to be applied equally. In the event that a compliance with a component of the framework falls outside the set limits, Council will make all necessary arrangements to withdraw deposits as soon as practical.

Accounting for investments will comply with the *Australian Accounting Standards AASB 139: Financial Instruments* and the Act.

Transactions involving new, rolled over and withdrawn investments will be recorded in the treasury ledger in the finance system.

A reconciliation and compliance with the Policy is to be reviewed on a monthly basis by the Finance and Reporting Unit, and reported to the Executive Leadership Team.

As part of Council's Quarterly Report the Manager Finance and Reporting will provide a report of investment balances with interest rate and maturity dates. The report will also include the percentage of investments that meet the criteria in Section 4.3.

During times of extreme economic complexity and uncertainty (e.g. world-wide pandemic, international conflicts, disaster), some ADIS' restrict or cease activity accepting investments for interest bearing deposits.

In such circumstances, Council will adjust its approach to investments to maintain responsible returns, and this may see non-compliance with some elements of this policy, including social and environmental considerations or portfolio or individual investment distributions. The reporting framework in place will see relevant levels of management recognise these situations.

The return of compliance will be monitored and as soon as practical steps taken to ensure compliance with this policy is achieved.

## **11. Human Rights Charter**

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

## **12. Administrative Updates**

It is recognised that, from time to time, circumstances may change leading to the need for minor administrative changes to this policy. 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 with a resolution of Council.



## APPENDIX 1 - Standard & Poors Investment Ratings

| Standard & Poors Ratings and Definitions   |                                   |  |  | Council Limits                    |                         |
|--|-----------------------------------|--|--|-----------------------------------|-------------------------|
| Short-term   |                                   | Long-term  |  | Maximum Exposure per Group 4.1(a) | Maximum per ADI 4.1 (b) |
| Refers to the financial institution's capacity to repay debt in the short term of say 0 to 365 days. |                                   | Refers to securities, such as Semi-Government and corporate, which have a maturity greater than 12 months. |  |                                   |                         |
| <b>A1+</b>   | Extremely strong capacity to pay  | <b>AAA</b>   | Extremely strong capacity to pay   | 100%                              | 45%                     |
| <b>A1</b>  | Strong capacity to pay            | <b>AA+</b><br><b>AA</b><br><b>AA-</b>  | Very strong capacity to pay  | 100%                              | 45%                     |
| <b>A2</b>  | Satisfactory capacity to pay      | <b>A+</b><br><b>A</b><br><b>A-</b>   | Strong capacity to pay   | 70%                               | 40%                     |
| <b>A3</b>  | Adequate capacity to pay          | <b>BBB+</b><br><b>BBB</b><br><b>BBB-</b>   | Adequate Capacity to Pay   | 70%                               | 35%                     |
| <b>B</b>   | Vulnerable to default/speculative | <b>BB+</b><br><b>BB</b><br><b>BB-</b>  | Uncertainties or Adverse Conditions could lead to inadequate capacity to Pay | Nil                               | Nil                     |
|  |                                   | <b>B+</b><br><b>B</b><br><b>B-</b>   | Adverse conditions likely to impair capacity to pay                          | Nil                               | Nil                     |
|  |                                   | <b>CCC</b><br><b>CC</b>  | Vulnerable to default High risk of default                                   | Nil                               | Nil                     |
|  |                                   | <b>D</b>   | Default  | Nil                               | Nil                     |

## Definitions

| Term   | Definition  |
|--|---|
| <b>Authorised deposit-taking institution (ADI)</b>       | organisations' such as banks, building societies and credit unions regulated by and subject to the prudential standards of the Australian Prudential Regulation Authority (APRA). |
| <b>Australian Prudential Regulation Authority (APRA)</b> | is an independent statutory authority that supervises institution across banking, insurance and superannuation and promotes financial system stability in Australia.              |
| <b>Money</b>   | refers to cash on hand, funds in bank accounts and funds invested.  |
| <b>Standard &amp; Poors (S&amp;P)</b>                    | is the world's leading index provider and the foremost source of independent credit ratings.  |
| <b>Credit Rating</b>                                     | an assessment of how likely a bank is to go out of business or default.   |
| <b>The Act</b>   | refers to the Local Government Act 2020.  |
| <b>Environment</b>                                       | refers to ADIs that do not invest in or finance the fossil fuel industry and support the International Campaign to abolish Nuclear Weapons (ICAN).                                |
| <b>Social</b>  | refers to banks that that recognise factors in the social environment that are important to health include those related to safety, violence and social disorder in general.      |
| <b>Clth</b>  | refers to the Australian Government.  |
| <b>Council's cash accounts</b>                           | refers to Council's operating bank accounts and funds held for short periods in "at call" style accounts.   |

## References

- > Nil

## Related Policies

- > Cash Handling Policy
- > Climate Change Action Plan

## Related Legislation

- > *Local Government Act 2020*
- > *Australian Prudential Regulation Authority (APRA)*
- > *Corporations Act 2001 (Clth)*
- > *Banking Act 1959*
- > *Banking Regulations 2016*
- > *Charter of Human Rights and Responsibilities Act 2006*
- > *Gender Equality Act 2020*
- > *Australian Accounting Standards*