

POLICY LOCATION	Financial Strategy	POLICY TITLE	Investment Policy
POLICY NUMBER	[INSERT NUMBER]	DATE ADOPTED	20 May 2026
REVISION NUMBER	1	REVISION DATE	2028

1. Purpose

The purpose of this Policy is to provide guidance for managing, investing and redeeming funds for the Buloke Shire Council (Council). The Policy aims to balance the responsibility of maximising earnings, whilst managing the security and risk of Council funds. Investments are to comply with the allowed investment types according to the *Local Government Act 2020 (Vic) (Act)*.

2. Scope

This Policy applies to all Investments made by Council, of Council funds or funds held in trust for third parties.

Due to the public nature of the Council’s activities, prudent management of its monetary assets is essential to mitigate against unnecessary risk. For this reason Council needs to establish conservative and risk averse guidelines for its investments.

3. 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.

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

Credit Rating means an assessment of creditworthiness, that being the ADI’s capacity to meet its financial commitment and repay the investor.

EMT means the Executive Management Team within Council.

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 **extremely** 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 differs from ‘AAA’ to a small degree as 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 still 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.

4. Policy Statement

4.1 Funds for Investment

Council will invest funds that are 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 Council 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. The capital investment must not drop below face value.

4.2 Authority to Invest

Investments of Council funds are to be in accordance with Council’s power of investment under the *Act* – Section 103 Investments.

Investment decision making is the responsibility of those outlined in section 6 of this Policy.

4.3 Authorised Investments

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

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.

5. Guidelines

5.1 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 Council 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.

Council’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 **duration** of securities.

(a) Portfolio (Overall) 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. Council 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 Credit Ratings Range	Maximum Holding
AAA Category	100%
AA Category (AA+ to AA-) or Major Banks*	100%
A Category (A+ to A-)	100%
BBB Category (BBB+ to BBB-)	70%
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:

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

including ADI subsidiaries whether or not explicitly guaranteed, and brands (such Bank of Melbourne).

Council may ratify an alternative definition from time to time. Standard & Poor’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”), Council 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-authorized-deposit-taking-institutions> for a listing of approved ADI’s.

Council is not to invest with an Institution with a S&P’s credit rating of lower than BBB, or non-rated Institutions.

(b) Counterparty (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	45%
AA Category (AA+ to AA-) or Major Banks*	45%
A Category (A+ to A-)	45%
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 held in operating accounts.

In the event that a credit rating of a security or of the company/body issuing the security falls below the required minimum, Council will make all necessary arrangements to withdraw deposits as soon as practical. Council 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 (Duration) Framework

Council'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, Council 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 Council's income. However, Council always retains the flexibility to invest as short as required by cashflow requirements or the economic outlook.

The factors and/or information used by Council 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 Council'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	0-3 months	10%	100%
Short-term funds	3-12 months	0%	100%
Short to medium term funds	1-2 years	0%	70%
Medium term funds	2-5 years	0%	40%
Long term funds	+5 years	0%	0%

5.2 Liquidity

The investment portfolio will remain sufficiently liquid to enable Council to meet all operating requirements which might be reasonably anticipated, with investment maturities scheduled to coincide with projected cash flow needs.

5.3 Title

All funds invested will be invested under the name of the "Buloke Shire Council" 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 "Buloke Shire Council LSL Account" or "Buloke Shire Council 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).

5.4 Quotations

No less than three quotations shall be sought from ADI's 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.

5.5 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 the Manager Financial Strategy, Director Corporate & Organisational Performance and CEO as soon as possible in case any irregularities or non-compliance has been observed.

A report showing values of investments and returns will form part of the regular quarterly finance reporting to EMT and Council's Audit and Risk Committee. Breaches of the Investment Policy will be reported to EMT and ARC.

6. Roles & Responsibilities

- (a) Request for quotes and nomination of interest rates will generally be performed by the following, whilst ensuring compliance with this Policy:
 - Co-ordinator Financial Strategy
 - Manager Financial Strategy

- (b) 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:
 - Co-ordinator Financial Strategy
 - Manager Financial Strategy
 - Director Corporate and Organisational Performance
 - CEO

- (c) 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:
 - Co-ordinator Financial Strategy
 - Manager Financial Strategy
 - Director Corporate and Organisational Performance
 - CEO

- (d) All redemptions are to be performed and authorised by any one of the following, whilst ensuring compliance with this Policy:

- Co-ordinator Financial Strategy
- Manager Financial Strategy
- Director Corporate and Organisational Performance
- CEO

Should the required above listed staff members not be available on the date of maturity (including 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.

References

This policy has been developed after consulting with staff directly involved in the investment of Council funding. This policy has also been presented to the Audit and Risk Committee prior to adoption, with recommendations incorporated into the review of the policy.

Staff are encouraged to access the related documents and/or external resources which are available, as per the below.

These documents include:

- Local Government Act 2020 (Vic);
- Australian Accounting Standards – AASB 139: Financial Instruments – Recognition and Measurement;
- Australian Prudential Regulation Authority;
- Banking Act 1959 (Cth);
- S&P Global -<https://www.spglobal.com/ratings/en/credit-ratings/about/understanding-credit-ratings>