

Draft Revised Investment Procedure

Table of Contents

| | |
|-----------------------|---|
| 1. Purpose | 1 |
| 2. Scope | 1 |
| 3. Definitions | 1 |
| 4. References | 2 |
| 5. Content | 2 |
| 6. Documentation..... | 5 |
| 7. Authorisation..... | 5 |

1. Purpose

- 1.1 This procedure sets out the mechanisms to be followed by Council officers to give effect to and ensure compliance with Council's Investment Policy.

2. Scope

- 2.1 This procedure applies to the investment of surplus Council funds by Council officers.

3. Definitions

- 3.1 Institution: Authorised Deposit Taking Institution (ADI) is a corporation which is authorised under the Banking Act 1959. For the purpose of this procedure an individual institution includes subsidiaries (and/or rebadged trading arms) e.g. St George as a fully owned component of Westpac will be considered as components of one single entity.

| Standard & Poor's Long-Term Issuer Credit Ratings: | |
|--|---|
| AAA | Extremely strong capacity to meet its financial commitments. The highest issuer credit rating assigned by Standard & Poor's. |
| AA | Very strong capacity to meet its financial commitments. Differs from the highest-rating only to a small degree. |
| A | Strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than higher-rated categories. |

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| | | | | |
|---------------------------------------|------------------------|----------------------|--------------|-------------|
| Effective Date: 1 November 2022 | Version Number 7 | Investment Procedure | DOC22/191593 | Page 1 of 6 |
|---------------------------------------|------------------------|----------------------|--------------|-------------|

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| BBB | Adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to meet its financial commitments. |
| Unrated | Financial institutions do not necessarily require a credit rating from a ratings agency. Most credit unions and building societies fall into this category. These institutions nonetheless must adhere to the capital requirements of the Australian Prudential Regulation Authority (APRA), consistent with all ADIs. |

4. References

- 4.1 *Local Government Act 1993* – Section 625
- 4.2 *Local Government Act 1993* – Investment Order (of the Minister) as in force from time to time;
- 4.3 *The Trustee Amendment (Discretionary Investments) Act 1997* – Sections 14A(2), 14C(1) & (2);
- 4.4 *Local Government (General) Regulation 2005* – Clause 212
- 4.5 Division of Local Government Investment Policy Guidelines May 2010
- 4.6 Local Government Code of Accounting Practice & Financial Reporting
- 4.7 Australian Accounting Standards
- 4.8 Office of Local Government Circulars
- 4.9 *Trustees Act 1925*

5. Content

- 5.1 Section 625 of the *Local Government Act 1993* requires Council to maintain a separate record of money it has invested and the record must specify:
 - a. the source and the amount of money invested;
 - b. particulars of the security or form of investment in which the money is invested; and
 - c. If appropriate, the rate of interest to be paid, and the amount of money that the Council has earned, in respect of the money invested.
- 5.2 Investments will be managed with the care, diligence and skill that a prudent person would exercise in investing Council funds. A prudent person is expected to act with considerable duty of care, not as an average person would act, but as a wise, cautious and judicious person would. (Ref: Trustee Amendment (Discretionary Investments) Act 1997 Section 14 A (2)).
- 5.3 In accordance with the Local Government Investment Guidelines, funds are to be placed with a diverse range of financial institutions addressing the issues of available surplus funds, risk and diversification of product. To gain optimum returns whilst maintaining appropriate risk measures, investments should be spread over varying periods in a variety of products while maintaining sufficient liquidity to meet Council's obligations when they fall due.

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| | | | | |
|---------------------------------------|------------------------|----------------------|--------------|-------------|
| Effective Date: 1 November 2022 | Version Number 7 | Investment Procedure | DOC22/191593 | Page 2 of 6 |
|---------------------------------------|------------------------|----------------------|--------------|-------------|

5.4 AlburyCity investments are managed by Fund (General, Water and Sewer) as required by the Local Government Act 1993.

5.5 A written report will be presented to a meeting of Council on a monthly basis advising of the value, performance, maturity and exposure of Council's investment balances and certifying that investments have been made in accordance with the Local Government Act, Regulations and Council's Investment Policy and Procedure. Investment performances will be benchmarked against the Bank Bill Swap reference rate (BBSW) or Bank Bill Index as appropriate.

5.6 If a breach of the investment policy or procedure occurs, Council will be notified at its next ordinary Council meeting by Council's Responsible Accounting Officer.

5.7 Liquidity Risk

5.7.1 The investment portfolio is to be managed within the following maturity constraints:

| Overall Portfolio Term to Maturity Limits | | |
|---|---------|---------|
| Investment Horizon | Minimum | Maximum |
| <1 year | 40% | 100% |
| >1 year ≤3 year | 0% | 60% |
| >3 year ≤5 year | 0% | 20% |

5.7.2 When placing investments that extend beyond one year, Council's working capital requirements are to be assessed by taking into account Council's Operational Plan, Four Year Delivery Program and Long Term Financial Plan.

5.8 Credit Risk

| Authorised Deposit-taking Institutions | Standard & Poor's Long Term Credit Rating April 2022 | Maximum Limit |
|--|--|--|
| Securities issued by the Commonwealth of Australia or any state of the Commonwealth or Territory | | 100% in total all institutions 100% per institution |
| TCorplM Funds | | 100% in total |

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| | | | | |
|---------------------------------------|------------------------|----------------------|--------------|-------------|
| Effective Date: 1 November 2022 | Version Number 7 | Investment Procedure | DOC22/191593 | Page 3 of 6 |
|---------------------------------------|------------------------|----------------------|--------------|-------------|

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|---|--------------|---|
| Major Banks Example: Commonwealth Bank, NAB, Westpac, ANZ (combined with related entities such as Bank West and Bank of Melbourne) | AA- | 100% in total all institutions 40% per institution |
| Other 'AA' Rated Institutions Suncorp | AA | 100% in total all institutions 40% per institution |
| 'A+ and A' Rated Institutions Examples: ING Bank, Rabobank, Macquarie Bank | A+ A | 100% in total all institutions 40% per institution |
| 'A-' Rated Institutions | A- | 40% in total all institutions 20% per institution |
| 'BBB+' Rated Institutions Examples: Bendigo and Adelaide Bank, Bank of Queensland | BBB+ BBB+ | 30% in total all institutions 10% per institution |
| Hume Bank and Bank WAW | Unrated | 20% in total all institutions 10% per institution |

5.9 The above credit risk framework applies to authorised deposit taking institutions. The above list of institutions is not an exhaustive list of authorised deposit taking institutions. Investments may be placed with other authorised deposit taking institutions from time to time providing Council's investment limits are adhered to.

5.10 All financial instruments must be held in the name of the Council.

5.11 A minimum of three quotations are to be obtained, and where required independent advice, before an investment decision is made. Records of quotations that the Council has obtained before making an investment are to be maintained.

5.12 Council officers will consider the following points when considering an investment.

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| | | | | |
|---------------------------------------|------------------------|----------------------|--------------|-------------|
| Effective Date: 1 November 2022 | Version Number 7 | Investment Procedure | DOC22/191593 | Page 4 of 6 |
|---------------------------------------|------------------------|----------------------|--------------|-------------|

- 5.12.1 Have you found out how the funds will be invested, how will they generate returns and how will these be paid to the Council? (Could you describe to others how this product works?)
- 5.12.2 Are you clear on the conditions associated with this type of investment and their level of risk?
- 5.12.3 Does the investment meet the Council's financial objective and comply with its investment policy?
- 5.12.4 Are your product issuers licensed by the Australian Prudential Regulation Authority?
- 5.12.5 Do you know if/how the investment may be affected by a major shift in the economy and market sentiment?
- 5.12.6 Could the investment be liquidated in a timely manner without loss or penalty? i.e. can the Council quickly get its money back out of this product if it needs to? Are there any fees to get out early?

Note: If the officer answers No to any of the above questions, further research will be required and consultation with an independent financial adviser. If necessary, the proposed investment will be reviewed.

6. Documentation

- 6.1 This procedure supports the AlburyCity Investment Policy.

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| | | | | |
|---------------------------------------|------------------------|----------------------|--------------|-------------|
| Effective Date: 1 November 2022 | Version Number 7 | Investment Procedure | DOC22/191593 | Page 5 of 6 |
|---------------------------------------|------------------------|----------------------|--------------|-------------|

7. Authorisation

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| Owner | Directorate | Business, Growth & Community |
| | Responsible Officer | Team Leader Financial Management |
| Authorisation | Council on 11 July 2022 | |
| Review Date | June 2023 | |
| Register | This policy is included in the Public Policy and Procedure Register. | |
| Record of Amendments | March 2004 February 2007 January 2009 June 2010 April 2011 July 2013 September 2015 November 2016 June 2017 June 2018 June 2019 June 2020 June 2021 June 2022 September 2022 | First adopted by Council Review of procedure Review of procedure Review of procedure Review of procedure Review of procedure Review of procedure Review of procedure Review of procedure Review of procedure Review of procedure Review of procedure Review of procedure Review of procedure Review of procedure Amendment |

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| | | | | |
|---------------------------------------|------------------------|----------------------|--------------|-------------|
| Effective Date: 1 November 2022 | Version Number 7 | Investment Procedure | DOC22/191593 | Page 6 of 6 |
|---------------------------------------|------------------------|----------------------|--------------|-------------|