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<b>Responsible Officer:</b>	Manager Financial Strategy
<b>Owner:</b>	Financial Strategy
<b>Responsible Director:</b>	Corporate Performance
<b>Relevant Legislation/Authority:</b>	<ul style="list-style-type: none"> <li>• <i>Local Government Act 2020 (Vic)</i></li> <li>• Australian Accounting Standards – AASB 139: Financial Instruments – Recognition and Measurement</li> <li>• Australian Prudential Regulation Authority</li> <li>• <i>Banking Act 1959 (Cth)</i></li> </ul>
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## 1. PURPOSE

The purpose of this policy is to provide guidance for managing, investing and redeeming funds for the City of Greater Bendigo (City) and to maximise returns, whilst managing risk and complying with the *Local Government Act 2020 (Vic) (Act)*.

## 2. BACKGROUND

The Investment Policy balances the responsibility of maximising earnings whilst managing the security and risk over the City's funds, so funds are secure and available when required. Investment of the City's money is in accordance with the Act.

## 3. SCOPE

This policy covers the governance requirements for investing the City's funds to maximise returns while managing risk and being compliant with the Act.

## 4. DEFINITIONS

**Act** means the *Local Government Act 2020 (Vic)*.

**ADI** means Authorised Deposit-taking Institution's which are corporations authorised under the Banking Act 1959. ADIs include banks, building societies, and credit unions.

**City** means the Greater Bendigo City Council, being a body corporate constituted as a municipal Council under the *Local Government Act 2020 (Vic)*.

**Council** means all of the Councillors collectively.

**Credit Rating** means an assessment of the creditworthiness of an investment in general terms or with respect to a particular debt or financial obligation.

**EMT** means the Executive Management Team within the City.

**S&P** means Standard & Poor's. This is the world's leading index provider and the foremost source of independent credit ratings.

The following details the S&P's 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.

## 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 Act – Section 103 Investments.

Investment decision making is the responsibility of the Manager Financial Strategy, Team Leader Financial Accounting and Treasury, Coordinator Financial Reporting and Operations, and Director Corporate Performance, who will act within the Act and other relevant regulations.

### 5.3 Authorised Investments

The City's funds must only be invested in those investments authorised under Section 103 of the Act. An excerpt of the current section is below:

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.

## 6. POLICY

### 6.1 Risk Management Guidelines

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

- **Preservation of Capital** – the requirement for minimising losses in an investment portfolio's total value.
- **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;
- **Diversification** – the requirement to place investments in a broad range of products so as not to be over exposed to a particular sector of the investment market;
- **Liquidity Risk (of Counterparty)** – the risk a financial institution runs out of cash, is unable to redeem investments at a fair price within a timely period, and thereby the City incurs additional costs (or in the worst case is unable to execute its spending plans);
- **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;
- **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; and
- **Rollover Risk** – the risk that income will not meet expectations or budgeted requirement because interest rates are lower than expected in future.

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

The portfolio credit guidelines to be adopted will reference the S&P ratings system criteria and format. However, the equivalent Moody's or Fitch Ratings may be applied when an

institution is not rated by S&P. The City notes that the primary control of credit quality is the prudential supervision and government support and explicit guarantees of the ADI sector, not ratings.

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 Ratings Range	Maximum Holding
AAA Category	100%
AA Category or Major Bank* (AA+ to AA-)	100%
A Category (A+ to A-)	90%
BBB Category (BBB+ to BBB-)	80%
Unrated ADI Category	0%

\*For the purpose of this Policy, "Major Banks" are currently defined as the ADI deposits or senior guaranteed principal and interest ADI securities issued by the major Australian banking groups (including ADI subsidiaries whether or not explicitly guaranteed, and brands):

- Australia and New Zealand Banking Group Limited (ANZ)
- Commonwealth Bank of Australia (CBA)
- National Australia Bank Limited (NAB)
- Westpac Banking Corporation (WBC)

The City may ratify an alternative definition from time to time. S&P's ratings attributed to each individual institution will be used to determine maximum holdings. In the event of disagreement between agencies as to the rating band ("split ratings"), the City shall use the higher in assessing compliance with portfolio Policy limits, but for conservatism shall apply the lower in assessing new purchases.

Investments issued into following adoption of this policy are to be restricted to and subject to the prudential standards of, the Australian Prudential Regulation Authority (APRA). Refer <https://www.apra.gov.au/register-of-authorised-deposit-taking-institutions> for a listing of approved ADIs.

The City is not to invest with an Institution with a S&P's 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 Ratings Range	Maximum Holding (per institution)
AAA Category	40%
AA Category or Major Bank* (AA+ to AA-)	40%
A Category (A+ to A-)	35%
BBB Category (BBB+ to BBB-)	30%
Unrated ADI Category	0%

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

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

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. The City may seek professional investment advice from an external advisor before making such a decision given the decision to withdraw a deposit prior to maturity may result in the substantial loss of income.

### c) Term to Maturity Framework

The City's investment portfolio shall be structured around the time horizon of investment to ensure that liquidity and income requirements are met.

Once the primary aim of liquidity is met, the City will ordinarily diversify its maturity profile as this will ordinarily be a low-risk method of obtaining additional return as well as reducing the risks to the City's income. However, the City always retains the flexibility to invest as short as required by cashflow requirements or the economic outlook.

The factors and/or information used by the City to determine minimum allocations to the shorter durations include:

- It's liquidity requirements to cover both regular payments as well as sufficient buffer to cover reasonably foreseeable contingencies;
- Medium term financial plans and major capital expenditure forecasts;
- Known grants, asset sales or similar one-off inflows;
- Seasonal patterns to the City's surplus funds.

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

Description	Horizon	Min. Allocation	Max. Allocation
Working capital funds (cash/at-call)	0-3 months	20%	100%
Short-term funds	3-12 months	0%	100%
Short medium-term funds	1-2 years	0%	70%
Medium-term funds	2-5 years	0%	40%
Long-term funds	+5 years	0%	0%

## 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 Environmental and Ethical considerations

In making individual investment decisions, the City seeks to preference placing funds with ADIs identified as being environmentally and socially responsible, in line with the City's Council Plan vision, values and objectives.

As part of the City's Climate Change & Environment Strategy, the City has aimed to achieve more funds with financial institutions that do not lend to fossil fuel industries or invested in products that reduce carbon emissions<sup>1</sup>.

Without compromising the risk profile of the investment portfolio, the City will preference fossil fuel free ADIs, provided they can transparently demonstrate:

- The rate of return on investment is greater than or equal to the rates of other ADIs, whilst taking into account a 0.05 percentage point advantage (all durations) and complying with the City's investment policy and availability.
- The avoidance of funding fossil fuel use in the investment product;
- That the ADI and product are otherwise compliant with the City's policy.

In addition, some ADIs that may be lending to the fossil fuel industry may also be issuing complying assets such as 'Green' term deposits. These assets are generally certified by the Climate Bonds Standard and are associated with a defined pool of eligible assets and/or projects such as renewable energy, low carbon transport, low carbon buildings and water infrastructure. The City will undertake a positive screening approach and may invest in such complying products so long as it does not jeopardise the objectives or risk covenants in this Policy.

#### **6.4 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". However generally all funds will be amalgamated and invested in line with this policy for the best return (rather than on a purpose by purpose basis).

#### **6.5 Quotations**

No less than three quotations shall be sought from ADIs 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 overall compliance with this Policy.

#### **6.6 Reporting**

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

The Financial Strategy Unit will continually monitor compliance with the Policy, and this will be formally reported to both the Manager Financial Strategy and Director Corporate Performance on a monthly basis, generally before month end.

A report on investments showing values of investments and returns will form part of the regular quarterly finance reporting to EMT and the City's Finance Committee. Breaches of the Investment Policy will be reported to EMT.

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<sup>1</sup> In the short term, the Strategy aims for 60% to be invested in non-fossil fuel financial institutions by 30 June 2026.

## 7. ROLES AND RESPONSIBILITIES

Request for quotes and nomination of interest rates will generally be performed by the following, whilst ensuring compliance with this Policy:

- Team Leader Financial Accounting and Treasury
- Coordinator Financial Reporting and Operations

All new investments, defined as committing additional funds, are to be performed and jointly authorised by any two of the following, provided the investment will ensure compliance with this Policy:

- Team Leader Financial Accounting and Treasury
- Coordinator Financial Reporting and Operations
- Manager Financial Strategy
- Director Corporate Performance

The rollover of existing investments, regardless maturity duration or whether with the same ADI or not, are to be performed and jointly authorised by any two of the following, provided the rollover will ensure compliance with this Policy:

- Accountant (Financial Accounting)
- Team Leader Financial Accounting and Treasury
- Coordinator Financial Reporting and Operations
- Manager Financial Strategy
- Director Corporate Performance

Should the required above listed staff members not be available on the date of maturity (including Accounts Payable staff to facilitate payments), the invested funds will be redeemed and reinvested as a 'rollover' within a two-week period, provided this will ensure 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 and Responsibilities.

## 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 City 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

<b>Date Approved</b>	<b>Responsible Officer</b>	<b>Unit</b>	<b>Change Type</b>	<b>Version</b>	<b>Next Review Date</b>
<i>June 2018</i>	<i>NRM</i>	<i>Financial Strategy Unit</i>	<i>Review and Update</i>	<i>1</i>	<i>April 2022</i>
<i>March 2023</i>	<i>NM, NC &amp;ME</i>	<i>Financial Strategy Unit</i>	<i>Review</i>	<i>2</i>	<i>March 2025</i>

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

## 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 on a given day, taking into account future cash flows. This as a minimum requires assessment of payroll periods, creditor payment runs, Financial Service Levy Payments to State Government, and revenue streams such as rates, Victorian Grants Commission grants and debtor payments.
- (b) Review other upcoming investment maturity dates, along with items noted in Step (a). Gauge the current maturity dates, and if possible, plan to have new investments mature on the days before cash outflow will be high, such as payroll or creditor payment runs.
- (c) Send out the request for quote (RFQ) as noted in section 6.4 – Quotations, using our current investment platform.
- (d) Once the investment amount has been calculated, review the interest rates from various financial institutions attempting to maximise the return while ensuring compliance with part 6 – Ethical considerations.
- (e) Upon receipt of quotes, you will nominate your selected ADI rate and maturity duration. If authorised to complete the rollover, finalise arrangements with the ADI through the current investment platform. If investment is new, forward to the authorised approver as appropriate for review and approval. This step must ensure compliance with section 7 – Roles and responsibilities.
- (f) Once the investment is completed and authorised, proceed with having the EFT payment organised via Accounts Payable if this is a new investment.
- (g) Place investment confirmation in investments folder. Complete the Investment Summary spreadsheet (Section 8 - Attachments) as well as ensure that our current investment platform reflects the new investment. Ensure a reason for the investment selection is included on both locations.