Council Policy 3.2.3 – Investments

Objectives:	Progressive
Outcome:	4.1 - A resilient, efficient and effective organisation.
Strategy:	4.1.1 - Provide efficient, effective, innovative, professional management of Shire operations to deliver the best outcome for the community within allocated resources.

Purpose

This policy is to ensure that there are effective and accountable systems in place to safeguard the Shire's financial resources. This includes the development of proper systems to authorise, verify and record the investment of monies in appropriate financial instruments.

This policy ensures the Council and all officers entrusted with a role in the investment of the Shire's funds act with the highest regard for their fiduciary duties.

This policy facilitates prudent investment of the Shire's surplus funds in authorised investments.

Definitions

Not applicable

Policy

1.0 Objectives

To invest the Shire's surplus funds, with consideration of risk and at the most favourable rate of interest available to it at the time, for that investment type, while ensuring that its liquidity requirements are being met. While exercising the power to invest, consideration is to be given in preservation of capital, liquidity and the return of investment as follows:

(a) Preservation of capital is the principal objective of the investment portfolio. Investments are to be performed in a manner that seeks to ensure security and safeguarding the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters.

(b) The investment portfolio will ensure there is sufficient liquidity to meet all reasonably anticipated cash flow requirements, as and when they fall due, without incurring significant costs due to the unanticipated sale of an investment. Liquidity does not need to be in at-call deposits; securities able to be quickly realised will be considered liquid.

(c) In determining how much liquidity is "sufficient", management will give regard to:

- i) Historical seasonality in the Shire's cash flow.
- ii) Known or projected major capital expenditure (capex).
- iii) Holding contingency reserves adequate to cover a major unexpected short-term demand on the Shire.
- iv) The investment is expected to achieve a predetermined market average rate of return that takes into account the Council's risk tolerance. Any additional return target set by Council will also consider the risk limitation and prudent investment principles.

Subject to the policy objectives and risk management guidelines outlined in this document, the Shire will ensure its financial investments consider the reduction of fossil fuels, by investing with non-fossil fuel lending banks. The Shire will refer to the research of third party bank services to determine eligible non-fossil fuels lending banks.

2.0 Delegated Authority

Authority for implementation of the Investments Policy is delegated by Council to the CEO in accordance with the *Local Government Act 1995*. The CEO may delegate the day to day management of Council's Investments to senior staff, subject to regular reviews.

3.0 Risk Management Guidelines

3.1 Investments obtained are to comply with eight key risk management criteria relating to:

3.1.1 *Portfolio Credit Framework*: limits overall credit exposure of the portfolio

3.1.2 *Counterparty Credit Framework*: limits exposure to individual counterparties/institutions

3.1.3 *Term to Maturity Framework*: Limits based upon maturity of securities

3.1.4 *Liquidity*: Portfolio management must always maintain adequate levels of liquidity to cover seasonality, planned capex and contingencies

3.1.5 *Rollover and Income:* Where conditions permit, stability and protection of the Shire's income against unexpected weakness in interest rates should be considered, especially in the context of potential for inflation

3.1.6 *Market Value*: Investments with highly volatile market values that affect the Shire's income should be minimised if appropriate, and will be dependent on 'term to maturity' risks

3.1.7 *Diversification*: limit credit and market risk

Even if funds are to be invested 100% in Bank Deposits/Securities, diversification between counterparties is desirable

3.1.8 *Fraud*

Two signatories are required to authorise any investment transaction (refer Delegated Authority)

3.2 The Shire will determine credit and short-term obligation ratings in accordance with the Credit Ratings described in Appendix 1 of this policy, taking into account any higher guarantors (including government guarantees on any assets). Investments in an Australian Authorised Deposit Taking Institution (ADI) shall be grouped according to the parent bank's rating where applicable.

(a) Overall Portfolio Limit

To control the credit quality on the entire portfolio, the following credit framework limits the percentage of the portfolio exposed to any particular credit rating category.

S&P* Long Term Rating	S&P* Short Term Rating	Direct Investment Maximum%	Managed Funds Maximum %
AAA	A-1+	100%	100%
AA	A-1	100%	100%
A	A-2	60%	60%
BBB (ADI only)	A-3 (ADI only)	20%	0%
Not Rated (refer Appendix 2)		0%	20%

* or Moody's / Fitch equivalents

(b) Counterparty Credit Framework

Exposure to an individual counterparty/institution will be restricted by its their credit rating so that single entity exposure is limited, as detailed in the table below:

S&P* Long Term Rating	S&P Short Term Rating	Direct Investment Maximum%	Managed Funds Maximum %
AAA	A-1+	45%	45%
AA	A-1	35%	35%
A	A-2	20%	20%
BBB (ADI only)	A-3 (ADI only)	5%	0%
Not Rated (refer Appendix 2)		0%	20%

* or Moody's / Fitch equivalents

If any of the Shire's investments are downgraded such that they no longer fall within the Investment Policy, they will be reviewed as soon as practicable. Where it is considered in the Shire's interests to retain the investment (or the investment is not tradeable), the circumstances shall be reported to Council.

(c) Term to Maturity Framework

The investment portfolio is to be invested within the maturity constrains as imposed by Regulation.

4.0 Prudent Person Standard

The investment will be managed with the care, diligence and skill that a prudent person would exercise. Officers are to manage Investment portfolios to safeguard the portfolios in accordance with the spirit of this Investments Policy, and not for speculative purposes.

5.0 Ethics and Conflict 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 to the Chief Executive Officer.

6.0 Authorised Approved Investments

6.1 Without express approvals from Council, investments are limited to:

(a) State/Commonwealth / Semi-Government Bonds;

(b) Interest bearing deposits of an authorised deposit-taking institution except as restricted by the credit rating requirements of clause 3.2(a) of this policy;

(c) Bank accepted/endorsed bank bills;

(d) Commercial paper;

(e) Bank negotiable Certificate of Deposits; or

(f) Existing investments that are outside the Regulations or Policy as they pertain to new investments.

6.2 With express approval from Council, investment is also permitted in land and its development – subject to the requirements of Section 3.59(1) of “the Act”.

6.3 Appendix 2 of this policy provides descriptions of approved investment instruments.

6.4 *Bendigo Bank*

Deposits with the Bendigo Community Bank do not require Council approval as long as their Standards and Poor’s rating does not drop below a short term domestic credit rating of A2 strong and a long term credit rating of BBB+.

7.0 Prohibited Investments

7.1 This Investments Policy prohibits any investment carried out for speculative purposes including:

(a) Derivative based instruments;

(b) “Contingent income” investments or securities that provide potentially nil or negative cash flow; (except for managed funds which do not guarantee unit prices); and

(c) Stand-alone securities issued that have underlying futures, options, forward contracts and swaps of any kind, such that returns are dependent on factors other than issuer solvency.

However, nothing in this policy is intended to force the disposal of any investment held at the date of adoption of this Policy.

7.2 This policy also prohibits the use of leveraging (borrowing to invest) of an investment.

7.3 This policy also requires that the Shire may not do any of the following when investing money, as per r19C of the *Local Government (Financial Management) Regulations 1996*:

(a) Deposit with an institution except an authorised institution;

(b) Deposit for a fixed term of more than 3 years;

(c) Invest in bonds that are not guaranteed by the Commonwealth Government or a State or Territory government;

(d) Invest in bonds with a term to maturity of more than 3 years; and

(e) Invest in a foreign currency.

8.0 Reporting and Review

8.1 A monthly report will be provided to Council in support of the monthly statement of activity. The report will detail the investment portfolio in terms of performance, percentage exposure of total portfolio, maturity date and changes in market value.

8.2 Council requests that the monthly financial statement and reports include the percentage of funds in fossil fuel free banks.

8.3 This Investments Policy will be reviewed at least once every two years or as required in the event of legislative changes.

8.4 Documentary evidence must be held for each investment and details thereof maintained in an Investment Register retained in the Shire's Corporate Record Keeping Systems.

8.5 Certificates must be obtained from the financial institutions and retained in the Shire's Corporate Record Keeping Systems, confirming the amounts of investments held on the Council's behalf as at 30 June each year and reconciled to the Investment Register.

Legislative Requirements

All investments are to comply with the following:

(a) *Local Government Act 1995* ("the Act") – Section 6.14 and (in relation to property) Section 3.59(1);

(b) *Trustees Act 1962* – Part III Investments;

(c) *Local Government (Financial Management) Regulations 1996* – Regulation 19, Regulation 19c, Regulation 28, and Regulation 49; and

(d) Australian Accounting Standards.

References

Name of Policy	3.2.3 Investments
Previous Policy	G006 – Investments (E15/5096)
Date of Adoption and Resolution Number	Adopted OCM023/01/10 25/01/2010 Ordinary Council Meeting
Review dates and Resolution Numbers	Reviewed OCM119/01/13 29/01/2013 Ordinary Council Meeting Reviewed OCM187/09/15 29/09/2015 Ordinary Council Meeting Reviewed ARG003/09/15 06/06/2017 Ordinary Council Meeting Modified OCM179/12/17 18/12/2017 Ordinary Council Meeting Amended OCM037/04/18 23/04/2018 Ordinary Council Meeting
Next review date	
Related documents	**Acts/Regulations** *Local Government Act 1995, s6.14 (1)and (2), s3.59(1)* Local Government (Financial Management) Regulations 1996 – Regulation 8(3) and Regulation 19(1) and (2), Regulation 28 and Regulation 49 *Trustees Act 1962 - Part III* Australian Accounting Standards 139 (i) and 139.9 (iii) **Plans/Strategies** Strategic Community Plan 2017 - 2027 **Policies** Nil **Delegations** 1.1.20 Power to Invest and Manage Investments **Work Procedures** TBD

Note: changes to references may be made without the need to take the Policy to Council for review.

Appendix 1

Standard & Poor's Ratings Description

Credit Ratings

Standard & Poor's (S&P) is a professional organisation that provides analytical services. An S&P rating is an opinion of the general credit-worthiness of an obligor with respect to particular debt security or other financial obligation, based on relevant risk factors.

Credit ratings are based, in varying degrees, on the following considerations:

- Likelihood of payment.
- Nature and provisions of the obligation.
- Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganisation or other laws affecting creditors' rights.
- In the case of financial institutions, the perceived likelihood of sovereign support.

The issue rating definitions are expressed in terms of default risk.

Short-Term Obligation Ratings are:

A-1

This is the highest short-term category used 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.

Long-Term Ratings are:

AAA

An obligation/obligor rated AAA has the highest rating assigned by S&P. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

AA

An obligation/obligor rated AA differs from the highest rated obligations only in a small degree. The obligor's capacity to meet its financial commitment on the obligations is very strong.

A

An obligation/obligor rated A is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations/obligor in higher rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

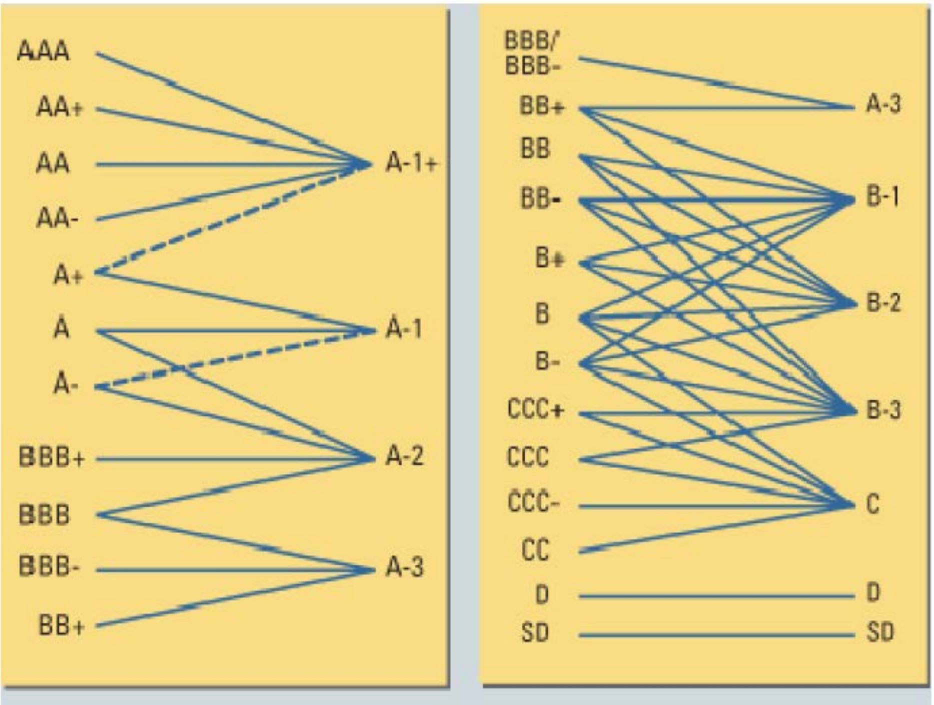
Plus (+) or Minus (-): The ratings from “AA” to “CCC” may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

CreditWatch highlights an emerging situation, which may materially affect the profile of a rated corporation and can be designed as positive, developing or negative. Following a full review the rating may either be affirmed or changed in the direction indicated.

A Rating **Outlook** assesses the potential direction of an issuer’s long-term debt rating over the intermediate-to-long term. In determining a Rating Outlook, consideration is given to possible changes in the economic and/or fundamental business conditions. An outlook is not necessarily a precursor of a ratings change or future CreditWatch action. A “Rating Outlook – Positive” indicates that rating may be raised. “Negative” means a rating may be lowered. “Stable” indicates that ratings are not likely to change. “Developing” means ratings may be raised or lowered.

S&P Ratings Correlations

The standard correlation of short-term ratings with long-term ratings is shown below.



* Dotted lines indicate combinations that are highly unusual.

Appendix 2

Investment Instrument Description

Commonwealth/Semi-Government Bonds

Fixed income securities issued and guaranteed by the Commonwealth, State or Territory Governments of Australia.

11am call deposits – An Interest Bearing Deposit

Cash invested on an overnight basis. Funds can be recalled or re-invested before 11am on the following business day.

Term Deposit – An Interest Bearing Deposit

Funds invested with a financial institution at a predetermined rate (or floating rate margin) that applies to the duration of the deposit. The principal is held on deposit for a fixed term with interest payable either at regular intervals or at maturity. It is not a tradeable security and the investor may be penalised when funds are prepaid.

Bank Bills

Bank-accepted bills are bills of exchange drawn by a company or individual (borrower) usually for periods between 30 and 180 days. The bill is accepted by the bank, which in turn accepts the liability for payment at maturity. It is a short-term investment issued at a discount to the face value and is of a very high credit standing and consequently trades at the lowest yields of all commercially issued bills.

Commercial Paper (CP) / Promissory Note (PN)

A negotiable instrument evidencing an unsecured obligation (promise) the issuer has to repay a certain amount of money at a future date, usually for up to six months. CP is a relatively liquid discount security that is traded on a yield to maturity basis. To be marketable, a credit rating must be obtained from a ratings agency e.g. Standard & Poor's. Major issuers include industrial corporations, securitised vehicles and finance companies. It has a higher risk of default than a bank and hence trades at a higher yield.

Bank Issued Senior/Subordinated Fixed/Floating Rate Note (FRN)

These securities may be issued by Australian or foreign banks and carry the long term credit rating of the bank (in the case of Senior notes) or a long term credit rating one or more notches lower than that of the bank in the case of a subordinated note. The Floating FRN is a longer-term security issued for a fixed period of time but has a variable (floating) coupon on a monthly or quarterly basis. The coupon reflects current interest rates, which is determined as a margin over the Bank Bills Swap Rate (BBSW) rate set. Floating rate notes appeal to investors who are reluctant to commit funds to fixed interest investments for longer periods in times of fluctuating interest rates. Fixed Rate Notes pay a known interest rate and provides the comfort of a known level of interest to be received over the term of the investment.

Bank Negotiable Certificate of Deposit (NCD)

Tradeable securities issued by banks. They can be sold at a discount to face value, or can carry fixed or floating interest. They are generally highly liquid securities, ranking equally with the bank's other debt. Short-dated NCDs can trade similarly to bank bills, but longer- dated NCDs can be a more liquid alternative to bonds or FRNs. Creditworthiness of the bank will determine where the bank's NCD trades, relative to the BBSW.

Floating Rate Negotiable Certificate of Deposit

An NCD which is issued by a bank for a set period of time with a variable rate set on a quarterly or monthly basis over the fixed term. The interest rate is set against the BBSW reference rate reflecting the current market rate at each interval. These can be issued as a rolling discount security, or akin to a floating rate note.

Managed Funds – Cash/Cash Enhanced or Growth Related

These are pooled, professionally managed funds that may invest up to 100% of their portfolio in one or more of the major Australian and overseas asset classes of cash, fixed income, shares or property related. Eligible Cash and Fixed income funds will carry a credit rating of A or better (or equivalent), whilst those that invest in a growth (shares or property) component do not have a credit rating as they do not invest in investments guaranteed by the issuer and which therefore do not have a rating themselves.

Managed funds participate in the underlying asset markets (whether credit, or listed securities), and offer the opportunity for a Manager to add value through trading or other means. However, being pooled vehicles they are also affected by the movements of other investors, and can be either more or less liquid than the underlying assets.

ABBREVIATIONS

ADI: Authorised Deposit Institution

BBSW: Bank Bills Swap Rate