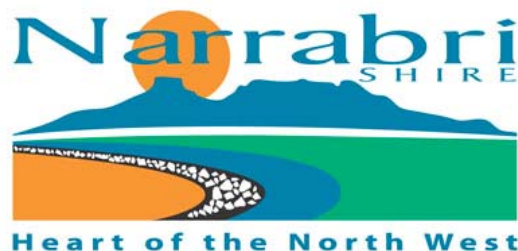


# INVESTMENT POLICY

**Responsible Department:** Corporate Services  
**Responsible Section:** Financial Services  
**Responsible Officer:** Senior Finance Officer



## Objective

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 its liquidity requirements are being 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 the safeguarding of 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.

## Policy

### 1. Legislative Requirements

All investments are to comply with the following:

- Local Government Act 1993;
- Local Government (General) Regulation 2005;
- The current Ministerial Investment Order;
- NSW Trustee Act, 1925;
- Local Government Code of Accounting Practice and Financial Reporting;
- Australian Accounting Standards;
- Office of Local Government Circulars; and
- Office of Local Government Investments Guidelines.

### 2. 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 Investment to the Responsible Accounting Officer or senior staff.

Officers with delegated authority to manage Council's investments shall be recorded and shall be required to acknowledge they have received a copy of this Policy and understand their obligations.

The General Manager, or any other staff member with authority delegated to invest funds on behalf of Council, must do so in accordance with the Council's adopted Investment Policy.

### **3. Prudent Person Standard**

Council's investment portfolio 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, and not for speculative purposes.

### **4. 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.

### **5. Approved Investments**

Investments made after the adoption of this Investment Policy are limited to those allowed by the most current Ministerial Investment Order issued by the NSW Minister for Local Government and include:

- Commonwealth/State/Territory Government securities.
- Interest bearings deposits issued by an authorised deposit-taking institution (ADI).
- Bills of exchange, (< 200 days duration), guaranteed by an authorised deposit-taking institution (ADI).
- Debentures issued by a Council (within the meaning of the Local Government Act).
- Deposits with NSW Treasury &/or Investments in TCorp's Hour Glass Facility.
- Investments grandfathered under the previous Ministerial Investment Order.

### **6. Investments Held Under A Previous Ministerial Order**

Councils may continue to hold to maturity, redeem or sell investments that comply with previous ministerial Investment Orders. Any new investments must comply with the most current Order.

This provision, known as "grandfathering", also applies to dividends from investments that are considered to be non-complying where a council had not made arrangements prior to the release of the amended Order to reinvest the income stream into the now non complying investment as part of a dividend reinvestment plan.

It should be noted that any restructure or switch to new investment products must comply with the current Order and be on a market value basis.

## 7. 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 including subordinated debt obligations;
- Principal only investments or securities that provide potentially nil or negative cash flow;
- Stand-alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind;
- Land mortgage; and
- Deposits with Local Government Investment Services Pty Ltd.

This Policy also prohibits the use of leveraging (borrowing to invest) of an investment.

## 8. 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 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. The larger the term, the greater the length of exposure and risk to market volatilities.

The amount invested with any one financial institution, in accordance with their Standard & Poors rating, should not exceed the following percentages of total funds invested by Council:

<b>Long Term Rating (Standard &amp; Poors)</b>	<b>Short Term Rating (Standard &amp; Poors)</b>	<b>Maximum Percentage of Total Investments</b>
AAA to AA-	A1+	50%
A+ to A-	A1	40%
BBB+ to BBB-	A2	20%
Not Rated	Not Rated	10%

If any of Council’s investments are downgraded such that they no longer fall within these Investment Policy guidelines, they will be divested as soon as is practicable.

In regards of length of term to maturity, the following limits should be adhered to:

<b>Overall Portfolio term to Maturity Limits</b>	
<b>Term</b>	<b>Maximum % of Portfolio Invested</b>
Up to 1 year	100%
1 year to 3 years	30%
Over 3 years	10%

Note. Investments that have been “grandfathered” under changes to Legislative Requirements and/or changes to Council’s Investment Policy are not included in the Overall Portfolio Term to Maturity Limits of this Policy.

## **9. Investment Advisor**

Investment advisors engaged by Council must be licensed by the Australian Securities and Investment Commission. The advisor must be an independent person who has no actual or potential conflict of interest in relation to investment products being recommended and is 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.

## **10. Measurement**

As Council continues to hold grandfathered investments such as Collateralised Debt Obligations (CDOs), the investment returns for the portfolio is to be regularly reviewed by an independent financial advisor 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.

## **11. Benchmarking**

The following performance benchmarks are established and are based on sound and consistent methodology.

<b>Investment</b>	<b>Performance Benchmark</b>
Cash	11am Cash Rate
Cash Enhanced / Fixed Interest	Australian Reserve Bank Cash Rate
Total Portfolio	90 day Bank Bill Rate

## **12. Reporting and Reviewing 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 the 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 at least on a monthly basis.

A monthly report will be provided to Council. The report will detail the investment portfolio in terms of performance, percentage exposure of total portfolio, maturity date and changes in market value. The report should also contain certification by the Responsible Accounting Officer that all investments have been made in accordance with section 625 of the *Local Government Act 1993*, clause 212 of the *Local Government (General) Regulation 2005* and Council's Investment Policy.

### **13. Policy Revision**

This Investment Policy will be reviewed 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.

## **References**

- Local Government Act 1993;
- Local Government (General) Regulation 2005;
- The Current Ministerial Investment Order;
- NSW Trustee Act, 1925
- Local Government Code of Accounting Practice and Financial Reporting;
- Australian Accounting Standards; and
- Office of Local Government Circulars;
- Office of Local Government Investments Guidelines.

## **History**

<b>MINUTE NUMBER</b>	<b>MEETING DATE</b>	<b>DESCRIPTION OF CHANGE</b>
204/2003	20 May, 2003	Adopted
5/2006	21 February, 2006	Adopted
576/2007	21 August, 2007	Adopted
103/2010	16 March 2010	Adopted
26/2012	21 February 2012	Reviewed
75/2013	19 February 2013	Reviewed
39/2016	16 February 2016	Amended and Adopted