

COUNCIL POLICY



Policy name	Investments
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Abstract To provide an overarching framework for the investing of Council's funds at the most favourable rate of return available to it at the time, whilst giving due consideration to risk and security parameters and ensuring that Council's broader liquidity requirements are met.
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Dates	Policy or amendment approved 20 Jun 2018 Policy or amendment takes effect 20 Jun 2018 Policy is due for review (up to 4 years) 20 Jun 2022
Endorsed by	Chief Financial Officer
Approved by	Gunnedah Shire Council, at its Ordinary Meeting of Council held Wednesday 20 June 2018. Resolution number: 15.06/18
Policy Custodian	Responsible Accounting Officer (RAO)
Relevant to	Council's elected members, General Manager, Chief Financial Officer, Council staff and the Gunnedah community.
Superseded Policies	Minute 215.3 of Ordinary Meeting 20 April 2011
Related documents	Council's IP&R, Risk Management and Procurement and Tendering Frameworks, Council's Code of Conduct and Delegation Instruments.
Related legislation	Local Government Act 1993 (NSW), Local Government (General) Regulation – 2005, Order of the Minister – 12 January 2011, Local Government Code of Accounting Practice and Financial Reporting, Australian Accounting Standards, Division of Local Government – Investment Policy Guidelines – May 2010, The Trustee Amendment Act (Discretionary Investments) (No102) 1997 – Sections 14A (2), 14C (1) & (2).
File number	1240724

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1. Purpose

The purpose of this Policy is to provide a framework for the investing of Council's funds that ensures compliance with all legislative requirements and gives due attention to:

- i) The manner in which funds can be invested;
- ii) Risk profile considerations for investment categories;
- iii) Institutions Council may invest in; and
- iv) Reporting requirements of Council's portfolio.

In implementing the framework, Council aims to achieve 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.

2. Scope

- 2.1 This Policy applies to Council's elected members, General Manager, Responsible Accounting Officer and Council officers who, under delegated authority undertake or are involved in the investment of Council's funds.
- 2.2 It pertains to all investment processes and activities undertaken by Council.
- 2.3 This Policy is to be read and used in conjunction with all applicable legislation and all other relevant Council Policies and/or Directives.

3. Definitions

Term	Definition
Act	Local Government Act 1993.
ADI	(Authorised Deposit Taking Institution) - a corporation authorised under the Australian Banking Act 1959. ADIs include banks, building societies and credit unions.
Credit risk	The risk that Council has invested in an institution which fails to pay the interest or repay the principal of an

	investment.
Diversification	Setting limits to the amounts invested with a particular financial institution or government authority to reduce credit risk.
Liquidity Risk	The risk that Council is unable to redeem the investment at a fair price within a timely period.
Market Risk	The risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices.
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.
Non Rated Category	An Australian Prudential Regulation Authority defined ADI that does not currently have a credit rating.
Preservation of Capital	The requirement for preventing losses in an investment portfolio's total value (considering the time value of money)
Prudent Person	Someone with appropriate expertise, who will manage the investment portfolio in a skilful, diligent and careful manner. They always exercise due care in making decisions and act in moderation.
Regulations	Local Government (General) Regulation 2005.
Standard & Poor's (S&P)	A professional organisation that provides analytical services. An S&P rating is an opinion of the general creditworthiness of an obligator to particular debt security or other financial obligation – based on relevant risk factors.
TCorp	NSW Treasury Corporation.

4. Policy principles

Council has a duty to carry out its functions in a way that provides the best possible value for its residents and ratepayers and an obligation to consider the long term and cumulative effects of its actions on future generations.

Council is committed to managing the investment of ratepayers' funds in compliance with Council's charter as well as in accordance with all applicable legislation and recognised best financial management practices.

Council's investment framework is to act as a key component of its strategic community and financial plans and will ensure mechanisms are in place to facilitate the open and transparent reporting of Council investments.

When exercising the power to invest, consideration is to be given to the following:

(a) Preservation of the real value of capital

This is the principal objective of Council's 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.

(b) Liquidity

Investment allocation should be undertaken to ensure sufficient liquidity to meet 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.

(c) The return of investment

Investments are expected to achieve a market average rate of return in line with Council's risk parameters.

5. Policy statement

5.1 Legislative requirements

All investments are to comply with the following:

- Local Government Act 1993 (NSW) Sections 412, 413 and 625;
- Local Government (General) Regulation 2005 (NSW);
- Prevailing Ministerial Investment Order;
- Local Government Code of Accounting Practice & Financial Reporting;
- Division of Local Government Investment Circulars;
- Australian Accounting Standards; and
- The Trustee Amendment Act (Discretionary Investments)- No102-1997 – Sections 14A (2), 14C (1) & (2).

5.2 Approved investments

All investments must be denominated in Australian Dollars and are limited to those allowed by the most current Investment Order issued by the NSW Minister for Local Government. A copy of the current Ministerial Investment Order is attached to this Policy as "Annexure A".

5.3 Legal title

When entering into a financial instrument, the instrument must clearly demonstrate that it is held in the registered name of Council.

5.4 Prohibited investments

In accordance with the Ministerial Investment Order, this Investments 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.

5.5 Investment Advisor

If it is deemed required to engage an investment advisor, then any such individual engaged 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 for Council within the terms and conditions of this policy.

Any independent advisor is required to provide written confirmation that they do not have any actual or potential conflicts in relation to the investments they are recommending or reviewing, including that they are not receiving any commissions or benefit/beneficial treatment of any kind in relation to the investments being recommended or reviewed.

Alternatively as per the Circular issued by the NSW Office of Local Government in October 2017, the above provisions are waived to the extent that Council engages TCorp in the provision of investment advice. TCorp has in place a robust Conflicts Management Policy which will apply to any advisory services provided to Council.

Any advisory services are to be engaged in- line with Council's Procurement and Tendering Policy.

5.6 Risk management

Investments are expected to achieve a market average rate of return in line with the Council's risk parameters and are to be considered in light of the following:

- (i) Preservation of Capital;
- (ii) Diversification;
- (iii) Issuer/Credit risk;
- (iv) Market risk;
- (v) Liquidity risk;
- (vi) Maturity risk; and
- (vii) Interest rate risk.

Risk management will be achieved within the identified thresholds and parameters represented below:

5.6.1 Overall Counterparty & Portfolio Limits

The portfolio credit guidelines tabled below reference the Standard & Poor's (S&P) rating system criteria and format however Moody's/Fitch ratings may also be used where available. To control credit quality of the portfolio and exposure to individual ADIs or government authority, the following credit framework limits apply:

Individual Institution of Counterparty Limits		
Long Term Credit Rating	Maximum exposure of portfolio	Maximum exposure to any one institution
AAA+ to AAA-	100%	30%
AA+ to AA-	80%	30%
A+ to A-	70%	20%
BBB+ to BBB	50%	20%
Non Rated	0%	0%
Government	100%	100%

5.6.2 Maturity Risk Framework

The investment portfolio is to be managed within the following maturity constraints in order to manage maturity risk and limit liquidity risk, whilst also allowing for diversification of the portfolio:

Investment Description	Maturity Date	Minimum Allocation	Maximum Allocation
Working Capital	0 – 3 Months	5%	30%
Short Term	3 – 12 Months	5%	50%
Short – Medium Term	1 – 2 Years	5%	50%
Medium Term	2 – 5 Years	5%	40%
Long Term	5+ Years	0%	30%

5.7 Quotations on investment

Council, wherever possible, should obtain not less than three (3) quotations from authorised institutions when sourcing and proposing investments. The highest rate alone should not always be accepted by Council, but rather, the investment which delivers the best overall value to Council. Reasons for decisions should be documented.

5.8 Liquidity requirements

Delegated Council officers are to ensure that combined sufficient funds are retained within Council's operating accounts and high interest account to meet creditor payments as they fall due.

5.9 Performance benchmarks

5.9.1 The performance of the investment portfolio is to be measured against industry standard:

Investment	Performance Benchmark
Cash	11am Cash Rate
Direct Investments	AFMA BBSW Rate: Average Mid-90 day

5.9.2 Investment performance shall be included within monthly reporting to Council (see Clause 5.10.2).

5.10 Review and reporting of investments

5.10.1 *Investment Register*

Documentary evidence must be held for each investment and details thereof maintained in an Investment Register.

5.10.2 *Monthly Reporting*

Council must comply with Clause 212 of the Regulations, which requires that a written report (setting out details of all the money that Council has invested under Section 625 of the Act) is presented to the ordinary monthly meeting. The report must be made up to the last day of the month immediately preceding the meeting and include a certificate as to whether or not the investment has been made in accordance with the Act, Regulations and Council's Investments Policy.

5.10.3 *Annual Reporting*

Council is required to account for its investments in its annual financial statements in accordance with the current Local Government Code of Accounting Practice and Financial Reporting.

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

5.10.4 *Review*

This Investment Policy is to be reviewed every four (4) years or as required in the event of legislative or other changes. The 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.

5.11 Prudent person standard

Council's investment portfolio is to be managed with the care, diligence and skill that a prudent person would exercise in managing the affairs of other persons. As trustees of public monies, Council officers are to manage Council's investment portfolio to safeguard the portfolio in accordance with the spirit of this Investments Policy and not for speculative purposes.

5.12 Ethics and conflicts of interest

5.12.1 Council officers shall refrain from decision making activities that could be perceived as being in conflict with proper management and decision making in relation to this Policy.

5.12.2 Disclosure of any conflict of interest is to be made in accordance with the procedures as set out in Council's Code of Conduct.

5.12.3 Independent advisors are also required to declare, prior to engagement or as circumstances arise, any actual or perceived conflict of interest.

6. Accountability, Roles & Responsibilities

6.1 Policy Custodian

Council's designated Responsible Accounting Officer (RAO) is the Custodian of this Investment Policy.

6.2 Roles and Responsibilities

6.2.1 Elected Council

The role of the elected Council is to direct and control the affairs of Council in accordance with the Act. This includes the adoption of an Investment Policy that guides the investment of surplus public funds (and any subsequent amendments) by way of resolution.

6.2.2 General Manager

The General Manger (through her/his delegates) is responsible for implementing and ensuring adherence with this Investment Policy.

6.2.3 Responsible Accounting Officer (RAO)

Responsibilities for:

- The oversight and management of Council's Investment portfolio;
- The provision of reporting to Council (as per Clause 5.10.2); and
- The monitoring and review of this Investments Policy.

6.2.4 *Delegated Council officers*

A number of Council officers are authorised to be involved in the lodgement, redemption and/or other transactions and decision making concerning Council investments. These officers are those nominated per Council's current delegation instruments and are considered to have the appropriate skills, expertise and care to undertake the investment functions of Council.

All delegated officers are responsible for working in accordance with their level of delegated authority as well as complying with the principles and processes outlined within this Investments Policy.

Council officers are expected to read this Policy carefully so as to ensure that they are well aware of their responsibilities and processes to which they are to conform. Non-compliance with this Policy may result in disciplinary action being taken.

7. **Acknowledgements**

The following acknowledgements are made recognising institutions or documents that have provided a basis, instructive comment or templates that have been used to develop Council's Investments Policy:

- (a) Department of Premier and Cabinet, Division of Local Government, Investment Policy Guidelines May 2010;
- (b) Office of Local Government Circular No 17-29/10 October 2017;
- (c) Various Councils - Investment Policies.

8. **Version control and change history**

Date	Version	Approved by & resolution no.	Amendment
May 2018	V2.0		.

9. Annexures

Annexure A – Ministerial Investment Order dated 12 January 2011.

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.

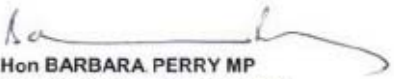
All councils should by resolution adopt an investment policy that is consistent with this Order and any guidelines issued by the Chief Executive (Local Government), Department of Premier and Cabinet, from time to time.

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 12th day of January 2011


Hon BARBARA PERRY MP
Minister for Local Government