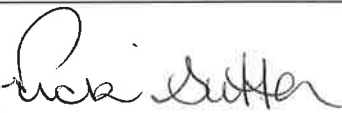





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## Investment Policy

	Name	Position	Signature	Date
Responsible Officer	Vicki Sutton	Finance Manager		19.9.18
Authorised By	Craig Moffitt	General Manager		18-09-18

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### Change History

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### Related Documents

Document Title
Local Government Act 1993
Local Government (General) Regulation 2005
Government Information (Public Access) Regulation 2009
Trustees Act 1925

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## Purpose and Objectives

The purpose of this policy is to provide a framework for investing surplus Council funds at the most favourable rate of interest, whilst having due consideration to the capital preservation, investment return, risk and security profile of the investment type, liquidity, security and risk requirements of the Murrumbidgee Council. These elements are defined as:

1. Preservation of capital is the principal objective of Council's investment portfolio. Investments are to be placed in a manner that safeguards the investment portfolio. This includes managing credit and interest rate exposure risk within identified thresholds and parameters;
2. 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 significant costs due to the unanticipated sale of an investment; and
3. Investments are expected to achieve a market average rate of return in line with Council's risk tolerance.

Therefore, Council has several primary objectives for its investment portfolio:

1. Compliance with legislation regulations, the prudent persons test of the *Trustee Act 1925 (NSW)* and best practices guidelines;
2. The preservation of the amount invested;
3. To ensure there is sufficient liquid funds to meet all reasonably anticipated cash flow requirements; and
4. To generate income from the investment that exceeds the performance benchmarks mentioned later in this document.

## Legislative Requirements

All investments must comply with the following:

1. *Local Government Act 1993*;
2. Part 2 – Government Information (Public) Access Regulation 2009;
3. Local Government (General) Regulation 2005 – Clause 212;
4. Ministerial Investment Order – dated 12 February 2011;
5. *Trustee Act 1925 (NSW)*;
6. Office of Local Government (OLG) Investment Guidelines – Section 5;
7. Local Government Code of Accounting Practice and Financial Reporting;
8. Australian Accounting Standards (AASB 7, 132, 136 and 139); and
9. Department of Local Government Circulars.

## **Delegation of Authority**

Authority for implementing the Investment Policy is delegated by Council to the General Manager in accordance with the *Local Government Act 1993*.

The General Manager has authority to invest surplus funds and may delegate this function to the Responsible Accounting Officer (FAO) to ensure adequate skill, support and oversight. Officers investing funds on behalf of Council must do so in accordance with this Policy.

Officers delegated authority to administer and/or manage Council's investment shall be recorded and required to acknowledge they have received a copy of this Policy and understand their obligation in this role. Adequate controls are in place to safeguard Council's assets, such as the separation of duties in relation to authorising and executing transactions through the requirement of two authorised signatories for each transaction.

The General Manager, or his/her delegated representative, have the authority to approve variations to this Policy if the investment is to Council's advantage and/or due to revised legislation or a change in market conditions. Any variations to the Policy will be reported to Council at the next possible meeting.

## **Prudent Person Standard**

The 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 as soon as they arise.

Independent investment advisors engaged on a fee paying basis are also required to declare that they have no actual or perceived conflicts of interest.

## **Approved Instruments**

All investments must be denominated in Australian Dollars. Investments are limited to those allowed by the Ministerial Order and include:

1. Council may invest funds with Authorised Deposit-Taking Institutions (ADIs) guaranteed under the Financial Claims Scheme
2. Commonwealth/State/Territory Government security e.g. Bonds or Debentures;
3. Debentures issued by NSW Local Government;

4. Interest bearing deposits issued by a licensed bank, building society or credit union (which for new investments must be senior/first ranking);
5. Investment with NSW Treasury Corp/Hourglass Investment Facility;
6. Bills of Exchange (<200 date duration), guaranteed by an Authorised Deposit-taking Institution (ADI); and
7. Investments grandfathered under the previous Ministerial Investment Order

## Prohibited Investments

This Investment Policy prohibits any investment carried out for speculative purposes including, but not limited to:

1. Derivative based instruments (e.g. Collateralised Debit Obligations);
2. Principal only investments or securities that provide potentially nil or negative cash flow; and
3. Standalone 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. However, nothing in this policy shall prohibit the short term investment of loan proceeds where the loan is raised for non-investment purposes and there is a delay prior to the spending occurring.

## Risk Management

Investments obtained are to be considered in light of the following key criteria:

1. *Preservation of Capital* – the requirement for preventing losses in an investment portfolio's total value;
2. *Credit risk* – the risk that a party or guarantor to a transaction will fail to fulfil its obligations. In the context of this document, it relates to the risk of loss due to the failure of an institution/entity with which an investment is held, to pay the interest and/or repay the investment principal;
3. *Diversification* – the requirement to place investments in a broad range of products so as not to be overexposed to a particular sector of the investment markets;
4. *Liquidity Risk* – the risk an investor runs out of cash, is unable to redeem investment at a fair price within a timely period and thereby incurs additional costs (or in the worst case, is unable to execute its spending plans);
5. *Market Risk* – the risk that fair value of future cash flows will fluctuate due to changes in market prices or benchmark returns will unexpectedly overtake the investment's return;
6. *Maturity Risk* – the risk relating to the length of term to maturity of the investment. The longer the term, the greater the length of exposure and risk to market volatilities; and
7. *Rollover risk* – the risk that income will not meet expectation or budgeting requirement because interest rates are lower than expected in the future.

## **Investment Advisor and/or Advisory Services**

Council may use the services and/or seek advice of a suitable qualified and experienced investment advisor for the purposes of achieving this Policy's objectives. Council has a fiduciary responsibility, when investing, to exercise the care, diligence and skill that a prudent person would exercise in managing the affairs of other persons.

Section 5 of the Office of Local Governments' Investment Policy Guidelines, requires Councils Investment Advisor must be approved by Council and licenses by the Australian Securities and Investment Commission. The advisor must be independent and confirm in writing that they have 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 condition of the Investment Policy. This includes receiving a declaration in writing that they are not receiving any commission or other benefits in relation to the investment being recommended or reviewed. Council must also undertake separate reference checks of advisors.

The NSW Government has provided a waiver to certain provisions within OLG's Investment Policy guidelines to allow councils to engage the NSW Treasury Corporation (TCorp), in the provision of investment advice. The Section 5 requirements are waived to the extent that, councils who wish, and do seek investment advice and/or engage the (TCorp) to provide advice about investments and as part of their financial and strategic planning processes. The waiver applies only to TCorp and recognise its unique position as a public sector financial service provider.

## **Safe Custody Arrangements**

Investments may be held in safe custody on Council's behalf, as long as the following criteria are met:

1. A Safe Custody agreement is in place setting out the obligation of the custodian
2. Council retains beneficial control and ownership of all investments
3. Adequate documentation is provided verifying the existence of the investment
4. The Custodian conducts regular reconciliation of records with relevant registries and/or clearing systems
5. The Custodian has an AFS licence issued by ASIC that explicitly covers custodial services

The Institution or Custodian recording and holding the assets will be:

1. Austraclear;
2. An institution with an investment grade Standard and Poor's or Moody's rating; or

3. An institution with adequate insurance including professional indemnity insurance and other insurances considered prudent and appropriate to cover its liability under any agreement

## **Individual Institution or Counterparty Limits**

Exposure to individual counterparties/financial institutions will be restricted by their ratings so that single entity exposure is limited, as detailed in Table 1 below. It excludes any government guaranteed investments.

*Table 1: Individual Institution or Counterparty Limits*

<b>Long Term Rating</b>	<b>Short –Term Credit Ratings</b>	<b>Limit</b>
AAA Category	A-1+	40%
AA Category	A-1+	30%
A Category	A-2	14%
BBB Category	A-3	10%
Unrated Category	Unrated	5%

## **Investment/Portfolio Strategy – Term to Maturity and General Constraints**

Council will comply with appropriate accounting standards in valuing its investment and quantifying its investment returns. In addition to recording investment income according to accounting standards, Council will also produce regular reporting showing a breakdown of its duly calculated investment return into realised and unrealised capital gains, losses and interest.

Other relevant issues will be considered in line with relevant Australian Accounting Standards including discount or premium, designations, as held to maturity or on fair value basis and impairment.

Due to significant developments in the ranges and complexity of available investments in recent years, credit rating alone cannot be considered a consistent indicator of risk across different investment types. That is to say, a cash based managed fund with a credit rating of AA does not have the same risk profile as a structured investment with an AA rating and principal only. In order to provide a more effective risk management framework, this Policy sets out different exposures and duration limits for different investment categories. Percentage limits in the following tables refer to percentage of the total portfolio

## **Credit Quality (Class A) Investments Target and Limits**

Quality or Class A investments, are defined as security for which an institute with a rating meeting or referencing the Standard and Poors (S&P) rating system criteria and format and/or Moody's and Fitch as recognised in the Ministerial Investment Order dated 12 January 2011, guarantees the total return of the security. Any of the three ratings may be used where available. For example, capital and income



(or in the case of a floating rate security, a fixed margin above a floating benchmark). Structured security and subordinate debt securities are explicitly **NOT** Class investments unless this can be justified from their market valuations, as set out below.

Typical examples of Class A or Credit Quality investments would be Term Deposits, Bank Bills and senior Floating Rate Notes offered by major banks and other well rated corporations.

The features of the security are to be consistent with the time horizon, risk parameters and liquidity requirements of the Council. Investments with counterparties **below** A Category (Long Term), are restricted to licenced banks, building societies and credit unions and must not exceed 75% of the portfolio in total. The maximum holding limit in each rating category and the target credit quality or Class A Investment weighting for Council's portfolio shall be:

Long Term Credit Rating	Short Term Credit Rating	Maximum Percentage by Credit Rating	Maximum Duration
AAA	A-1+	100%	5 years
AA+-AA-	A-1	100%	4 years
A+-A-	A-2	60%	3 years
BBB & Unrated ADIs	A-3	40%	1 year

## Term to Maturity Limit

Council's investment portfolio shall be structured around the investment time horizon to ensure that liquidity and income requirements are met. Once the primary aim of liquidity is met, Council will ordinarily diversity its maturity profile as this will usually be a low-risk source of additional return which also reduces Council income volatility. However, Council retains the flexibility to invest as required by internal requirements or the economic outlook.

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

1. Councils liquidity requirements to cover both regular payments and sufficient buffer to cover reasonably foreseeable contingencies;
2. Medium term financial plans and major capex forecasts;
3. Know grants, asset sales or similar one-off inflows; and
4. Seasonal patterns to Council's investment balances.

Council's investment portfolio is to be invested with the following term to maturity constraints.

<b>Investment Horizon Description</b>	<b>Investment Horizon Maturity Date</b>	<b>Minimum Allocation</b>	<b>Maximum Allocation</b>
Working Capital funds	0-3 months	10%	100%
Short Term Funds	3-12 months	20%	100%
Short-Medium Term	1-3 years	0%	5%
Medium Term Funds	3-4 years	0%	5%
Long Term Funds	4-5 years	0%	5%

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

## General

### 1. Changes in Credit Ratings

If any of Council's investment are downgraded such that they no longer fall within these investment policy guidelines, they will be divested as soon as is practicable

### 2. Accounting for Premiums and Discounts

From time to time, financial assets may be acquired at a discount or premium to their face value. Any such discount or premium is to be taken into account in line with the relevant Australian Accounting Standard(s).

## Performance Benchmarks

<b>Investment Type</b>	<b>Performance Benchmark</b>
Cash	11 am Cash Rate
Cash Enhanced/Direct Investments	UBSWA Bank Bill Index
Fixed Interest	UBSA Composite Bond Index
Diversified Funds	CPI + appropriate margin over rolling 3 year periods (depending on fund composition)

## Ethical and Socially Responsible Investments

Ethical and socially responsible investments (SRIs) are a means for investors (including Council) to support their principles and take into account, consideration other than just the financial return potential of particular investments. In addition to normal risk assessment, investments can be further evaluated in terms of environment, social and governance issues. A number of independent

organisations have been established to evaluate and rate companies according to these criteria.

Subject to compliance with government legislation and the outlined investment strategic objectives, Council supports investments in Ethical or Socially Responsible Investments.

In recognition of the significant community role, support and activities undertaken within the Council area, Council deems it appropriate that twenty percent (20%) of its investment portfolio is to be invested with the Coleambally Community Bank.

## **Non-Financial Factors**

When assessing an investment opportunity as part of the prudent person rule, there will always be a number of factors which are not easily quantifiable that should be considered. These factors may lead to Council accepting a lower rate of return on a particular investment. Staff who make such decision should document the reasons to support their decision. This will ensure accountability and transparency and enable those reason to be identified at a later date.

The highest rate should not always be accepted. Instead, the investment which delivers the best value to Council should be selected This allow staff to include other factors when choosing an investment. Factors which may be considered when choosing investments include:

1. Transaction costs
2. Ease of making transactions
3. Ability to swap funds
4. Level of service from an institution
5. Benefit to local government
6. Liquidly terms
7. Reduced costs to other services
8. Choosing ethical and socially responsible investment

## **Reporting and Reviewing of Policy and Investments**

Documentary evidence must be recorded and held for each investment and details maintained in an Investment Register. The documentary evidence must provide Council with legal title to the investment.

Certificates must be obtained from the financial institution confirming the amounts of all 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 prepared 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 (i.e. investment income earned versus budget year to date and relevant performance benchmarks as outlined in this policy), percentage exposure of total portfolio, maturity date and changes in market value.

The Investment Policy will be reviewed at least once a year, or as required in the event of legislative changes and/or significant changes to market conditions. 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 align with 'Delegation of Authority' provisions of this Policy and be ratified by Council resolution.

For audit purposes, certificates must be obtained from the banks/fund managers/custodian confirming the amounts of investment held on Council's behalf as at 30 June each year.

In accordance with Section 413 of the *Local Government Act 1993*, Council must recognise, measure and disclose investments in accordance with the publication(s) issued by the Australian Accounting Standards Board; the Local Government Code of Accounting Practice and Financial Reporting; and Australian Accounting Standards AASB 7 - Financial Instruments Disclosures, AASB 132 - Financial Instruments; Presentation, AASB 136 - Impairment of Assets and AASB 139 - Financial Instruments Recognition and Measurement.

## Definitions

<b>Act</b>	<i>Local Government Act 1993</i>
<b>ADI</b>	Authorised Deposit Taking Institutions (ADIs) are corporations that are authorised under the Banking Act 1959 (Commonwealth) to take deposits from customers.
<b>Bill of Exchange</b>	Is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed, to pay on demand, or at a fixed or determinable future time, a certain sum of money to or to the order of a specified person, or to bearer.
<b>BBSW</b>	The Bank Bill Swap reference rate (BBSW) is the average of mid-rate bank bill quotes from brokers on the BBSW Panel. The BBSW is calculated daily. Floating rate securities are most commonly reset quarterly to the 90 day BBSW.
<b>Council Funds</b>	Surplus monies that are invested by Council in accordance with section 625 of the Act.

<b>Debentures</b>	A Debenture is a document evidencing an acknowledgement of a debt, which a company has created for the purpose of raising capital. Debentures are issued by companies in return for medium and long-term investment of funds by lenders.
<b>FRN</b>	A Floating Rate Note (FRN), is a medium to long term fixed interest investment where the coupon is a fixed margin (Coupon margin) over a benchmark, also described as a floating rate. The Benchmark is usually the BBSW and is set at regular intervals – usually quarterly.
<b>Grandfathered</b>	Investments held by Council that were previously allowed under the Minister's Order but were grandfathered (i.e. eligible to retain but not add to or restructure existing investments), when the NSW State Government changed the list of approved investments as a result of the Cole Inquiry and reflected in the Ministerial Order dated 31/7/2008
<b>IPS</b>	The Investment Policy Statement provides the general instrument goals and objectives of Council and describes the strategies that must be employed to meet those objectives. Specific information on matters such as asset allocation, risk tolerance and liquidity requirements are also included in the IPS.
<b>LGGR</b>	Local Government (General) Regulation 2005 (NSW)
<b>NCD</b>	Is a short term investment in an underlying security being a negotiable certificate deposit (NCD) where the term of the security is usually for a period of 185 days or less (Sometimes up to 2 years). NCDs are generally discount securities, meaning they are issued and on sold to investors at a discount to their face value.

<b>OLG</b>	NSW Office of Local Government, Department of Premier and Cabinet
<b>RAO</b>	Responsible Accounting Officer of a council means a member of the staff of the council designated by the General Manger, or if no such member has been designated, the General Manager. (LGGR – Clause 196)
<b>T-Corp</b>	NSW Treasury Corporation
<b>UBSA BBI</b>	UBS Australian calculates a daily <i>Bank Bill Index</i> representing the performance of a notional rolling parcel of bills averaging 45 days