### Policy 6.07 Investment Policy

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<th>Department</th>
<th>Strategy and Business Services (SBS)</th>
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<td>Responsible Officer</td>
<td>Finance Manager</td>
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#### Background

This policy is part of the governance framework for the management and oversight of the Bega Valley Shire Council (Council) investment activities. Council is required to maintain an Investment Policy that complies with the *Local Government Act 1993* (the Act) and the Ministerial Investment Order (the Order). This Policy is also intended to ensure that Council and its representatives exercise care and diligence when investing and divesting of Council funds.

#### Objectives

To provide guidance for the investment of the Council’s funds with consideration given to legislative requirements and agreed risk parameters, at the most favourable rate of return available to the Council, while ensuring that Council’s liquidity requirements are also being met.

#### Scope

This Policy applies to all funds invested by the Council. It should be noted that the type of investments that the Council has the power to invest in is limited by prescriptive legislative provisions.

#### Policy statement

The Council’s investment objectives will be met through the application of this Policy which provides guidelines with respect to the investment of the Council funds by defining levels of risk considered prudent for public monies. Liquidity requirements are determined to ensure the funds are available as and when required and take account of appropriate benchmarks for rates of return commensurate with the low levels of risk and liquidity requirements. The policy ensures that perceived or potential conflicts of interest for the Council’s officers, investment advisers and fund managers or the sellers or promoters of investment products, are carefully managed and that investments are appropriately authorised and meet ethical and public acceptability standards.

#### Investment objectives

- Preservation of the capital is the principal objective of the investment policy. Investments are to be placed in a manner that seeks to ensure security and safeguarding of the funds in the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters;
- To comply with the legislative requirements and regulations relevant to the management of Council’s investments;
- To ensure sufficient liquidity to meet all cash flow requirements as and when they fall due, with a reasonable buffer for unforeseen events and without incurring the risk of significant costs due to the unanticipated sale of an investment;
- To achieve a market average rate of return in line with Council’s risk tolerance.
- That Council consider the importance of environmental, social and governance factors in investment decision making.
To establish a framework for monitoring investments. Investments are expected to achieve at least a market average rate of return in line with Council’s risk tolerance;

To maintain an adequate level of diversification;

To ensure that before investments are made they are appropriately authorised;

To appropriately manage any actual or potential conflicts of interest that may arise from the actions of investment advisers, managers and the sellers/promoters of investment products;

To invest in investments that are ethically sound and do not result in a loss of public confidence in the Council or the Council due to the nature of the investment or their potential to incur a capital loss;

To confirm delegations and other relevant governance matters in relation to Council’s investments.

Legislative Compliance

At all times all investments are to comply with the minimum requirements as set out in the:

- Local Government Act 1993;
- Local Government (General) Regulation 2005;
- Ministerial Investment Order;
- Local Government Code of Accounting Practice and Financial Reporting;
- Australian Accounting Standards;
- NSW Government Circulars - Council will pay due regard to any circulars, guidelines or best practice guides issued by the Office of Local Government or other relevant regulatory bodies as issued from time to time even if these guidelines are not a mandatory requirement.

Delegation of Authority for Authorisation of Investments

Authority for implementation of the Investment Policy is delegated by Council to the General Manager in accordance with the Local Government Act (1993). The General Manager may in turn delegate day-to-day management of Council’s investment portfolio to the Responsible Accounting Officer or Senior Staff, subject to regular reviews.

Officers’ delegated authority to manage Council’s investments shall be recorded and required to acknowledge they have received a copy of this policy and understand their obligations in this role.

No investments are to be authorised by Council officers that fall outside the parameters of this policy.

Adequate controls are in place to safeguard Council’s assets, such as the separation of duties in relation to authorising and executing transactions through the requirement of two authorised signatories for each transaction.

Risk Management

Investments made are to be considered in light of the following key criteria:

- Preservation of Capital – the requirement for preventing losses in an investment portfolio’s total value (considering the time value of money).
- Diversification – setting limits to the amounts invested with a particular financial institution or government authority to reduce credit risk.
- Credit risk – the risk that Council has invested in an institution which fails to pay the interest and or repay the principal of an investment.
• Market Risk - the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices.

• Liquidity Risk - the risk that Council is unable to redeem the investment at a fair price within a timely period.

• Maturity Risk - the risk relating to the length of term to maturity of the investment. The larger the term, the greater the length of exposure and risk to market volatilities.

• Rollover Risk - the risk that income will not meet expectations or budgeted requirement because interest rates are lower than expected in future.

The following indicates the limitations to be applied so as to avoid these risks:

Council Trading Policy

When direct investing Officers are to seek at least 3 quotations.

Generally, when Council is investing directly with an institution it will hold all of its investments until the maturity date. However there may be occasions where it is deemed advantageous to redeem, switch to alternative investments, or when investment parameters have been breached due to a change in the overall size of the investment portfolio, investment credit risk amended or for any other reason. Under these situations Council has the authority to make the necessary arrangements to withdraw from the investment as soon as practicable.

Authorised Investments

Authorised Investments are limited to those allowed under the Ministerial Investment Order.

Prohibited Investments

In accordance with the Ministerial Investment Order, this investment policy prohibits, but is not limited to, any investment carried out for speculative purposes.

Liquidity and Maturity

When investing funds, consideration must be given to Council’s known cash requirements, and limits with each issuer, after allowing for administrative and banking costs.

Credit Quality and Counterparty Limits

Council’s investment portfolio will reference Standard & Poor’s (S&P) ratings system criteria and format to ensure credit quality. Other credit ratings systems that are also available to Council include Moody’s and Fitch Ratings, which are both recognised under the Ministerial Investment Order.

All direct investments are to be invested according to the following requirements:

• The portfolio holdings must meet the Asset Class and Issue Credit Rating requirements as detailed below.

• The amount of investment with any one financial institution should not exceed the percentages of average annual funds invested, so that single entity exposure is limited (however, prudency must be considered at all times with respect to this limit).

• If any investments are downgraded such that they no longer fall within these investment policy guidelines, they will be divested as soon as practical, subject to market considerations.
Short Term Credit Rating (Investments maturing in less than 12 months) | Maximum % of Total Investments | Maximum Exposure to One Financial Institution
--- | --- | ---
AAA Category (incl. Government Guaranteed Deposits) | A1+ | 100% | 40%
AA Category | A1 | 90% | 30%
A Category | A2 | 40% | 20%
BBB Category | A3 | 10% | 5%

All investments that are invested with NSW Treasury Corporation (TCorp) IM Funds facility should have a credit allocation of greater than an ‘A category’.

Term to Maturity

Council’s investment portfolio shall be structured around the time horizon of investment to ensure that liquidity and income requirements are met. The investment portfolio is to be invested with the following term to maturity limits.

| Overall Portfolio Term to Maturity Limits | Maximum |
--- | ---
Portfolio % < 1 Year | 100% |
Portfolio % > 1 Year < 3 Years | 50% |
Portfolio % > 3 Years < 5 Years | 30% |
Portfolio % > 5 Years | 10% |

Performance Benchmarks

The performance of the investment portfolio shall be measured against either the AFMA 90 Day Bank Bill Index and/or Bloomberg AusBond Bill index.

Performance Reporting

The performance of the investment portfolio will be reported to Council, in accordance with the requirements of the Act. The monthly report should contain a comparison of the performance of the portfolio, against Performance Benchmarks. In addition, the monthly report will include:

- Full disclosure of all direct investments by type, institution, current credit rating and face value, in terms of percentage exposure of total portfolio and changes in market value;
- A certificate to the effect that the investments accord with the Act, regulations and Council’s investment policies.

All investments are to be appropriately recorded in Council’s financial records and reconciled at least on a monthly basis.
Safe Custody Arrangements

Council’s investments must be held in either Bega Valley Shire Council’s name or held via an acceptable safe custody arrangement with Council as the beneficial owner. A statement is to be provided by the safe custody provider at each month end, verifying the holdings by Council. There must also be a comprehensive and transparent audit trail of investments placed, with appropriate internal controls over Council’s investment portfolio.

Duties and Responsibilities of Council Officers

The investment portfolio will be managed with care, diligence and skill that a prudent person would exercise.

Ethics and Conflicts of Interest

Officers shall refrain from personal activities that would conflict with the proper execution and management of Council’s investment portfolio. This policy requires officers to disclose any conflict of interest.

Investment Advisor

Council’s investment advisor must be approved by Council and licensed by the Australian Securities and Investment Commission. The advisor must be an independent person who has no actual or potential conflict of interest in relation to investment products being recommended and is free to choose the most appropriate product within the terms and conditions of the Investment Policy.

The independent advisor is required to provide written confirmation that they do not have any actual or potential conflicts of interest in relation to the investments they are recommending or reviewing, including that they are not receiving any commissions or other benefits in relation to the investments being recommended or reviewed.
Policy version control

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<td>6.07</td>
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<tr>
<td>Directorate</td>
<td>Strategy and Business Services (SBS)</td>
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<td>Outcome Area</td>
<td>Strong Consultative Leadership</td>
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| Goal(s)      | 1. We are an informed and engaged community with a transparent, consultative and responsive Council.  
               2. Our Council is financially sustainable and services and facilities meet community needs. |
| Responsible Officer | Finance Manager |
| Version       | 3           |
| Adopted       | 29 November 2017 |
| Next revision | May 2021    |

Related policies

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Note: Policy details may change prior to review date due to legislative changes. For the most up-to-date version please refer to Council’s website www.begavalley.nsw.gov.au