HUME CITY COUNCIL

TREASURY INVESTMENT POLICY

Policy Reference No.	POL/306
File No.	HCC22/198
Strategic Objective	5.2 Create a community actively involved in civic life
Adopted by Council	10 July 2023
Re-Adopted	
Date for Review	July 2028
Responsible Officer	Manager Finance
Department	Finance

1 POLICY STATEMENT

1.1 Council will undertake investment of surplus funds to achieve the maximum return on these investments whilst safeguarding Council from loss.
1.2 Council's funds are to be managed prudently and in accordance with the parameters set out in section 103 of the Local Government Act, 2020 (the Act) and the objectives of this Policy.

2 PURPOSE

The purpose of this policy is to provide guidance to Council staff involved in the decision making of where Council can invest funds in order to manage the return on Council's investments and to protect Council from loss of funds by avoiding investment decisions that involve unnecessary risk. This Policy will also demonstrate to the community that Council is being prudent with its investments.

3 SCOPE

This policy applies to all Council staff involved in the decision making or where to invest Council's funds.

4 OBJECTIVE

4.1 Council's funds should be invested in order to maximise the return on these investments.
4.2 Investment activity is to be conducted with the aim of maximising Council's return on investment whilst protecting Council from loss.
4.3 Consideration should also be had of the need to maintain sufficient liquidity to meet operational requirements. For example, the payment of creditors and staff salaries.
4.4 This Policy is aligned to the Hume City Council Plan 2021-2025, strategic objective 3.2, Deliver responsible and transparent governance, services and assets that respond to community needs.

5 POLICY IMPLEMENTATION

5.1 This endorsed Council Policy will be communicated to and followed by all Council staff involved in the decision making of Council's investments.
5.2 Funds will be invested in accordance with the parameters set out in section 103 of the Act, as outlined below:

(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.

5.3 Authority is delegated to the Chief Financial Officer, the Manager Finance and the Chief Executive Officer to place funds in investments permitted under section 103 of the Act. Any two signatures are required to initiate investments.

5.4 Elements of a sound investment strategy and policy:

5.4.1 Time Horizon – the length of time that funds will be invested (maturity profile).

a) In order to determine the length of time that funds will be invested consideration must be given to commitments for capital and other expenditure. Sufficient funds must be accessible to meet such commitments as and when they fall due.
b) It will therefore be necessary to have a mixture of cash (at call) investments and other fixed term investments.
c) Determining the correct 'mix' requires consideration of budgeted and forecast income and expenditure on a short, medium and long-term basis.

5.4.2 Risk Tolerance – the degree of volatility of returns.
At the highest level, risk relates to:

a) Interest rate risk.
Interest rate risk is the variability in return caused by movements in interest rates. This could occur when funds are invested for too long a period at a fixed rate and interest rates move upward. This could also occur when funds are invested at a rate that is significantly different between different financial institutions.

b) Capital erosion risk.
Protection of Council's investments is of paramount importance. All investments that could erode Council's cash base should be avoided. Therefore, consideration must be given to the credit risk (or counterparty risk) attached to a financial institution which Council is considering investing with. A way of measuring such risk is through assessment of an organisations credit rating (which is discussed below).

c) Credit restrictions
The minimum credit ratings for both short and long-term (more than one year) investments are outlined in Table 1 below. The amount that can be invested will reflect the credit rating of the individual financial institution.

5.4.3 Return Objectives – the desired range of returns.
The aim is to achieve the maximum return on funds invested subject to an acceptable level of risk. This will be governed by the general policy guidelines stated below.

It also reflects the need to maximise invested returns to Council on funds held. The return objectives are:

a) Investment returns to be at least the cash rate – average 11am cash deposit rate for the year:
b) Investment funds not to breach the limit thresholds as established by the relevant investment limits (refer to Table 1 below).

5.4.4 Diversification

a) Spreading the investment over a range of approved financial institutions.

b) No more than 75% of total investment funds should be invested with any one financial institution including its subsidiaries.

5.5 Investment Limits.

5.5.1 Standard & Poor's Credit Rating Scales

Standard & Poor's Financial Services (S&P) is the world's leading index provider and the leading source of independent credit ratings. These ratings are used by organisations worldwide in making decisions on whether to invest with certain financial institutions.

a) Long-Term Ratings (original maturity more than 1 year)
The following ratings are used to guide long-term investment decisions in Authorised Deposit-Taking Institutions (ADI's).

Rating Scale (Investment Grade)	**Definition**
AAA	Extremely strong capacity to meeting financial commitments and rated in the highest category by S&P.
AA	Very strong capacity to meet financial commitments.
A	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances.
BBB	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions.
BBB-	Considered lowest investment grade by market participants.

b) Short-Term Ratings (original maturity up to 1 year)
The following ratings are used to guide short-term investment decisions in ADI's.

Rating Scale (Investment Grade)	**Definition**
A-1	A short-term obligation rated 'A-1' is rated in the highest category by S&P. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.
A-2	A short-term obligation rated 'A-2' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.
A-3	A short-term obligation rated 'A-3' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

Ratings may be modified by the addition of a plus(+) or minus(-) sign to show relative standing within the major rating categories.

5.5.2 Investment spread

In order to balance the need for risk and return on investments, the following table below outlines the maximum amount that can be invested with ADI's according to their S&P Rating Scale, over the short and long-term investment period.

TABLE 1

Credit Rating – short-term investments (up to 1 year)	**Credit Rating – long-term investments (> 1 year)**	**Maximum Percentage of Total Investments**
A-1	AAA to AA-	**100%** of total surplus funds available for investment at any one time.
A-2*	A+ to A-*	**20%** or **$10 million** (whichever is the least).
A-3**	BBB**	**Up to $5 million**

*These will be considered only if the prevailing interest rate is greater than 0.25% above the A-1 or AAA to AA-.

**These will be considered if the prevailing interest rate is greater than 0.50% above the A-1 or AAA to AA-.

5.5.3 The following table outlines the S&P rating scales for the more common financial institutions that Council may deal with (ratings are current as at 19 May 2023).

Bank (ADI)	**S&P Credit Rating – short-term investments**	**S&P Credit Rating – long-term investments**
Commonwealth Bank (CBA)	A-1+	AA-
National Australia Bank (NAB)	A-1+	AA-
Australia and New Zealand Bank (ANZ)	A-1+	AA-
Westpac Banking Corporation (WBC)	A-1+	AA-
Bank of Melbourne	A-1+	AA-
BankWest	A-1+	AA-
Macquarie Bank	A-1	A+
Bendigo and Adelaide Bank	A-2	BBB+
Bank of Queensland	A-2	BBB+
Great Southern Bank	A-2	BBB
Judo Bank	A-3	BBB

5.5.1 Prohibited investments:

5.5.2 This Policy prohibits any investment carried out for speculative purposes, including the following:

a) Derivative based investments;
b) Principal only investments or securities that provide nil or negative cash flow;
c) Stand alone securities issued that have underlying futures, options, forward contracts and swaps of any kind;
d) Any securities issued in foreign currency; and
e) Enhanced cash funds or similar products that fall within the definition of a Collateralised Debt of Obligation (CDO).

5.6 Green Investments

5.6.1 Eco-investing or green investing is a form of socially responsible investing where investments are made in companies that support or provide environmentally friendly products and practices. These companies encourage new technologies that support the transition from carbon dependence to more sustainable alternatives.

5.6.2 Green investment deposits generally carry a discounted investment rate compared to standard investment rates.

5.6.3 These investments will be considered where the interest rate is within 0.25% of A-1 (short-term) and AAA to AA- (long-term) investments.

5.6.4 Procedures

The process of investing involves the following:

(i) Identify Investment Opportunities: this involves monitoring Council's cash position on a daily basis to identify surplus funds available for investment and to ensure that adequate liquid funds are available to meet anticipated cash outlays.
(ii) Quote Process: a minimum of two quotes are to be obtained for various investment types – eg term deposits.
(iii) Determine best price: the selection criterion is based on the quote that offers the highest rate of return within acceptable risk parameters.
(iv) Authorisation: two authorised signatories are to approve the investment transaction.
(v) Instruction: the investment decision will be communicated by email to the relevant bank/financial institution that Council chose to invest with.
(vi) Investment confirmations will be sought (by email) on the day of placing an investment (identified discrepancies must be rectified immediately).

6 DEFINITIONS AND ABBREVIATIONS

Term	Definition

11am cash deposit rate	11am cash deposits are a highly liquid short-term facility for clients seeking to invest daily surplus cash balance.
Authorised Deposit-taking Institutions (ADIs)	Authorised Deposit-taking Institutions (ADIs) are corporations which are authorised under the Banking Act 1959. ADIs include banks, building societies, and credit unions.
Collateralised Debt of Obligation	A collateralised debt obligation is a complex structured finance product that is backed by a pool of loans and other assets. These underlying assets serve as collateral if the loan goes into default.
Credit Rating	An assessment of the creditworthiness of an investment in general terms or with respect to a particular debt or financial obligation. Credit ratings can be classified under long-term (over 1 year) or short-term ratings (up to 1 year). Long-term Issuer Credit Ratings assigned on a globally recognized 'AAA' through 'D' - rating scale. Short-term Issuer Credit Ratings assigned on an 'A-1' through 'D' rating scale.
Derivative based investments	Investments that are derived, or created, from an underlying asset. A stock option is a contract that offers the right to buy or sell the stock underlying the contract. The option trades in its own right and its value is tied to the value of the underlying stock. Common examples of derivatives include futures contracts, options contracts, and credit default swaps.
Financial institutions	The main types of financial institutions in Australia are: • Authorised Deposit-taking Institutions (ADIs) • Non-ADI Financial Institutions • Insurers and Funds Managers Any reference to 'financial institutions' in this Policy is limited to ADIs.
Insurers and Funds Managers	These include life insurance companies, general insurance companies, health insurance companies, superannuation and approved deposit funds and cash management trusts.
Investment Grade	The term "investment-grade" historically referred to bonds and other debt securities that bank regulators and market participants viewed as suitable investments for financial institutions. Now the term is broadly used to describe issuers and issues with relatively high levels of creditworthiness and credit quality.
Non-ADI Financial institutions	These include money market corporations (broker dealers), finance companies and securities.
Risk profile	A risk profile can be described as aggressive, moderate or conservative.
Securities	Securities are tradable financial instruments used to raise capital in public and private markets. There are primarily three types of securities: equity—which provides ownership rights to holders; debt—essentially loans repaid with periodic payments; and hybrids—which combine aspects of debt and equity.
Surplus funds	Any Council funds not required for financial commitments – ie to meet operational requirements such as to pay creditors and staff salaries.

7 RELATED DOCUMENTS

7.1 Local Government Act, 2020

7.2 Standard and Poor's Guide to Credit Rating Essentials

Date Adopted	##/##/####
Date Re-Adopted	##/##/#### [Leave blank if N/A]
Review Date	##/##/####