

# Policy

## Investment

Version 1.10

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# Investment

## 1 Policy Objective

To provide a framework to assist Council to optimise its return on investment of short, medium and long term surplus funds in a prudent and measurable manner. Specifically:

- Achieve or exceed budgeted investment revenue while preserving Council's capital.
- Establishment of Risk Management Guidelines based upon credit rating, limited exposure to individual institutions and term to maturity limits.
- Use of an appropriate benchmark for investment performance measurement.
- Ensure there is sufficient liquidity to fund all reasonably anticipated cash flow requirements.
- To comply with all legislative requirements and investments orders issued by the appropriate Minister.
- To preference, when appropriate, the placement of investments with financial institutions known to fund environmentally or socially responsible activities.

## 2 Policy Background

Council has a fiduciary and legislative responsibility to manage public monies in a prudent and diligent manner. The Investment Policy brings together legislative requirements and Council expectations to establish guidelines and parameters for staff to invest surplus monies on a daily basis.

## 3 Definitions

**BBSW:** Bank Bill Swap reference rates are independent and transparent interest rates for the pricing and revaluation of privately negotiated, bilateral, Australian dollar interest swap transactions. These rates are published daily and act as a benchmark rate when setting the interest rate for various investment products such as term deposits and floating rate notes.

**APRA:** Australian Prudential Regulation Authority is a body established by an Act of Parliament on 1 July 1998 to oversee banks, credit unions, building societies and general insurance companies.

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

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## 4 Policy Scope

### 4.1 Risk Management Guidelines

Investments obtained are to reference the following eight key risk management criteria relating to:

1. **Preservation of Capital:** the requirement for preventing losses in an investment portfolio's total value, inclusive of both principal and income.
2. **Diversification/Credit Risk:** limits overall credit exposure of the portfolio by diversification of credit ratings.
3. **Market Risk:** limiting the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices by restricting the amount invested in non-rated or lower rated institutions.
4. **Counterparty Credit Framework:** exposure to individual counterparties/institutions to remain within policy guidelines.
5. **Maturity Framework:** limits the duration of any investment term. The longer the investment term, the greater the length of exposure and the greater the risk of experiencing market volatility.
6. **Leveraging Risk:** the magnification of an investor's risk and return that occurs when the investor takes on financial leverage through an investment product. Leveraged investment products are prohibited by the Investment Policy.
7. **Independent Investment Advice:** Council will seek independent investment advice where necessary. Advisors must have no actual or potential conflict of interest in relation to investment products being recommended. Advisors are required to provide written confirmation that they do not have any actual or potential conflicts of interest in relation to any investment that they are recommending or reviewing. Manufacturers and distributors of investment products are excluded from acting as investment advisors to Council.
8. **Environmental and Reputational Risk:** refers to the risk of damage to the environment and Council's image/reputation resulting from Council purchasing investments with institutions known to fund unethical fossil fuel activities.

Council's preference is to place investments with financial institutions:-

- known to fund environmentally productive activities encouraging resource efficiency, renewable energy and emissions reduction;
- domiciled in Australia as opposed to entities domiciled overseas or with head offices domiciled overseas.

Wherever possible ethical investment products (of Australian domiciled institutions), at the time of investment, should be selected if the investment rate is greater than; equal to; or less than or equal to 5 basis points below a comparative unethical investment.

Australian Ethical and Market Forces both classify Australian Deposit-taking Institutions (ADIs) as funding either unethical fossil fuel activities or ethical environmentally friendly activities. Individual investment products obtain ethical or non-ethical status by default of the issuing ADI classification or are marketed specifically as ethical “green” investment products.

#### 4.2 Diversification and Credit Risk Guidelines

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 (refer to Schedule 2 for rating definitions):

Overall Portfolio Credit Limits		
Long-Term Credit Ratings	Short-Term Credit Ratings	Investments Maximum
AAA	A1+	100%
AA+	A1+	100%
AA	A1+	100%
AA-	A1+	80%
A+	A1	60%
A	A1	60%
A-	A1	60%
BBB+	A2	20%
BBB	A2	20%
BBB-	A3	20%
Unrated	Unrated	10%

Note: Percentage limits are based upon Council's average portfolio balance

#### Counterparty Credit Framework

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

*\*institutions issuing securities refer to corporate groups – that is an entity and all of its subsidiaries*

Individual Counterparty Limits		
Long-Term Credit Ratings	Short-Term Credit Ratings	Investments Maximum
AAA	A1+	25%
AA+	A1+	25%
AA	A1+	20%
AA-	A1+	20%
A+	A1	15%
A	A1	15%
A-	A1	15%
BBB+	A2	10%
BBB	A2	10%
BBB-	A3	10%
Unrated	Unrated	5%

- Investments with counterparties below A Category (Long Term) and below A-1 (Short Term) are to be restricted to **Authorised Deposit Taking Institutions** (ADIs = banks, building societies and credit unions) regulated by, and subject to the prudential standards of, the Australian Prudential Regulation Authority (APRA).

- NSW T-Corp will be regarded in terms of the respective investments’ “shadow rating” as advised by that institution.
- The short-term credit rating limit will apply in the case of discrepancies between short and long-term ratings.
- In the event that a credit rating of a security or of the company/body issuing the security falls below the required minimum, as set out in the Minister’s Order, Council will make all necessary arrangements to withdraw deposits as soon as practical.
- Percentage limits are based upon Council’s average core portfolio balance.

### 4.3 Term to Maturity Framework

The Investment portfolio is to be invested within the following maturity constraints:

Overall Portfolio Term to Maturity Limits	
Portfolio % < 1 month	100% max or 5% min
Portfolio % <=1 year	100% max; 40% min
Portfolio % >1< =3 years	60%
Portfolio % >3<=5 years	40%

- To provide adequate liquidity for Council’s day to day cash flow requirements all tradeable securities purchased will have, subject to market conditions, the ability to be liquidated within five working days.
- Percentage limits are based upon Council’s average core portfolio balance.
- The term to maturity of any of Council’s investments may range from “at call” to five (5) years at final legal maturity.

### 4.4 Performance Benchmark

The performance benchmark for Tweed Shire Council’s investment portfolio is the industry standard UBS 90 day Bank Bill Index.

### 4.5 Measurement

The investment returns for the portfolio are to be regularly reviewed by an independent market sources by assessing the market value of the portfolio. The market value is to be assessed at least once a month to coincide with monthly reporting.

### 4.6 Reporting

There is a legislative requirement (clause 212 LGGR) for Council to report to Council each month regarding the investment portfolio. The report must detail amounts and types of investments currently held and investment portfolio performance compared to benchmark.

Council’s Investment Register will include:

- The source (fund) and amount of money invested
- Details of the investment security (bond or term deposit)
- The term of the investment and maturity or roll over date
- The yield or interest rate to be paid to Council
- Classification of institutions in regard to environmentally sustainability or ethics.

Council is also required to account for investments in the annual financial statements.

#### **4.7 Review of Investment Policy**

- The policy will be reviewed annually and submitted to Council if any amendments are proposed.
- Council will arrange, if deemed appropriate, a review of its investments by an independent external entity to verify that:
  - i) new investment types/products comply with Council's investment policy
  - ii) the valuation of investments against set benchmarks are measured at least monthly
  - iii) investments have been placed in accordance with Council's investment policy

### **5 Schedules**

#### **5.1 Schedule 1 - Standard and Poor's Ratings Description**

##### **5.1.1 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 creditworthiness 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.

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

##### **5.1.2 Short-Term Obligation Ratings:**

###### **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.

**5.1.3 Long-Term Ratings:****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.

**BBB**

An obligation/obligor rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to the obligor to meet its financial commitment on the obligation.

**Plus (+) or Minus (-):** The ratings from "AA" to "BBB" 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.

### 5.1.4 S & P Ratings Correlations

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

Long Term Rating	Short Term Rating
AAA	A1+
AA+	A1+
AA	A1+
AA-	A1+
A+	A1
A	A1 to A2
A-	A1 to A2
BBB+	A2
BBB	A2 to A3
BBB-	A3

## 6 Related Legislation

- Local Government Act 1993, Section 412 and 625.
- Local Government Act 1993 – Order (of the Minister) pursuant to section 625 of the Local Government Act 1993.
- The Trustee Amendment (Discretionary Investments) Act 1997 - Sections 14A (2), 14C (1) and (2).
- Local Government (General) Regulation 2005 – Clause 212.
- Local Government Code of Accounting Practice and Financial Reporting.
- Australian Accounting Standards.
- Department of Local Government Circulars.

## 7 Review Period

This Policy will be reviewed within 12 months of the election of each new Council or more frequently in the event of any legislative changes or change in circumstances.

## 8 Useful Links

[Tweed Shire Council website](#)

**Version Control:**

<b>Version History</b>		
<b>Version #</b>	<b>Summary of changes made</b>	<b>Date changes made</b>
1.0	New Policy	19/10/2005
1.1	Reviewed, amended and adopted by Council	19/11/2007
1.2	Minor amendments and adopted by Council	11/03/2008
1.3	Minor amendments and adopted by Council	16/06/2010
1.3	Reviewed as part of Policies Review	07/07/2010
1.4	Adopted by Council	17/08/2010
1.5	Adopted by Council	19/04/2011
1.6	Adopted by Council	20/02/2012
1.7	Minor amendments and incorporated into new Policy template	20/06/2013
1.8	<ol style="list-style-type: none"> <li>1. Alignment of long-term and short-term credit ratings for total portfolio</li> <li>2. Alignment of long-term and short-term credit ratings for individual counterparties.</li> <li>3. Simplification of term to maturity limits</li> </ol>	February 2014
1.9	Amendment to Policy under following headings: Objectives Background Definitions Scope Schedules	20/08/2020
1.10	Reviewed as part of Policies Review and no changes required.	16/06/2022