



# Investment Policy

---

Adoption Date:	24 June 2019 by Council Resolution
Review Date:	24 June 2019
Version:	4
Division/Department:	Corporate Services/Finance
Responsible Officer:	Chief Financial Officer
HPE CM Record Number:	18/180006

## Contents

Objectives.....	3
Legislative Requirements .....	3
Delegation of Authority .....	3
Prudent Person Standard .....	4
Ethics and Conflicts of Interest .....	4
Approved Investments .....	4
Prohibited Investments .....	4
Investment Advisor .....	5
Risk Management Guidelines.....	5
Term to Maturity Limits .....	7
Measurement.....	8
Benchmarking.....	8
Reporting of Investments.....	8
Review of this Policy.....	9

## Objectives

The objective of the Investment Policy is to provide a framework for the investing of Council's surplus funds at the most favourable rate of interest available to it at the time whilst having due consideration of risk and security guidelines set by Council for that investment type and ensuring that its liquidity requirements are met.

While exercising the power to invest, consideration is to be given to the preservation of capital, liquidity, and the return of 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.

## Legislative Requirements

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 and Financial Reporting,
- Australian Accounting Standards; and
- Office of Local Government Circulars.

## 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 has in turn delegated the day-to-day management of Council's Investments to the Chief Financial Officer.

Officers providing assistance to the Chief Financial Officer in the day-to-day management of 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.

## **Prudent Person Standard**

Investments 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 portfolio to safeguard the portfolio in accordance with the spirit of this Investment Policy, and not for speculative purposes.

## **Ethics and Conflicts 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.

## **Approved Investments**

Local Government investments are limited to those allowed by the most current Ministerial Investment Order that has been issued by the NSW Minister for Local Government.

The current Ministerial Investment Order, dated 12 January 2011, is attached as **Attachment 1**.

## **Prohibited Investments**

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 other than as permitted by part (d) of the Ministerial Investment Order; 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. This prohibition does not extend to the investment of unexpended loan funds.

## Investment Advisor

The Council's investment advisor is appointed by the General Manager and must be licensed by the Australian Securities and Investment Commission. The advisor must be independent with no actual or potential conflict of interest in relation to investment products being recommended and free to choose the most appropriate product within the terms and conditions of the investment policy.

The independent advisor is required to provide written confirmation that they do not have any actual or potential conflicts of interest in relation to the investments they are recommending or reviewing, including that they are not receiving any commissions or other benefits in relation to the investments being recommended or reviewed (other than as are promptly and fully rebated to Council).

## Risk Management Guidelines

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 invested in 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; and
- Maturity Risk - the risk relating to the length of term to maturity of the investment. Generally, the larger the term, the greater the length of exposure and risk to market volatilities. It should also be noted that larger terms can also protect Council from market risks such as fluctuations in the cash rate.
- Rollover Risk – the risk that income will not meet expectations or budgeted forecasts because interest rates are lower than expected in the future.

The Minister's Order permits investment in any Approved Deposit-taking Institution, through deposits or senior (principal and interest) securities.

Short-dated investments are favoured for greater certainty; however, where appropriate Council will make longer-term investments in accordance with this Policy.

Consequently, Council investments will be placed within the following credit quality and counterparty limits:

### Credit Quality Limits

The portfolio credit guidelines to be adopted will reference the Standard & Poor's (S&P) ratings system criteria and format. However, references to the Minister's Order also recognise Moody's and Fitch ratings and any of the three may be used where available. Where one agency downgrades its rating of a particular ADI, the consensus of the other two agency ratings will be used when judging compliance with limits, however, for conservatism new investments will be judged against the lower.

The maximum holding limit in each rating category, setting the credit quality limits, shall be:

<b>Long Term Rating</b>	<b>Maximum Holding</b>
AAA category	100%
AA Category or Major Bank*	100%
A Category	45%
BBB Category	25%
Unrated ADIs	10%

Where ADIs own multiple banking licences, rating categories are based on the parent entity even if the subsidiary is not explicitly rated.

TCorpIM Cash and Short-Term Income Funds are regarded as AAA and AA credit quality respectively, for the purpose of this policy.

Amounts covered by the government guarantee of \$250k for each ADI will be considered to have sovereign credit rating of the Australian Government with only non-guaranteed components counted towards counterparty exposure.

### Counterparty Limits

Exposure to individual counterparties/financial institutions will be restricted by their rating so that single entity exposure is limited as set out in the table below. It excludes any government guaranteed component of investments, which are unrestricted.

<b>Long Term Rating</b>	<b>Maximum Holding</b>
AAA category	40%

AA Category or Major Bank*	30%
A Category	15%
BBB Category	10%
Unrated ADIs	5%

This table does not apply to any grandfathered investments.

Temporary extensions of these limits may be approved by the Chief Financial Officer in instances where not doing so would materially and adversely affect Council's returns. Such extensions can only be approved if the portfolio returns to compliance with these limits within 30 days. Any such extension will be reported to the Corporate & Works Committee in the monthly report (refer Reporting of Investments below)

\* For the purpose of this Policy, major Banks are defined as:

ANZ Bank  
Commonwealth Bank  
National Australia Bank  
Westpac Bank

*Including ADI subsidiaries and brands.*

\* To the extent that assets are guaranteed by the State or Federal government, no counterparty limit applies, however this does not include TCorpIM Funds.

## Term to Maturity Limits

Council's investment portfolio shall be structured around the time horizon of investment to ensure that liquidity and income requirements are met.

Once the primary aim of liquidity is met, Council will diversify its maturity profile as this will ordinarily be a low-risk method of obtaining additional return as well as reducing the risks to Council's income. However, Council always retains the flexibility to invest as short as required by liquidity requirements or the economic outlook.

The factors and/or information used by Council to determine minimum allocations to the shorter terms include:

- Council's liquidity requirements to cover both regular payments as well as a sufficient buffer to cover reasonably foreseeable contingencies;
- Major capital expenditure forecasts;
- Known grants, assets sales or similar one-off inflows; and
- Seasonal patterns to Council's investment balances.

Term Description	Maturity Profile	Minimum Allocation	Maximum Allocation
------------------	------------------	--------------------	--------------------

Working capital funds	0 – 3 months	10%	100%
Short term funds	3 – 12 months	20%	100%
Short – medium funds	1 – 2 years	0%	70%
Medium term funds	2 – 5 years	0%	50%
Long term funds	5 – 10 years	0%	20%

Within these broad ranges, Council relies on assumptions of expected investment returns and market conditions that have been examined with its investment advisor.

Where a tradeable security is expected to be sold prior to maturity, its expected holding period will be used when assessing its maturity profile.

## Measurement

As Council continues to hold grandfathered investments such as Mortgage Backed Securities, the investment returns and credit quality for the portfolio is to be regularly reviewed by a suitably qualified person or organisation, with no conflicts in respect of the securities in question, by assessing the market value of the portfolio. The market value is to be assessed once a month.

Based on these valuations, Council will bring to account on a quarterly basis the mark-to-market valuation of its floating rate securities issued by ADIs. The valuation of floating rate securities issued by non-ADIs is to be brought to account annually at 30 June.

## Benchmarking

The performance of Council's investment portfolio will be assessed against a readily available and widely used benchmark as set out in the table below.

It is Council's expectation that the performance of each investment will be greater than or equal to the benchmark to justify the investment taking into account its risks, benefits and liquidity.

It is also expected that Council will take due steps to ensure that any investment is executed at the best pricing reasonably possible.

Investment	Performance Benchmark
Cash	Official Cash Rate
Direct Investments	AusBond Bank Bill Index

## Reporting of Investments

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.

Certificates must be obtained from the financial institutions confirming the amounts of investments held on the Council's behalf as at 30 June each year and reconciled to the Investment Register.

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

A monthly report will be provided to Council's Corporate & Works Committee. The report will detail the investment portfolio in terms of performance, credit quality exposure by percentage of total portfolio, maturity date and material changes in market value. The report will also confirm compliance with this Investment Policy and relevant legislation.

## Review of this Policy

This Investment Policy will be reviewed by Council 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 the Council and in the spirit of this policy. Any amendment to the Investment Policy must be by way of Council resolution.

To the extent that the Policy becomes inconsistent with the regulatory framework, the regulations will prevail.

## Documentation/References

	HPECM Reference
Ministerial Investment Order – 12 January 2011	17/210379

## Policy Amendments

Date	Responsible Officer	Description
30 Oct 2017	D Johnston	Investment Policy 15 May 2017 re-adopted by Council
24 June 2019	S Meekin	Investment Policy 24 June 2019

## ANNEXURE 1 – 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