

Investment and Treasury Policy

<p>Purpose</p>	<p>This policy sets out the principles to be followed by council officers when investing funds with financial institutions. Council must take advantage of the interest earning potential of its surplus funds while reducing its exposure to financial risks and ensuring sufficient funds are kept available to meet cash requirements.</p> <p>This policy ensures that:</p> <ul style="list-style-type: none"> • Responsible Council officers invest surplus funds with approved financial institutions • All funds are invested in accordance with legislative and Council requirements. • All investment transactions are appropriately authorised and documented. • Reporting requirements are clearly stated • Effective internal controls are in place to minimise investment risk and unauthorised appropriation of Council funds <p>As custodians of public money this policy aims to balance the security of investments in times of economic downturn with interest earning potential and supporting environmentally and socially responsible investments in times of climate emergency.</p>								
<p>Scope</p>	<p>This Policy applies to all staff involved in investment of Council Funds.</p>								
<p>Definitions and Abbreviations</p>	<table border="0"> <tr> <td data-bbox="424 1137 560 1261"> <p>Authorised Deposit-taking Institutions</p> </td> <td data-bbox="595 1137 1444 1330"> <p>Authorised Deposit-taking Institutions (ADIs) are corporations which are authorised under the <i>Banking Act 1959</i>. ADIs include banks, building societies, and credit unions.</p> <p>All ADIs are subject to the same Prudential Standards but the use of the names 'bank', 'building society' and 'credit union' is subject to corporations meeting certain criteria.</p> </td> </tr> <tr> <td data-bbox="424 1361 504 1391"> <p>BBSW</p> </td> <td data-bbox="595 1361 839 1391"> <p>Bank Bill Swap Rate</p> </td> </tr> <tr> <td data-bbox="424 1422 517 1518"> <p>Credit Rating Agency</p> </td> <td data-bbox="595 1422 1444 1608"> <p>A credit rating agency is a company that assigns credit ratings, which rate a debtor's ability to pay back debt by making timely interest payments and the likelihood of default. An agency may rate the creditworthiness of issuers of debt obligations, of debt instruments, and in some cases, of the servicers of the underlying debt, but not of individual consumers.</p> </td> </tr> <tr> <td data-bbox="424 1639 560 1697"> <p>Direct Divestment</p> </td> <td data-bbox="595 1639 1444 1951"> <p>No direct investment in any company that involves fossil fuel or the production of nuclear weapons in their core business strategy or principle business activity. This usually refers to stocks held for resources companies and alike and has been the main focus of many organisations that have declared their commitment to fossil fuel divestment and production of nuclear weapon divestment.</p> <p>Constrained by the <i>Local Government Act 2020</i>, Council cannot invest in direct shares of companies or invest in managed funds without ministerial approval and therefore is already in compliance with direct divestment.</p> </td> </tr> </table>	<p>Authorised Deposit-taking Institutions</p>	<p>Authorised Deposit-taking Institutions (ADIs) are corporations which are authorised under the <i>Banking Act 1959</i>. ADIs include banks, building societies, and credit unions.</p> <p>All ADIs are subject to the same Prudential Standards but the use of the names 'bank', 'building society' and 'credit union' is subject to corporations meeting certain criteria.</p>	<p>BBSW</p>	<p>Bank Bill Swap Rate</p>	<p>Credit Rating Agency</p>	<p>A credit rating agency is a company that assigns credit ratings, which rate a debtor's ability to pay back debt by making timely interest payments and the likelihood of default. An agency may rate the creditworthiness of issuers of debt obligations, of debt instruments, and in some cases, of the servicers of the underlying debt, but not of individual consumers.</p>	<p>Direct Divestment</p>	<p>No direct investment in any company that involves fossil fuel or the production of nuclear weapons in their core business strategy or principle business activity. This usually refers to stocks held for resources companies and alike and has been the main focus of many organisations that have declared their commitment to fossil fuel divestment and production of nuclear weapon divestment.</p> <p>Constrained by the <i>Local Government Act 2020</i>, Council cannot invest in direct shares of companies or invest in managed funds without ministerial approval and therefore is already in compliance with direct divestment.</p>
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	<p>Indirect Divestment Divest from financial institutions or companies that invest in fossil fuel and production of nuclear weapons. Diversification of portfolios amongst companies makes it difficult to readily identify all indirect investments; therefore companies usually limit their divestment policies to direct investments only.</p> <p>Market Forces An affiliate project of Friends of the Earth Australia. Market Forces present the results of their research online (http://www.marketforces.org.au/banks/compare) to give a guide to bank investment/ financing of fossil fuel assets.</p> <p>Negative screening This refers to stopping dealing with ADIs that are: - involved in fossil fuel investments, and - involved in the production of nuclear weapons</p> <p>Positive screening This refers to increasing dealings with ADIs that: - commit to fossil fuel free investments, and - are not involved in the production of nuclear weapons</p> <p>ST / LT Short term / Long term</p> <p>Standard & Poor's Standard & Poor's Financial Services (also referred to as S&P) is an American financial services company, founded by Henry Varnum Poor in 1860 in New York. S&P controls approximately 40% of the global credit rating market share</p>
<p>Policy Statement(s)</p>	<p>Objectives / Principles</p> <p>The primary objective of this policy is to maximise the earnings from investment of surplus funds within an appropriate risk-based framework. The principles which guide this objective are:</p> <ul style="list-style-type: none"> • Preservation of capital • Maintenance of sufficient cash to meet day to day liquidity requirements • Diversification of investments across different institutions/issuers • Targeted investment returns against relevant benchmarks. <p>Credit ratings provided by ratings agencies are one form of analytical filter that Council can consider when making investment decisions. Appendix 1 contains a summary of credit rating definitions provided by Standard and Poor's. Other relevant factors to consider include liquidity requirements, counterparty risk and the duration of investment decisions. Each of these elements is given consideration in this policy.</p> <p>Ethical and sustainability considerations</p> <p>Financial institutions to be selected for investments must indicate their commitment to core values of integrity, trust, customer service and the highest ethical standards along with their strong commitment to Corporate Social Responsibility (CSR).</p> <p>Darebin City Council is concerned about the impact that the consumption of fossil fuels has on greenhouse gas emissions. Council recognises the role of financial institutions in financing new fossil fuel projects in Australia.</p> <p>To ensure Council will move away from directly investing in any institution for whom the extraction, production, refining, or distribution of fossil fuels forms a core part of their</p>

business strategy, or in any company whose principal business involves providing infrastructure or services to companies previously mentioned, Council will adopt a positive screening approach for Council's investment with financial institutions.

Darebin City Council is concerned about the impact that the production of nuclear weapons has on our society. Council recognises the role of financial institutions in financing the production of nuclear weapons in Australia.

To ensure Council will move away from directly investing in any institution that has investments relating to the production of nuclear weapons, Council will adopt a positive screening approach for Council's investment with financial institutions.

This will be implemented through actively investing with fossil fuel free and nuclear weapon free financial institutions within the parameters of this policy.

Council's investment strategy will give preference to authorised deposit-taking institutions that state they do not finance fossil fuel and production of nuclear weapon projects where:

- the investment transaction is compliant with the credit risk, product 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.

Treaty on the Prohibition of Nuclear Weapons

Council does not invest directly in companies that produce nuclear weapons. Wherever practical, Council preferences financial institutions and investment products that do not directly or indirectly fund any activities in the Arms industry.

Approved investments

In the context of the above legislative framework, the following investments are allowable under the Act and are typically made by Victorian local governments.

Investment	Description	Features	Benchmark	Horizon* (Short Term/ Long Term)
11am account	Cash funds are invested on overnight deposit up until 4pm each business day. Notice of withdrawal of funds to be submitted to the bank by 11am on the day required.	Ready access to funds. No fees. Interest rate usually 0.10% below the Reserve Bank cash rate.	Reserve Bank cash rate less 0.10% (10 basis points)	ST
Term deposit	Fixed period investment offered by authorised deposit-taking institutions.	Wide range of maturity dates available. Certainty of returns.	UBSA Bank Bill Index	ST / LT

Commercial bill	Highly negotiable products sold at a discount to their face value. The bank undertakes to pay the investor the face value upon maturity.	Highly liquid product which can be redeemed at any time by selling back to the bank.	UBSA Bank Bill Index	ST
Floating rate notes	FRNs are available for terms ordinarily of 1-3 years with regular coupons (interest) usually paid quarterly.	Interest rate is set as a margin over the 90 day Bank Bill Swap Rate (BBSW).	90 day BBSW + appropriate margin **	LT
Government and Semi-Government bonds	Long dated maturities with a sovereign debt rating. Considered to be the most resilient investments in regards to adverse market movements.	Lower return than other forms of investment.	UBSA Composite Bond Index	LT
Managed funds with a minimum AAF rating	Enhanced cash funds independently managed by fund managers.	Rate of return is benchmarked against the UBS 90 day Bank Bill index.	UBS Bank Bill index + 0.20% (20 basis points)	ST / LT

* ST generally refers to investment horizons suitable up to 12 months and LT suitable over 12 months.

** The appropriate margin would be reviewed and agreed at the point of investment.

Council may invest in any of the above investments subject to the limits listed below and subject to the specific requirements of the Act. Different investment products will have differing levels of use, practicality and desirability at different times of the economic cycle.

The decision regarding investment types will be made with regard to the prevailing economic and market conditions, the timeframe of the particular investment, and the rates of return applicable at the time.

When considering investments in managed funds, enquiries will be made regarding the investments made by the fund and independent advice must be sought.

In the event of the requirement to temporarily exceed the counterparty credit limits by any ADI, notification and approval must be provided to and support from the Manager Finance and GM Governance & Engagement obtained.

Overall portfolio rating limits

To control the credit quality on the investment portfolio, the following credit framework limits the percentage of the portfolio exposed to any particular credit rating category.

S&P Long Term Rating*	S&P Short Term Rating*	Investment Maximum %
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AAA	A1+	100%
AA+ to AA-	A1	100%
A+ to A-	A1	70%
A+ to A-	A2	70%
BBB+ to BBB	A2	70%
BBB- to BBB-	A3	50%

* Appendix 1 contains definitions of ratings provided by Standard and Poor's.

Counterparty credit framework

Exposure to an individual counterparty or institution will be restricted by its credit rating so that single entity exposure is limited, as detailed in the table below:

S&P Long Term Rating	S&P Short Term Rating	Investment Maximum %
AAA	A1+	60%
AA+ to AA-	A1	50%
A+ to A-	A2	30%
BBB+ to BBB	A2	30%
BBB- to BBB-	A3	15%

If any of the investments are downgraded such that they no longer fall within the investment policy, they will be divested as soon as practicable.

In addition to the above requirements, any single investment in a AA rated managed fund will represent no more than 40% of the investment portfolio.

Investment maturity

The maturity of investments will be based on forecast cash requirements and assessment of interest rates available at the time of investment. Investments will be placed at optimal maturities without compromising the objective of maintaining cash to meet daily liquidity requirements. The term of maturity of any investment may range from "at call" to five years.

Investments should not only take into account the typical risks including counterparty, diversification, liquidity, market, duration and capital risk, but also consider reinvestment risk.

Performance monitoring and reporting

A monthly investment report will be provided to the General Manager Governance & Engagement detailing the investments held at month-end, investment ratings, investment returns against relevant benchmarks and the investment maturity dates.

	A quarterly report will be provided to the Executive Management team and a report to the Audit and Risk Committee will be provided on the mid-year and full-year investment performance.
Responsibilities	<p>How is the Financial Accounting Coordinator responsible for the success of the policy?</p> <p>Responsible for the cash flow management, identification and preparation of day- to-day investment decisions in accordance with this policy.</p> <p>Responsible for the review of all transactions, matching investments to confirmation documents and ensuring investment thresholds are adhered to.</p> <p>How is the Chief Financial Officer responsible for the success of the policy?</p> <p>Responsible for the review and approval of investment decisions in accordance with this policy and managing Council's operating cash position and investment portfolio. Responsible for presenting investment information to the Executive Management Team, Audit and Risk Committee and Council on a periodic basis.</p> <p>How is the General Manager Governance and Engagement responsible for the success of the policy?</p> <p>Responsible for the review and approval of investment decisions in accordance with this policy</p> <p>How is Audit and Risk Committee responsible for the success of the policy?</p> <p>Responsible for annual review of this policy.</p> <p>How is Council responsible for the success of the policy?</p> <p>Responsible for annual review and adoption of this policy.</p>
Breach of Policy	Breaches of policies are treated seriously. Any concerns about non-compliance should be reported immediately to the owner of this policy.

GOVERNANCE

Parent Strategy/ Plan	10 year Financial Plan
Related Documents	<p>This policy should be read in conjunction with Council's:</p> <ul style="list-style-type: none"> • Cashflow forecasting policy • "Detailed investment procedure" stored in objective • Council – Local Government Act & Ministerial Directions • Australian Accounting Standards • Corporation Act 2001 • The Charter of Human Rights and Responsibilities Act 2006 • Ordinary Council Meeting Minutes 31 January 2022, Item 8.4
Supporting Procedures and Guidelines	N/A

Legislation/ Regulation	Council is governed by the Local Government Act 2020 (“the Act”) which contains specific provisions on investments. The relevant sections of the Act are included in Appendix 2.
Author	Chief Financial Officer
Policy Owner/ Sponsor	General Manager Governance and Engagement
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Content enquiries	Coordinator - Financial Accounting

Appendix 1 – Standard & Poor’s rating definitions

<u>SHORT TERM</u>		<u>LONG TERM</u>
Extremely strong capacity to pay	AAA	Extremely strong capacity to pay
Strong capacity to pay	AA+	Very strong capacity to pay
Satisfactory capacity to pay	AA	
	AA-	
Adequate capacity to pay	A+	Strong capacity to pay
Vulnerable to default/speculative	A	
	A-	
	BBB+	Adequate Capacity to Pay
	BBB	
	BBB-	
	BB+	Uncertainties or Adverse Conditions could lead to inadequate capacity to Pay
	BB	
	BB-	
	B+	Adverse conditions likely to impair capacity to pay
B		
B-		
	CCC	Vulnerable to default
	CC	High risk of default
	D	Default

Investment Policy – Appendix 2

Legislative framework Local Government Act 2020

Financial management principles (section 101)

- (1) Revenue, expenses, assets, liabilities, investments and financial transactions must be managed in accordance with a Council's financial policies and strategic plans.
- (2) financial risks must be monitored and managed prudently having regard to economic circumstances;
- (3) 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;
- (4) accounts and records that explain the financial operations and financial position of the Council must be kept.
- (5) For the purposes of the financial management principles, financial risk includes any risk relating to the following-
- (6) The financial viability of the Council;
- (7) The management of current and future liabilities of the Council;
- (8) The beneficial enterprise of the Council

Financial policies (section 102)

- (9) Council must prepare and adopt financial policies that give effect to the financial management principles
- (10) A financial policy must include any matters prescribed by the regulations.

Investments (section 103)

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) 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.