

Investment Policy

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1 INTRODUCTION

This policy provides a framework on the transparent, effective and responsible utilisation of Council's cash funds within the government legislative framework and will conform to applicable Federal and State regulations.

Particular emphasis is directed towards investment decisions that limit unnecessary exposure to risk and optimise return on investment whilst ensuring sufficient liquidity for Council's on-going operating commitments.

1.1 Purpose

The purpose of Council's investment policy is to ensure:-

- All funds are invested in accordance with legislative and Council requirements.
- Effective internal controls are in place to minimise investment risk and unauthorised appropriation of Council funds.
- All investment transactions are appropriately authorised and documented.
- Investment decisions are based on the security of funds by limiting exposure to risk.
- The financial yield is enhanced through prudent investment of funds whilst ensuring sufficient liquidity for Council's day to day operational commitments.
- Legally restricted funds are appropriately invested to earn an income towards their purposes

2 INVESTMENT GUIDELINES

2.1 Authorised Investments

Nilumbik Shire Council only takes direct investments with banks in the forms of at call accounts and term deposits.

2.2 Exclusions

This Investment Policy prohibits any investment carried out for speculative purpose, including the following:

- Derivative based investments;
- Principal only investments or securities that provide nil or negative cash flow;
- Stand alone securities issued that have underlying futures, options, forward contracts and swaps of any kind;
- Any securities issued in non-Australian currency; and
- 'Enhanced cash funds' or similar products that fall within the definition of a Collateralised Debt of Obligation (CDO).

2.3 Money to be transferred using the General Bank Account

- Funds may be transferred electronically and will be authorised by two officers who are authorised signatories on the general bank account.
- Interest earned on investments being rolled over must be redeemed to Council's general bank account.
- All funds that are being redeemed, or interest being paid, must be directly credited to Council's general bank account.

2.4 Portfolio Investment Parameters and Credit Requirements

The following table shows the credit ratings counterparty limits for Nillumbik Shire Council:

Long Term Rating	Short Term Rating	Individual Counterparty Limit	Total Limit
AAA	A-1+	50%	100%
AA-	A-1	50%	100%
A	A-2	25%	60%
BBB	A-3	\$1million	20%

Council may consider the ratings assigned to Australian banking and credit union institutions by any of the "big three" credit rating agencies; Standard & Poor's, Fitch Ratings, Moody's Investors Service.

Where the aggregate of the portfolio decreases resulting in funds with an institution exceeding the limit, the Investment Officers (being the Business Services Lead and Financial Accountant) will restructure the portfolio within a reasonable period (7 days after the existing investment matures).

The Chief Financial Officer is authorised to allow variations of the above limit from time to time, on a short-term basis, to enable maximisation of return on investments with the minimisation of risk.

Council should keep a current list of Short and Long Term paper ratings of all institutions being not more than six (6) months old. If an existing Council investment falls below the minimum rating level, Council will withdraw funds within a reasonable period (7 days after the existing investment matures).

2.5

Term to Maturity of Investments

The term to maturity of any Council direct investment may range from "at call" to one year.

2.6

Quotation on Investments

Three (3) quotations shall be obtained from authorised institutions whenever an investment is proposed. The best quote on the day will be successful after allowing for administrative and banking costs, as well as having regard to the limits set above.

2.7

Maximisation for Investment Return

Council should aim to maximise where possible, favourable returns that do not jeopardise the security of funds invested.

3 RESPONSIBILITIES AND AUTHORITY

3.1 Standard of Prudence

The standard of prudence is to be used by Finance when managing the overall portfolio. Investments will be managed with the care, diligence and skills that a prudent person would exercise in managing the affairs of other persons. This includes having in place appropriate reporting requirements that ensure the investments are being reviewed and overseen regularly.

Investment officers are to manage the investment portfolios for investment purposes only. Investments should be engaged with a view to make a profit. There is no appetite for high risk or aggressive investments.

3.2 Conflicts of Interest

The Policy requires that employees and investment officials disclose to the Chief Executive Officer any conflict of interest or any investment positions that could be related to the investment portfolio or impair investment decisions in any circumstance.

3.3 Delegation of Authority

Authority for implementation of the Policy is delegated by the Council to the Chief Executive Officer in accordance with the Victorian Local Government Act 1989.

Authority for the day-to-day management of the Council's investment portfolio is to be delegated by the Chief Executive Officer to the Chief Financial Officer and the Finance Manager.

The Chief Financial Officer and the Finance Manager have the authority to invest funds on Council's behalf in accordance with this Investment Policy. The Business Services Lead and Financial Accountant will present viable investment options for approval to the Finance Manager and Chief Financial Officer.

4 INVESTMENT OBJECTIVES

In Priority, the order of investment activities shall be preservation of capital, liquidity, and return, while considering the most favourable rate of return and period of investment.

4.1 Preservation of Capital

Preservation of capital shall be the principal objective of the investment portfolio. Investments are to be performed in a manner that seeks to ensure security of principal of the overall portfolio. No investments is to be proposed or entered where there is any probability for potential loss of capital.

4.2 Maintenance of liquidity

In addition to the balances held in its bank account for routine operating requirements, the investment portfolio will maintain sufficient liquidity to meet all reasonably anticipated operating cash flow requirements of Nillumbik Shire Council, as and when they fall due, without incurring significant transaction costs due to being required to sell an investment.

4.3 Return on investments

The portfolio is expected to achieve a market average rate of return and take into account Nillumbik Shire Council's risk tolerance and current interest rates, budget considerations, and the economic cycle.

4.4 Comparison of performance

Nillumbik Shire Council should ensure it achieves value-for-money or a competitive price after considering the costs of the investment.

4.5 Environmentally sustainable investments

After consideration of the above objectives, preference will be given to financial institutions maintaining environmentally sustainable investment and financing practices and policies (green institutions).

For the purposes of this policy, green institutions are defined as being fully divested from fossil fuels that is, having no direct or indirect investment in the fossil fuel industry.

Accredited deposit taking institutions fully divested from fossil fuel related activity are the preferred investment vehicle of Council and preference will be given to these institutions where possible.

5 PORTFOLIO IMPLEMENTATION

5.1 Authorised Personnel

The Chief Financial Officer and the Finance Manager are authorised to invest Nillumbik Shire Council's operating funds at their discretion in investments consistent with the Policy and legislation.

The Manager Finance will report to Nillumbik Shire Council's Audit Committee on investment guidelines, approved lists and investment activities for the purpose of the Policy.

5.2 The Role of the Audit Committee

To ensure separation of duties, The Audit and Risk Committee will:

- Oversee the development and update of the Policy and its guidelines;
- Provide advice to Council on modifications to the Policy;
- Monitor compliance with the Act; and
- Review the quarterly investment reports included in the financial reporting kit.

The Audit and Risk Committee is not permitted to direct daily investment decisions, or become involved in the daily operations of the portfolio.

5.3 Internal Controls

The Finance Manager shall establish internal controls and processes that will ensure investment objectives are met.

To minimise the potential for investment risk and unauthorised appropriation of Council funds, the following internal controls will apply:

- All placement and redemption of investments must be authorised by any two of the Investment Officers.
- The investment authorisation process must be carried out in accordance with any other Council policies and procedures.
- Each transaction will require **written** confirmation by the Financial Institution.

6 REPORTING ON INVESTMENTS

- Investment activities and results must be reviewed on a monthly basis by the Finance Manager and reported to the Chief Financial Officer in the form of an Investment Activity Report within five working days of the end of each month
- An overall report on Council's investment activities should be included in Council's quarterly finance reports, to be submitted to Council and the Audit and Risk Committee.
- A register of investments will be maintained together with an investment file containing all letters of advice from financial institutions.
- Investment will be brought to account and valued at fair value plus transaction costs directly related to the acquisition of the financial asset in accordance with IFRS.
- Interest revenue will be recognised as it is earned.
- Annual averages are to be calculated by using the weighted average of end of month balances.

7 REVIEW OF POLICY AND STRATEGY

This policy will be reviewed every four years or as required in the event of legislative changes. The Audit Committee or Council may initiate review outside this cycle.

This policy is to be read in conjunction with any other relevant Council policies.