

**POLICY NAME:** INVESTMENTS  
**POLICY REF:** I01  
**MEETING ADOPTED:** 27 February 2020  
 Resolution No. 270220/27  
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**1. OBJECTIVE**

- 1.1 To provide a framework for the investing of Council's funds at the most favourable rate of interest available to it at the time whilst having due consideration of risk and security for that investment type and ensuring that liquidity requirements are being met.
- 1.2 While exercising the power to invest, consideration is to be given to the preservation of capital, liquidity, and the **rate of return of on** investment.
- Preservation of capital is the principal objective of the investment portfolio. Investments are to be placed 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.
  - Investments should be allocated to ensure there is sufficient liquidity to meet all reasonably anticipated cash flow requirements, as and when they fall due, without incurring the risk of significant costs due to the unanticipated sale of an investment.
  - Investments are expected to achieve a market average rate of return in line with the Council's risk tolerance.
- In conjunction with the above objectives, the placement of investments will occur, where possible, with financial institutions known to invest in fossil-fuel free industries or to fund environmentally productive activities that encourage resource efficiency, renewable energy and emissions reduction.**
- 1.3 This policy only deals with Council's investments with financial institutions and does not consider investments Council may wish to make in other forms of capital, such as property.

**2. BACKGROUND**

- Council has a fiduciary and legislative responsibility to manage public monies in a prudent and diligent manner. The Investment Policy sets the tone and expectations of Council and establishes guidelines and parameters for staff who are required to actually place the investments on a daily basis.

**3. DEFINITIONS**

BBSW: The Bank Bill Swap reference rates are independent and transparent rates for the pricing and revaluation of privately negotiated bilateral Australian dollar interest swap transactions. The rates are published daily.

APRA: The Australian Prudential Regulation Authority is a body established by an act of parliament. APRA oversees banks, credit unions, building societies, general insurance and reinsurance companies, life insurance, friendly societies and most members of the superannuation industry. APRA is funded largely by the industries that it supervises. It was established on 1 July 1998.

ADI: Authorised Deposit-taking Institutions are corporations which are authorised under the Banking Act 1959. ADIs include banks, building societies, and credit unions.

**3. SCOPE OF POLICY**

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- This policy applies to Councillors, Committees of Council and Council employees.

#### 4. RELATED DOCUMENTATION

- See section 5 on Legislative Authority for Investments and also Council's Delegation Register.

#### 5. LEGISLATIVE AUTHORITY FOR INVESTMENTS

All investments are to comply with the following:

- Local Government Act 1993;
- Local Government (General) Regulation 2005;
- Ministerial Investment Order;
- Local Government Code of Accounting Practice & Financial Reporting;
- Australian Accounting Standards; and
- Office of Local Government Circulars.

#### 6. DELEGATION OF AUTHORITY

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 the day-to-day management of Council's investments to the Responsible Accounting Officer and or authorised finance 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.

The placement or redemption of investments requires a minimum of two signatures from officers with delegated authority.

#### 7. PRUDENT PERSON STANDARD

The investment will be managed with the care, diligence and skill that a prudent person would exercise. As trustees of public monies, officers are to manage Council's investment portfolios to safeguard the portfolio in accordance with the spirit of this Investment Policy.

It is expected that the skills of officers making investments will include:

- an understanding of the current positioning of the financial markets. ie; knowledge of the current 90 day BBSW rate;
- an understanding of the type of investments in which they are dealing. ie; investment rate offered, term to maturity and the underlying conditions of the transaction that impact risk and reward including circumstances in which the user of the funds may default in payment of capital and interest;
- an understanding of the institution that will receive and use the funds including their credit worth. ie; current Standard & Poor's rating and confirmation they are APRA regulated; and
- an understanding of Council's Investment Policy and associated legislation such that when placing an investment all relevant conditions are considered and weighed.

The role of the investing officer will be to:

- avail themselves of current market information and investment options;
- be aware of Council's current liquidity position and the options that best suit Council in terms of length of the investment;
- in most instances the form of investment shall be a term deposit with an ADI and the investing officer shall consider at least three quotes from different ADI's (Typically the investing officer becomes aware of daily rates by phoning the institution or receiving an email);
- phone the preferred institution and advise them that they have been successful, arrange for funds to be transferred as agreed, ensure that the recipient institution provides Council with appropriate acknowledgement and documentation following their receipt of funds, complete Council's investment placement sheet and have verifying officer sign sheet; and
- in instances where the form of investment is not a term deposit then the matter shall be discussed between at least two recognised investment officers, including the Responsible Accounting Officer prior to making a placement.

The investment officer shall maintain an investment register which shall include:

- the source and the amount of money invested;
- particulars of the security or form of investment in which the money was invested;
- the term of the investment (ie, placement and maturity dates where applicable);
- if appropriate, the rate of interest to be paid, and the amount of money that the Council has earned, in respect of the money invested; and
- classification as to whether the institution holding the investment is fossil fuel aligned or not is otherwise marketed specifically as an ethical "green" investment product.

### 8. 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 General Manager.

Independent advisors are also required to declare that they have no actual or perceived conflicts of interest.

### 9. APPROVED AND PROHIBITED INVESTMENTS

- 9.1 Investments are limited to those allowed by the most current Ministerial Investment Order that has been issued by the NSW Minister for Local Government. A copy of the current order is attached to this policy.
- 9.2 In accordance with the Ministerial Investment Order, this Investment Policy prohibits but is not limited to any investment carried out for speculative purposes including:
- Derivative based instruments;
  - Principal only investments or securities that provide potentially nil or negative cash flow; and

- Stand alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind.

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

### 10. RISK MANAGEMENT GUIDELINES

Council's primary strategy is to preserve the capital invested by diversifying with different approved financial institutions on the short term (12 months or less) money market.

This minimises the risk in terms of interest rate movement and integrity of individual financial institutions.

Investments obtained 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 a council has if an institution 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 an investor 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; and
- Reputational and Environmental Risk – the risk of damage to Council's image and/or risk to the environment resulting from Council taking out investments **that are either held with institutions who are known to fund fossil fuel activities, or are not otherwise marketed specifically as an ethical "green" investment product.**

### 11. LIQUIDITY RISK PARAMETERS

- 11.1 All investments are to be placed with institutions regulated by the Australian Prudential Regulation Authority (APRA) in accordance with the Banking Act 1959, ie Authorised Deposit-taking Institutions (ADIs) or the NSW Treasury Corporation, but excluding subordinated debt obligations.
- 11.2 At least three quotations shall be obtained from qualifying institutions whenever an investment is proposed. The best quote of the day will be successful, **subject to paragraph 13.1**, providing the investment will not breach any parameters contained within this policy and after allowing for administrative and banking costs.
- 11.3 Not more than 40% of the portfolio can be placed in investments exceeding 12 months to maturity and not more than 20% in investments exceeding 3 years to maturity.

**12. CREDIT RISK PARAMETERS**

- 12.1 Investment portfolio parameters are risk-management tools used to manage credit risk by diversifying the portfolio to avoid a narrow concentration of investments. Investment credit risk parameters are based on credit rating bands as published by the credit rating agencies (eg Standard & Poor's, Moody's, Fitch).
- 12.2 Council will use Standard & Poor's (S&P) long term credit ratings (or Moody's or Fitch equivalents). The S&P ratings are broadly defined as follows:

AAA	Extremely strong capacity to repay
AA+, AA, AA-	A very strong capacity to repay
A+, A, A-	A strong capacity to repay
BBB+, BBB, BBB-	Adequate protection and adequate capacity to pay
BB+, BB, BB-	Less vulnerable to non payment however adverse economic conditions could lead to inadequate capacity to meet financial obligations
CCC	Vulnerable to non payment and requires positive economic conditions to meet its financial obligations

- 12.3 The following credit risk parameters apply to the investment portfolio:

Maximum/Minimum Thresholds – ADI Portfolio Limits			
Credit Rating	Maximum % of Total Portfolio	Minimum % of Total Portfolio	Exposure to a Single ADI
A- or higher	100%	40%	20% of portfolio
BBB and BBB+	60%	n/a	10% of portfolio

**13. REPUTATIONAL AND ENVIRONMENTAL CONSIDERATIONS**

13.1 Where possible (and subject to obtaining a comparable return, or a return **within 0.05%**, and compliance with other investment policy parameters), the investing officer will place the investment with an institution which has been classified as non-fossil fuel aligned or in an investment product that is otherwise marketed specifically as an ethical "green" investment product. This classification shall be determined based on publicly available information, such as from Market Forces ([www.marketforces.org.au](http://www.marketforces.org.au))- or Climate Bonds Initiative ([www.climatebonds.net](http://www.climatebonds.net)).

- 13.2 In placing the investment the investing officer will:
  - Take every reasonable effort to maximise the percentage of the total portfolio held with non-fossil fuel aligned institutions or ethical "green" investment products.
  - Be mindful of maximising the credit rating parameter that is aligned with non-fossil fuel aligned institutions (typically the B category).
  - Also consider the reputation of the institution with respect to ethical behaviour, with Council's preference being for investments to be held with institutions that display the highest standards of ethical behaviour.

**14. PERFORMANCE BENCHMARKS**

- 14.1 Investment performance will be measured monthly, in relation to both current month and 12 month rolling returns, against relevant benchmarks.
- 14.2 The investment portfolio's performance as to interest rate achieved should be compared to the 90 day BBSW, and as to earnings to the approved budget.

**15. REPORTING**

- 15.1 Documentary evidence must be held for each investment and details thereof maintained in an investment register.

The documentary evidence must provide Council legal title to the investment.

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

- 15.2 The Local Government (General) Regulation 2005 (clause 212) requires a monthly report on investments to be provided to Council.

The monthly report to Council will include, as a minimum:

- the total value of the portfolio and the balance of the trading bank account;
- a complete list of all investments in the portfolio, including the 'Fair Value' of any tradeable investments;
- a break up of the portfolio per institution, showing the rating for each institution;
- a comparison of interest earned to budget for the month and year to date;
- a comparison of weighted average interest rate and 90 day BBSW for the month and year to date;
- a statement as to whether the investments are in accordance with the Local Government Act, Regulations and Council's Investment Policy;
- a commentary on portfolio performance and other matters of interest; and
- an analysis of investments as to whether or not they are fossil fuel aligned or ethical "green" investment products.

- 15.3 Annual financial statements must be prepared by Council in accordance with the Local Government Code of Accounting Practice & Financial Reporting (the Code). The Code sets the minimum requirements set by the Australian Accounting Standards and the Office of Local Government, including accounting for investments

**16. POLICY REVIEW**

The Investment Policy will be reviewed at least once a year or as required in the event of legislative changes. The Investment Policy may also be changed as a result of other amendments that are to the advantage of Council and in the spirit of this policy. Any amendment to the Investment Policy must be by way of Council resolution.

**17. THRESHOLD BREACHES**

- 17.1 This policy imposes limits and thresholds in relation to the acquisition and holding of investments. However, due to changes in the amount of Council's investment portfolio over time, situations may occur where these limitations or thresholds are breached.
- 17.2 Where limitations or thresholds are breached due to a change in the overall size of the total investment portfolio, or a possible change in ratings of the financial institutions, the following process will apply:
- Details of any breach to be reported to Council in the monthly report immediately following the breach.
  - Immediate forced sale of the investments in breach of the limits or thresholds will not be required unless, in the General Manager's or Council's opinion that such sale is necessary to protect the value of the overall investment portfolio.
  - An immediate freeze on acquisitions of new investments in the relevant category will commence, until the portfolio can be effectively managed back to align with the requirements of this policy.
  - The objective will be to manage the portfolio back in accordance with the policy limits, within three months from the date the portfolio first exceeds the limit or threshold.

**18. GRANDFATHERING OF INVESTMENTS**

*Transitional Arrangements*

- 18.1 Transitional arrangements contained in the Minister's Order dated 12 January 2011, state that Council investments purchased prior to 31 July 2008, which complied with the previous Minister's Order, are taken to be in compliance with the current Minister's Order. This same 'grandfathering' provision applies to this Investment Policy.
- 18.2 Council will continue to hold investments that fall under the Minister's grandfathering provisions until maturity or until such time as the market price of such investments will allow a sale considered to be financially beneficial to Council.



**CURRENT MINISTERIAL INVESTMENT ORDER**

**LOCAL GOVERNMENT ACT 1993 – INVESTMENT ORDER**  
(Relating to investments by councils)

I, the Hon. Barbara Perry MP, Minister for Local Government, in pursuance of section 625(2) of the *Local Government Act 1993* and with the approval of the Treasurer, do, by this my Order, notify for the purposes of section 625 of that Act that a council or county council may only invest money (on the basis that all investments must be denominated in Australian Dollars) in the following forms of investment:

- (a) any public funds or securities issued by or guaranteed by, the Commonwealth, any State of the Commonwealth or a Territory;
- (b) any debentures or securities issued by a council (within the meaning of the *Local Government Act 1993* (NSW));
- (c) interest bearing deposits with, or any debentures or bonds issued by, an authorised deposit-taking institution (as defined in the *Banking Act 1959* (Cwth)), but excluding subordinated debt obligations;
- (d) any bill of exchange which has a maturity date of not more than 200 days and if purchased for value confers on the holder in due course a right of recourse against a bank which has been designated as an authorised deposit-taking institution by the Australian Prudential Regulation Authority;
- (e) a deposit with the New South Wales Treasury Corporation or investments in an Hour-Glass investment facility of the New South Wales Treasury Corporation;

All investment instruments (excluding short term discount instruments) referred to above include both principal and investment income.

**Transitional Arrangements**

- (i) Subject to paragraph (ii) nothing in this Order affects any investment made before the date of this Order which was made in compliance with the previous Ministerial Orders, and such investments are taken to be in compliance with this Order.
- (ii) Paragraph (i) only applies to those investments made before the date of this Order and does not apply to any restructuring or switching of investments or any re-investment of proceeds received on disposal or maturity of such investments, which for the avoidance of doubt must comply with this Order.

**Key Considerations**

An investment is not in a form of investment notified by this order unless it also complies with an investment policy of council adopted by a resolution of council.


All councils should by resolution adopt an investment policy that is consistent with this Order and any guidelines issued by the Chief Executive (Local Government), Department of Premier and Cabinet, from time to time.

The General Manager, or any other staff member, with delegated authority by a council to invest funds on behalf of a council must do so in accordance with the council's adopted investment policy.

Councils have a fiduciary responsibility when investing. Councils should exercise the care, diligence and skill that a prudent person would exercise in managing the affairs of other persons.

When exercising the power of investment councils should consider, but not be limited by, the risk of capital or income loss or depreciation, the likely income return and the timing of income return, the length of the term of the proposed investment, the liquidity and marketability of the proposed investment, the likelihood of inflation affecting the value of the proposed investment and the costs (including commissions, fees, charges and duties payable) of making the proposed investment.

Dated this 12<sup>th</sup> day of January 2011

  
Hon BARBARA PERRY MP  
Minister for Local Government



**Towards an Investment Policy for a Climate Emergency – The Art of Continuous Improvement**

A submission to Policy name: Investment  
 Policy ref: I01

By Claudia Caliarì and Lyn Walker (Ballina Environment Society- BES)

**Background.**

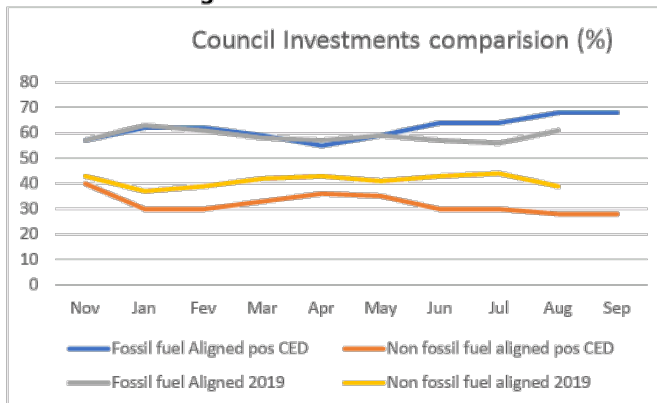
Since Nov 2019 when Ballina Council declared a Climate emergency, Ballina Environment Society, has been examining policies and structures that would be required by the declaration. The declaration foreswore business as usual, required rapid change and demanded climate change occupy a leadership position in all areas of Council business.

In the Sept 2020 B Ward Committee Agenda Claudia Caliarì (for BES) began asking about criteria for appropriate investment policy for a climate change emergency.

**The Problem** - BES found that:

1. The percentage of non-fossil fuel aligned investments was quite low and had been declining since the Climate Declaration.
2. Council Staff claimed that if there was a clash of policy between the emergency declaration and the existing investment policy the investment policy would prevail.

**1. Rate of Change**



1.1 The percentage over time had steadily decreased (Source – Ballina Shire website)

1.2 Risk factors and Interest rates requirements did not seem to be the immediate problem – which is not to say they shouldn't be examined and improved

**The solutions:**

1. **Green fund investments within Institutions not wholly non-fossil fuel aligned** should be explored as a preliminary step of a Fossil Fuel divestment strategy. Council has already begun this. We are pleased to note that no new fossil fuel aligned investments were made during January 2021
2. **Targets and timelines** should be set up and monitored in order to evaluate performance and goal achievements. The new proposed Climate Change Policy currently also on public exhibition is strong that no Council business should be exempt from this requirement.
3. **Emergency leadership role:** Sideways, Upwards and Downwards (see below) – finding the bottle necks and advocating for solutions along with other Councils.



BES found three areas where we thought changes could make a big difference.

**1. Green fund investments within Institutions were not being considered.**

We are pleased to note that in Nov 2020 Investments began to include green funds and the percentage of climate friendly investments in Nov & Dec 2020 immediately increased.

We understand that this is not the ideal solution yet, but this change in practice contributes to a Fossil Fuel Free Future.

**2. Targets and Timelines**

2.1 There are no specifics. The vague requirement to do the best one can has been a failure. Lack of specifics allows Council to avoid appropriately rigorous assessment of achievement. BES found one solution used by Waverley Council relatively easily because we were looking outside the narrow focus Council had adopted.

2.2 An aspirational target is required for any emergency activity and to evaluate how the policy is being achieved.

BES suggested an aspirational target of 100% by 2030 of no fossil fuel alignment. We are pleased to note that the new proposed Climate Change Policy is strongly in agreement with us on this point

**3. Emergency leadership role.**

3.1 Immediately that the Climate Change policy proposal is accepted a specialist leader should be appointed (preferably full time)

3.2 Campaign with other Councils for solutions to bottle necks

BES was shocked by the investments staff response in the Nov 2020 B Ward that if there was a clash the investment policy would take priority. We don't think that there was a clash, rather omissions and lack of clear targets with timelines.

However, if there is a clash, the right thing in our opinion is to have a dedicated senior climate change officer who can advise and if the problem remains take it to Councilors to resolve. Identify the clash clearly in the staff report and suggest how the policy could be amended to reflect the climate emergency declaration and its leadership role. The staff response in the November Ordinary Council Agenda that there would be a change of focus to include green funds confirms that staff did in reality do as we would expect.

In response to the new proposed Climate Change Policy the Staff report (Agenda March 25<sup>th</sup> Ordinary Council meeting) identified that the most efficient method (Method 3) was to employ a person with sufficient standing dedicated solely to implementing the Climate Change Policy.

**Conclusion**

In short, a good investment policy in our opinion is a 100% target by 2030 away from fossil fuels with progress markers on the way there. Investments need to include both green funds/bonds within otherwise fossil fuel aligned institutions and totally non fossil fuel aligned investment institutions.

Rigorous evaluation at regular intervals is required or with explanations why not.



Attachment 1: Institutions with non-FF aligned investments (Source- Market Force)

<b>Banks with no record of funding fossil fuels since 2016</b>	<b>Super with a comprehensive exclusion of FF</b>
1. 86 400	Australian Ethical Australian Shares
2. Adelaide Bank	Australian Ethical Balanced
3. Australian Military Bank	Aware Super Socially Responsible Investment
4. Australian Mutual Bank	Catholic Super Positive IMPACT
5. Auswide Bank	Cruelty Free Super
6. AWA Alliance Bank	EnergySuper SRI
7. Bcu	Future Super Balanced Impact
8. Bank Australia	Super SA Socially Responsible
9. Bank First	UniSuper Sustainable Balanced
10. Bank of us (formerly B&E)	Verve Super
11. BankVic	
12. BDCU Alliance Bank	
13. Bendigo Bank	
14. Beyond Bank	
15. Community First Credit Union	
16. Credit Union SA	
17. CUA (Credit Union Australia)	
18. Defence Bank	
19. Delphi Bank	
20. Endeavour Mutual Bank	
21. Firefighters Mutual Bank (formerly Fire Board (NSW) Employees Credit Union & Fire Brigades Employees' Credit Union)	
22. First Choice Credit Union	
23. G&C Mutual Bank	
24. Gateway Bank	
25. Greater Bank	
26. Goulburn Murray Credit Union Health Professionals Bank	
27. Heritage Bank	
28. Horizon Bank	
29. Hume Bank	
30. Hunter United	
31. IMB	
32. Laboratories Credit Union (LCU)	
33. Maleny Credit Union (MCU)	
34. ME Bank	
35. MOVE Bank	
36. MyState Bank	
37. Newcastle Permanent	
38. P&N Bank	

9.2 Policy (Review) - Investments



39. People's Choice Credit Union	
40. Police Bank	
41. Police Credit Union	
42. Qudos Bank	
43. QBANK (Formerly Queensland Police Credit Union)	
44. Rabobank	
45. Regional Australia Bank	
46. Rural Bank	
47. Southern Cross Credit Union	
48. South West Slopes Credit Union	
49. Summerland Credit Union	
50. Sydney Mutual Bank	
51. Teachers Mutual Bank	
52. The Mutual Bank (Maitland Mutual)	
53. Traditional Credit Union	
54. Transport Mutual Credit Union	
55. UniBank (formerly unicredit)	
56. Up Bank	
57. WAW Credit Union	