



13.1 INVESTMENT AND TREASURY MANAGEMENT POLICY

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1. PURPOSE

- 1.1 To obtain Council approval of the updated Investment & Treasury Management Policy, which sets out the principles to be followed by Council officers when investing funds with financial institutions.

2. EXECUTIVE SUMMARY

- 2.1 The Investment & Treasury Management Policy seeks to optimise investment returns while balancing risk, liquidity, and achieving Council's environmental and social objectives.
- 2.2 The Policy has a sunset clause requiring review every 2 years.
- 2.3 The current policy was subject to addendums to restrict investment decisions because of the impacts of COVID 19 on the global financial markets. To address this ongoing while also enabling portfolio diversification some minor changes have been proposed to the policy.
- 2.4 The minimum criteria for financial institutions to meet for short and long-term investments have remained unchanged to ensure the security of Council's investments.
- 2.5 The maximum individual thresholds have changed for institutions rated A to BBB+ has increased to 20 percent from 10 percent. This is to enable more portfolio diversification ensuring significant dollar values are not held in single entities, given the increasing size of Council's portfolio.
- 2.6 The maximum threshold for investments placed with institutions that meet the Corporate Social Responsibility (CSR) indicators is unchanged at 40 percent of the portfolio for institutions rated A+/A-1 or above, or 30 percent for institutions rated A to BBB+. This support Council's CSR investment objectives which have been under pressure during the last 2 years of the policy due to market performance.
- 2.7 Up to 10 percent of funds can now be invested in floating rate notes for institutions rated A+ and above (previously BBB+ and above). This is a change from the previous \$5 Million cap per investment to enable Council to achieve longer term higher yields and our long-term financial strategy, while still achieving our principal objective of preserving our capital.
- 2.8 The cap on Government bonds has been removed to ensure Council is not restricted in investing in these if required, as they are the safest option.
- 2.9 The policy now captures the requirement to preserve tenancy bonds and the calculation of interest on these to ensure a consistent approach when returning these to former tenants.



3. RECOMMENDATION

That Council:

- 3.1 Adopts the revised Investment & Treasury Management Policy as set out in Attachment 1 to this report.
- 3.2 Formally rescinds the current Investment & Treasury Management Policy.

4. KEY POINTS/ISSUES

- 4.1 To ensure Council's exposure to financial risk is minimised investments can only be placed in higher rated banks meeting the minimum credit rating criteria.
- 4.2 Credit ratings have been obtained from Standard and Poor's and Moody's, with Fitch ratings to be accessed under the updated policy as well.
- 4.3 Credit ratings are set depending on if the investments are to be held short or long term to allow portfolio diversification and each institution Council invests with must meet the following minimum criteria (unchanged):
 - 4.3.1 Investments for 365 days or longer must be with institutions with a long-term rating of BBB+/Baa1 or above
 - 4.3.2 Investments for less than 365 days must be with institutions with a short-term rating of A-2/P-2/F-2 or above
 - 4.3.3 The policy limits the maximum investments allowable with each financial institution, to further reduce exposure to financial risk and diversify the portfolio as follows:
 - 4.3.4 Investments in individual institutions rated A+/A-1 or above capped at 40 percent of the portfolio.
 - 4.3.5 Investments in individual institutions rated BBB+/A-2 or above capped at 20 percent.
 - 4.3.6 Council's commitment to Corporate Social Responsibility is a key objective of the policy and officers must where practicable preference institutions who meet this criterion and consider the following:
 - The Declaration of a Climate Emergency requires officers to consider climate impacts and to actively and regularly review the portfolio to identify and minimise investments that directly or indirectly support fossil fuel companies.
 - Council supports the Treaty on the Prohibition of Nuclear Weapons and does not invest directly in companies that produce nuclear weapons and preferences financial institutions and products that do not directly or indirectly fund activities in the Arms industry.
 - Council will not invest with financial institutions or products that directly or indirectly fund activities related to offshore detention, tobacco, gambling or entertainment involving animals.



- 4.4 To strengthen our investment in environmentally and socially responsible institutions and achieve Council's objective, investments individual institutions rated BBB+/A-2 who meet the CSR criteria are granted a special threshold of 30 percent.
- 4.5 Council may invest up to 10 percent of the total investment portfolio in floating rate notes, with each investment limited to a maximum term of 5 years for A+ and higher rated institutions only. This will support Council in achieving higher yields, in unstable financial markets, increasing investment opportunities in secure options.
- 4.6 The updated policy removes the cap on State and Federal bonds. While we have never placed funds in these bonds, if required in times of economic uncertainty or for diversification, these are the most secure investment option.
- 4.7 The accounting treatment of Rental bonds required to be paid back to the tenant at the end of the agreement with interest, compounded over the term of the lease. They have been captured and the requirement to preserve these bonds has now been addressed in the Policy.
- 4.8 It would be costly to administer if rental bonds are held and invested separately. Therefore, we will apply the weighted average rate of return earned by Council and compounded annually at 30 June each year.

5. CONSULTATION AND STAKEHOLDERS

- 5.1 The policy was reviewed and endorsed by the Executive Leadership Team and the Audit and Risk Committee.

6. LEGAL AND RISK IMPLICATIONS

- 6.1 The policy limits Council's financial risks due to the strict criteria that must be met before an investment can be placed including:
 - 6.1.1 The types on investment allowed
 - 6.1.2 The maximum amount allowed to be invested
 - 6.1.3 The maximum percentage of the fund allowed to be invested with individual entities based on their credit rating.
 - 6.1.4 The threshold for individual entities ensuring the portfolio is spread across several institutions and not concentrated with one or two.
 - 6.1.5 The short and long-term credit ratings that must be satisfied before surplus funds can be invested.
- 6.2 The policy provides direction in the event of a credit rating downgrade placing the portfolio in breach and the funds at risk.

7. FINANCIAL IMPACT

- 7.1 There is limited financial impact from the proposed changes. Council may achieve a slightly higher rate of return through allowing greater investment in institutions rated BBB+/A-2, and the increased availability to invest in floating rate notes.

8. ENVIRONMENTAL IMPACT

- 8.1 The policy enables Council to strengthen its ability to invest in financial institutions that maximise social and environmental outcomes.



- 8.2 The policy stipulates that Council will not invest in companies that produce nuclear weapons and will preference those who do not fund activities in the Arms industry.

9. COMMUNITY IMPACT

- 9.1 The policy enables Council to strengthen its ability to invest in financial institutions that are socially responsible.
- 9.2 This policy ensures the security and safeguarding of public monies, to enable Council to deliver its commitments to our community.

10. ALIGNMENT TO COUNCIL PLAN AND COUNCIL POLICY

- 10.1 Strategic Direction 3 – Sustainable Port Phillip - The proposed policy enables surplus funds to be placed with institutions that have proven alignment with Council's commitment to environmental commitments.
- 10.2 Strategic Direction 6 – Well Governed Port Phillip - The proposed policy aims to maximise returns on investment and enable the preservation of capital and the maintenance of liquidity. This assists the organisation in achieving optimum financial sustainability ratios and performance benchmarks.

11. IMPLEMENTATION STRATEGY

11.1 TIMELINE

- 11.1.1 The new Policy will have immediate effect once adopted.

11.2 COMMUNICATION

- 11.2.1 Responsible officers who place funds for investment on behalf of Council will be advised of changes to the policy following adoption by Council.

12. OFFICER DIRECT OR INDIRECT INTEREST

- 12.1 No officers involved in the preparation of this report have any material or general interest in the matter.

ATTACHMENTS

1. Investment and Treasury Management Policy