10.4 Policy (Review) - Investments Policy.DOC

POLICY NAME:	INVESTMENTS	
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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

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.

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4. RELATED DOCUMENTATION

 See section 5 on Legislative Authority for Investments and also Council's Delegation Register.

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.

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.

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 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 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 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.

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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.
- classification as to whether the institution holding the investment is fossil fuel aligned or not.

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

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 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.
- Reputational and Environmental Risk the risk of damage to Council's image and/or risk to the environment resulting from Council taking out investments with institutions who are known to fund fossil fuel activities.

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.

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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 Maximum % of Exposure to a Rating Total Portfolio ADI		Exposure to a Single ADI		
A or higher	100%	20% of Portfolio		
BBB to -A	60%	10% of Portfolio		
Unrated ADI	10%	\$1m		

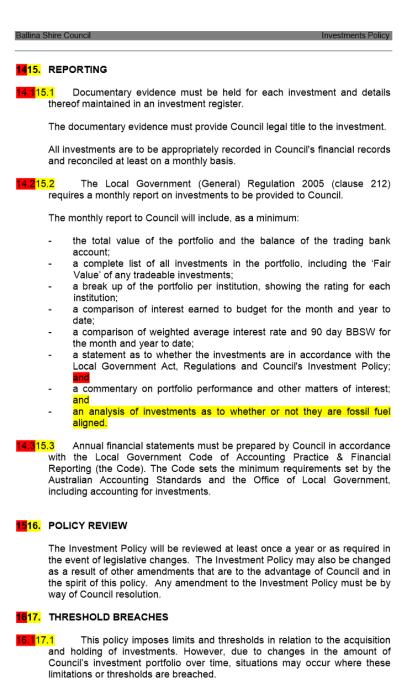
13. REPUTATIONAL AND ENVIRONMENTAL CONSIDERATIONS

13.1 Where possible (but subject to obtaining a comparable return and compliance with the other investment policy parameters), the investing officer will place the investment with an institution which has been classified as non-fossil fuel aligned. This classification shall be as per current information available from Market Forces (www.marketforces.org.au).

13 14. PERFORMANCE BENCHMARKS

- **3.114.1** Investment performance will be measured monthly, in relation to both current month and 12 month rolling returns, against relevant benchmarks.
- 3.214.2 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.

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217.2 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:

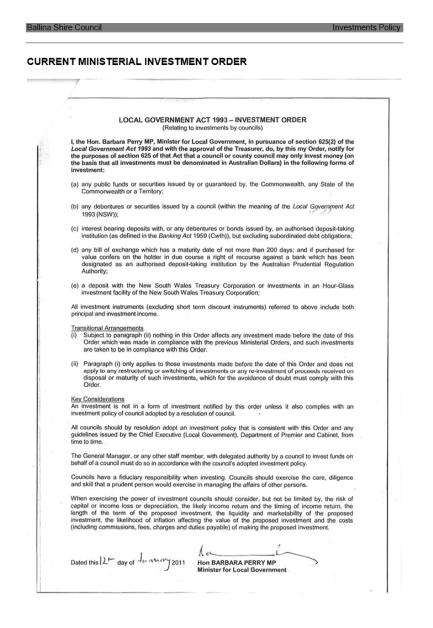
- Details of any breach to be reported to Council in the monthly report immediately following the breach.
- Immediate forced sale of the investments in breach of the limits or thresholds will not be required unless, in the General Manager's or Council's opinion that such sale is necessary to protect the value of the overall investment portfolio.
- 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.

1718. GRANDFATHERING OF INVESTMENTS

Transitional Arrangements

- 718.1 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.
- 218.2 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 to Council.

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