

## Policy 6.07 Investment Policy

Directorate	Business and Governance
Responsible Officer	Director Business and Governance

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Under Review

## 1 Introduction

This policy is part of the governance framework for the management and oversight of the Bega Valley Shire Council (Council) fund management and 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).

### 1.1 Purpose

This policy is intended to ensure Council and its representatives, exercise care and diligence when investing and divesting Council funds. This will be in accordance with legislative requirements and agreed risk parameters, the most favourable rate of return available to the Council and ensuring Council's liquidity requirements are met.

The scope of this policy demonstrates direct commitment to the following strategic guiding principles:

- Accountable | clear accountability set for reporting.
- Transparent | accurate and timely financial information
- Responsive | timely and accurate information sharing with community and stakeholders
- Effective and Efficient | clear connection between policy and implementation

## 2 Definitions

Word or Terminology	Description
Authorised Deposit-taking Institution (ADI)	A financial institution licensed by the Australian Prudential Regulatory Authority (APRA) to carry on banking business, including accepting deposits from the public.
Environmentally and Socially Responsible investments (SRI)	Is an investment which seeks to consider both the financial return and social or environmental good to bring about social change.
Major Banks	The ADI deposits or senior guaranteed principal and interest ADI securities issued by the major Australian banking groups: <ul style="list-style-type: none"> <li>• Australia and New Zealand Banking Group Limited (ANZ)</li> <li>• Commonwealth Bank of Australia (CBA)</li> <li>• National Australia Bank Limited (NAB)</li> <li>• Westpac Banking Corporation (WBC)</li> </ul> including ADI subsidiaries whether or not explicitly guaranteed, and brands (such as St George). Council may ratify an alternative definition from time to time.

## 3 Legislation

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

- *Local Government Act 1993*
- *Local Government (General) Regulations 2021*
- 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.

## 4 Implementation

### 4.1 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.

#### 4.1.1 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, interest rate, maturity and liquidity risks within identified thresholds and parameters;
- Comply with 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 .
- Maintain a reasonable buffer for unforeseen events to prevent incurring of significant costs due to unanticipated sale of an investment;
- To invest at the most favourable rate of interest available at the time, in line with Council's risk tolerance.
- That Council consider 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 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 due to the nature of the investment or the potential to incur a capital loss.
- To confirm delegations and other relevant governance matters in relation to Council's investments.

#### 4.1.2 Delegation of Authority for Authorisation of Investments

Authority for implementation of the Investment Policy is delegated by Council to the Chief Executive Officer (CEO) in accordance with the *Local Government Act (1993)*. The CEO 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.

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. Investments require two authorised signatories for each transaction.

#### 4.1.3 Risk Management

When making investments, the following key risk criteria is considered:

- Preservation of capital – the requirement for preventing losses in an investment portfolio's total value, including consideration of the time value of money.
- Diversification – setting limits to the amounts invested with any particular financial institution or government authority to reduce credit risk. Additional forms of diversification will factor in other complying investment products and the maturity profile so that assets invested are not concentrated and will not mature at the same time.
- 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 or, benchmark returns will unexpectedly overtake the investment's return.
- Liquidity Risk - the risk that Council is unable to redeem the investment at a fair price within a timely period and thereby incurs additional costs and is unable to execute its spending plans.
- 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.

#### 4.1.4 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. 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.

#### 4.1.5 Authorised Investments

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

#### 4.1.6 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.

#### 4.1.7 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.

#### 4.1.8 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 rating systems 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 in accordance with the following requirements:

- The portfolio holdings must meet the Asset Class and Issue Credit Rating requirements 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 . Prudence 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 and with consultation from Council's appointed investment advisor.

	Maximum % of Total Investments	Maximum Exposure to One Financial Institution
AAA Category (incl. Government Guaranteed Deposits)	100%	40%
AA Category -or Major Bank	100%	30%
A Category	<del>40</del> 70%	20%
BBB Category	35%	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'.

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. Conservatism shall apply the lower when assessing new purchases.

## 4.2 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%

### 4.2.1 Performance Benchmarks

The performance of the investment portfolio shall be measured against either the ASX90 Day Bank Bill Index or Bloomberg AusBond Bill index.

### 4.2.2 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 monthly.

### 4.2.3 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.

Where necessary, investments may be held in safe custody on Council’s behalf, as long as the following criteria are met:

- Council must retain beneficial ownership of all investments
- Adequate documentation is provided, verifying the existence of the investments at inception, in regular statements and for audit;
- The Custodian conducts regular reconciliation of records with relevant registries and clearing systems; and
- The Institution or Custodian recording and holding the assets will be:



- The Custodian nominated by TCorp IM for their funds;
- Austraclear;
- An institution with an investment grade Standard and Poor's, Moody's or Fitch rating; or
- An institution with adequate insurance, including professional indemnity insurance and other insurances considered prudent and appropriate to cover its liabilities under any agreement.

#### 4.2.4 Duties and Responsibilities of Council Officers

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

#### 4.2.5 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.

#### 4.2.6 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 or entity 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, except as fully rebated to Council, promptly.

#### 4.2.7 Environmentally and Socially Responsible Investments (SRI)

Where complying financial institutions are offering equivalent investment returns with a similar credit rating and the investment fits within the provisions of this investment policy, preference will be given to placing funds with institutions identified as being socially, ethically and environmentally responsible.

Without compromising the risk and return profile of the investment portfolio, Council gives preference to Socially Responsible Investments (SRI) which can transparently demonstrate:

- The rate of return on investment is greater than or equal to the rates of other Authorised Deposit-Taking Institutions (ADIs) that comply with Council's investment policy and are available at the time;
- The avoidance of funding fossil fuel in the investment product;
- That the financial institution and product are otherwise compliant with Council's policy.

SRI status may be in respect of the individual investment product, the issuer of the investment, or both and should be endorsed by an accredited environmentally and socially responsible industry body or institution.

The criteria for SRI are all preferred and not mandatory requirements. It will be up to Council's authorised personnel to make the final decision on any individual investment.



## 4.3 Responsibilities

### 4.3.1 Elected Council

Councillors have the responsibility for considering the content of revised or newly drafted policies and placing any draft documents on public exhibition to allow members of the community to contribute to the review process.

Councillors are responsible for adopting the policy and ensuring decisions are made in accordance with the policy position.

### 4.3.2 Chief Executive Officer (CEO), Leadership Executive Group (LEG)

The CEO and Leadership Executive Group is responsible for ensuring that relevant council officers review, develop, and implement Council's adopted policies.

### 4.3.3 Finance Services

Finance services will be responsible for implementing the provisions of the adopted policy and provide necessary reporting to Council.

## 5 Supporting documents

### 5.1 BVSC Procedures that relate to this Policy

Procedure No.:	Procedure Name	External or Internal Procedure
6.02.1	BVSC Code of Conduct	External

### 5.2 BVSC Policies that Relate to this Policy

Policy No.:	Policy Name
6.02	Behaviour of Councillors and Staff
6.06	Financial Management
6.08	Procurement of Assets and Services

**Note:** Policy details may change from time to time. To ensure you are viewing the most recent version please view Council's adopted Policies and Procedures on Council website:

Amendment Version No.:	Description of Administrative Amendment	Date Reviewed
6	<u>Update item 4.1.8 Credit quality and Counterparty limits, maximum % of total investments in A category from 40% to 70% based on Standard &amp; Poor's upgraded long-term credit ratings and place on public exhibition after caretaker period has concluded.</u>	<u>August 2024</u>
5	Updated to new format and numbered version 5 following report to Council 13/12/2023	3/1/2024

Under Review