

POLICY NAME: (REVIEW)
INVESTMENTS

POLICY REF: I01

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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 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.
- 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

~~Prudent person: A legal maxim restricting the discretion in a client's account to investments that a prudent person seeking reasonable income and preservation of capital might buy for his or her own portfolio. See attachment from the NSW Trustees Act advising matters to which a prudent must have regard when exercising the power of investment.~~

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

- 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 Policy.

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 the Accountant, 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 ~~to invest surplus funds~~.

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. ~~The matters to which a prudent person shall have regard when making an investment on behalf of another are an attachment to this Policy (Section 14C NSW Trustees Act).~~

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~~ what is 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 organisation that is receiving and using the funds.~~ Also 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 and Poors rating and confirmation/are 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 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); and
- 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.

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; and
- 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.

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, 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 & Poors, Moodys, Fitch).
- 12.2 Council will use Standard and Poors (S & P) long term credit ratings (or Moodys 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 Thresholds - Portfolio Limits		
Credit Rating	Maximum % of Total Portfolio	Exposure to a Single ADI
A or higher	100%	20% of Portfolio
BBB to -A	60%	10% of Portfolio
Unrated ADI	10%	\$1m

13. PERFORMANCE BENCHMARKS

- 13.1 Investment performance will be measured monthly, in relation to both current month and 12 month rolling returns, against relevant benchmarks.
- 13.2 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.

14. REPORTING

- 14.1 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.

- 14.2 The Local Government (General) Regulation 2005 (clause 212-213) 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; and
- a commentary on portfolio performance and other matters of interest.

- 14.3 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.

15. 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.

16. THRESHOLD BREACHES

- 16.1 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.

- 16.2 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.

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- 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.

17. GRANDFATHERING OF INVESTMENTS

Transitional Arrangements

- 17.1 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.
- 17.2 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 ~~without financial loss~~ to Council.

SECTION 14C NSW TRUSTEES ACT

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14C Matters to which trustee is to have regard when exercising power of investment

- (1) Without limiting the matters that a trustee may take into account when exercising a power of investment, a trustee must, so far as they are appropriate to the circumstances of the trust, if any, have regard to the following matters:
- (a) the purposes of the trust and the needs and circumstances of the beneficiaries,
 - (b) the desirability of diversifying trust investments,
 - (c) the nature of, and the risk associated with, existing trust investments and other trust property,
 - (d) the need to maintain the real value of the capital or income of the trust,
 - (e) the risk of capital or income loss or depreciation,
 - (f) the potential for capital appreciation,
 - (g) the likely income return and the timing of income return,
 - (h) the length of the term of the proposed investment,
 - (i) the probable duration of the trust,
 - (j) the liquidity and marketability of the proposed investment during, and on the determination of, the term of the proposed investment,
 - (k) the aggregate value of the trust estate,
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- (l) the effect of the proposed investment in relation to the tax liability of the trust,
 - (m) the likelihood of inflation affecting the value of the proposed investment or other trust property,
 - (n) the costs (including commissions, fees, charges and duties payable) of making the proposed investment,
 - (o) the results of a review of existing trust investments in accordance with section 14A (4).
- (2) A trustee may, having regard to the size and nature of the trust, do either or both of the following:
- (a) obtain and consider independent and impartial advice reasonably required for the investment of trust funds or the management of the investment from a person whom the trustee reasonably believes to be competent to give the advice,
 - (b) pay out of trust funds the reasonable costs of obtaining the advice.
- (3) A trustee is to comply with this section unless expressly forbidden by the instrument (if any) creating the trust.

<http://www.legislation.nsw.gov.au/fragview/inforce/act+14+1925+pt.2-div.2-sec.14c+...> 21/06/2010

CURRENT REVISED-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 2nd day of January 2011


Hon BARBARA PERRY MP
Minister for Local Government