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INVESTMENT POLICY

EXECUIVE MEMBER:

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PREPARED BY:

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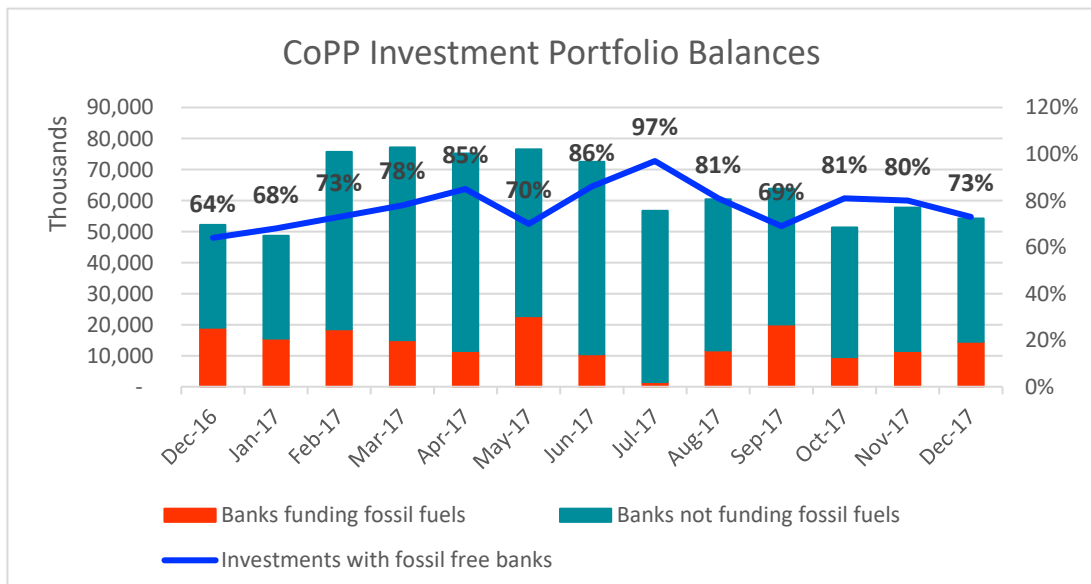
1. PURPOSE

1.1 To obtain Council approval of the revised Investment Policy, which sets out the principles and objectives that need to be adhered to by Council officers responsible for investing surplus funds with financial institutions, and affirms Council’s commitment to socially and environmentally responsible investments.

2. EXECUTIVE SUMMARY

2.1 The Investment Policy seeks optimise returns on Council funds while balancing risk, liquidity and achievement of Council’s broader environment and social objectives. The review of Council’s Investment Policy has been brought forward due to the recent long term credit rating downgrade of 23 Australian financial institutions

2.2 As a consequence of the rating downgrade Council’s portfolio is more restricted in its ability to invest with institutions that are fossil free. Following the rating downgrade the percentage of funds with fossil free institutions has dropped from a peak of 97% in July 2017 to 73% at 31 December 2017.



2.3 In addition to reviewing the amount invested with fossil free institutions, a small number of other minor improvements are proposed.

2.4 The proposed revised Policy was reviewed and endorsed by the Audit and Risk Committee on 17 November 2017.



3. RECOMMENDATION

That Council:

- 3.1 Adopts the revised Investment Policy as set out in Attachment 1 to this report.

4. KEY POINTS/ISSUES

- 4.1 The proposed Policy has been updated to reflect Council's holdings of long and short term investments. Investments for 365 days or longer can be placed with institutions with a minimum long term credit rating of BBB+ (unchanged) while investments for less than 365 days can be placed in institutions with a minimum short term rating of A-2.
- 4.2 The adoption of short and long term ratings supports portfolio diversification enabling Council to meet its fossil free investment targets whilst ensuring funds are secure.
- 4.3 The threshold for total investments held with institutions rated BBB+/A-2 and higher remains unchanged at 10%. There is provision for an additional 20% special threshold which can increase the total threshold to 30%.

The additional 20% special threshold referred to in the Policy as CSR Special is granted to financial institutions that have proven alignment with Council's environmental and social sustainability commitment. Institutions will be recommended by the Chief Financial Officer and endorsed by the General Manager Customer & Corporate Services.

- 4.4 The proposed Policy now provides an outline of what is required in the event of a credit rating downgrade.

5. CONSULTATION AND STAKEHOLDERS

- 5.1 The policy was reviewed and endorsed by the Audit and Risk Committee.

6. LEGAL AND RISK IMPLICATIONS

- 6.1 The recommended Investment Policy limits Council's financial risks due to the strict criteria that must be met before placing an investment including:
- The types of investment allowed
 - The maximum allowed to be invested and the threshold for individual entities
 - The short term/long term credit risk rating that must be satisfied before surplus are allowed to be invested



- The requirement of the investment portfolio to be spread across a number of different financial institutions and not concentrated with one or two financial institutions
- Clear outline of what is required in the event of a credit rating downgrade.

7. FINANCIAL IMPACT

- 7.1 There is limited financial impact from the proposed changes. It may be possible to achieve a slightly higher rate of return through enabling greater investment in institutions rated BBB+/A-2. The lower investment rating of these institutions generally comes with a premium in terms of higher returns. The level of risk however, is low and acceptable in terms of optimising returns and achieving council's broader social and environmental objectives.

8. ENVIRONMENTAL IMPACT

- 8.1 The proposed revisions to the Investment Policy strengthens Council's ability to preference financial institutions that are committed to environmental sustainability.

9. COMMUNITY IMPACT

- 9.1 The proposed revisions to the Investment Policy strengthens Council's ability to preference financial institutions that are committed to social sustainability.

10. ALIGNMENT TO COUNCIL PLAN AND COUNCIL POLICY

- 10.1 Strategic Direction 2 – The proposed policy has provision for additional funds to be placed with institutions that have proven alignment with Council's commitment to environmental and social sustainability.
- 10.2 Strategic Direction 6 – The proposed policy provides for low risk longer term investments which will be beneficial for planning and managing operational and capital funding for the longer term and requires responsible officers to adhere to strict guidelines.

11. IMPLEMENTATION STRATEGY

11.1 TIMELINE

- 11.1.1 The new Policy will have immediate effect.

11.2 COMMUNICATION

- 11.2.1 Responsible officers who place funds for investment on behalf of Council will be advised of changes to the investment Policy following Council adoption thereof.



ORDINARY MEETING OF COUNCIL 7 FEBRUARY 2018

12. OFFICER DIRECT OR INDIRECT INTEREST

- 12.1 No officers involved in the preparation of this report have any direct or indirect interest in the matter.

TRIM FILE NO: 34/01/75
ATTACHMENTS 1. Investment Policy