



INVESTMENT POLICY

Summary:

This Policy incorporates the provisions of Section 625 of the Local Government Act 1993, the Local Government Regulations, the Investment Policy Guidelines and the current Ministerial investment Order at 11 February provide a framework for the safe investment of Council's surplus.

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Related Legislation	Local Government Act 1993 Local Government Regulations Investment Policy Guidelines Ministerial Investment Order
Delegations of Authority	Chief Corporate Officer & Manager Finance & Technology

1. Preamble

This policy incorporates the provisions of Section 625 of the Local Government Act 1993, the Local Government Regulations, the Investment Policy Guidelines and the current Ministerial Investment Order at 11 February 2011.

2. Definitions

- Bloomberg Ausbond Bank Bill Index (the) is an index comprised of 13 synthetic instruments defined by rates interpolated from the RBA 24-hour cash rate and the one and three month Bank Bill Swap Rates.
- Authorised Deposit-taking Institutions (ADIs) are corporations authorised under the Bank Act 1959 (Cwth) to take deposits from customers. ADI's include banks, building societies and credit unions all of which are regulated by the Australian Prudential Regulation Authority.
- Bank Bill Swap Rate is the compilation and average rate of market rates supplied by domestic banks relating to multiple maturities of bank bills.
- Bill of Exchange (a) 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 sum certain in money to or to the order of a specified person, or to bearer.
- Debenture (a) is a debt security usually secured by a fixed or floating charge over an underlying asset or pool of assets. Debentures are normally issued by companies in return for medium and long term investment funds.
- Floating Rate Notes are securities that (in Australia) pay a coupon normally priced at a fixed margin above the Bank Bill Swap Rate.
- TCorp means NSW Treasury Corporation
- Term Deposits (or Deposits) are non-tradeable investments offered by ADIs with varying maturity dates (normally from one month to 60 months) and a rate set at the outset. Interest is normally payable upon maturity or if the term is longer than 12 months, annually from the investment date. Penalties apply if the funds are withdrawn before maturity and a notice period of 31 days is usually required.

3. Policy Statement

An investment policy is a governing document that guides the investment process. It should communicate the Council's:

- investment philosophy;
- overall risk policy
- identify the roles for those involved in the investment process; and
- detail the requirements for compliance with the policy's goals and procedures.

Interest on investments represents a significant contribution to the total income of Council and it is essential that Council has clear policy guidelines as to how funds can be invested. While the Local Government Act 1993 – Order (relating to investments by Councils) is quite explicit as to the types of institutions with which

Council can invest, there are nevertheless variations in the financial ratings of these institutions and the types of investments that can be purchased, which are not explained. This policy aims to clearly state the institutions with which Council can invest, the maximum proportion of funds that may be placed with individual organisations, and the types of investments entered into.

Council officers that are involved in selecting, reviewing and/or monitoring investment products should use this policy to ensure they understand the parameters, risks and expectations that Councils are required to consider when making an investment.

4. Scope

This policy applies to investment monies built up through:

- General unrestricted reserves created through rate income and other revenue sources exceeding (re)current expenditure, sale of properties and other assets;
- Restricted reserves that accrue through contributions under Section 94 of the Environmental Planning and Assessment Act 1979;
- Internally restricted reserves;
- Restricted reserves accruing through special purpose grants; donations etc.;
- Loan proceeds drawn down awaiting expenditure; and
- Timing differences within the year between rate receipts and applications

5. Objectives

This policy provides a framework for the investing of Council's funds at the most favourable rate of interest available at the time, whilst having due consideration of risk and security for that type of investment, 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 on 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. In setting these limits Council is determining the general level of risk that is acceptable for public monies managed for the Tenterfield Shire Council community.
- 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.

6. Legislative Requirements

Council's power to invest is derived from Section 625 of the Local Government Act 1993, as amended by the Statute Law (Miscellaneous Provisions) Act 2000, which limits investments to only those that the Minister approves.

The Local Government Act 1993 section 625 (2) states that:

"Money may be invested only in a form of investment notified by order of the Minister published in the Gazette."

All investments are to comply with the following:

- Local Government Act 1993 - Section 412 and 625;
- Local Government Act 1993 - Investment Order (of the Minister) - in accordance with the most recently published Order;
- The Trustee Amendment (Discretionary Investments) Act 1997 - Sections 14A(2), 14C(1) and (2);
- Local Government (General) Regulation 2005 - Regulation 212;
- Local Government Code of Accounting Practice and Financial Reporting;
- Office of Local Government Investment Policy Guidelines - May 2010;
- Australian Accounting Standards.

7. Delegation of Authority

Authority for the implementation of the Investment Policy is delegated by Council to the Chief Executive Officer in accordance with the Local Government Act 1993.

The Chief Executive Officer may in turn delegate the day to day management of Council's investments to the Manager Finance and Technology or other staff members subject to regular reviews.

Council Officer's delegated authority to manage Council's investments shall be recorded, and they shall be required to acknowledge they have received a copy of this policy and understand their obligations in this role.

8. 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 the Investment Policy.

Whenever an investment deposit is proposed, the Council Officer shall obtain not less than Three (3) quotations from authorised institutions.

9. Ethics and Conflict of Interest

Council 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 Chief Executive Officer.

Independent advisors are also required to declare that they have no actual or perceived conflicts of interest.

10. Approved Investments

The Ministerial Investment Order allows for the following as approved investments:

- Commonwealth / State / Territory Government security i.e. bonds;
- Interest bearing deposits issued by an authorised Deposit-taking Institution (ADI)
- Bills of exchange, (<200 days duration), guaranteed by and Authorised Deposit taking Institution (ADI);
- Debentures issued by NSW Local Government;
- Deposits with NSW Treasury and/or investments in TCorp's Hour Glass Investment Facility; and,
- Investments grandfathered under the previous Ministerial Investment Order.

11. Prohibited Investments

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

- Any investment product that is not included in the Ministerial Investment Order and the "Approved Investments" listing outlined above;
- Principal only investments or securities that provide potentially nil or negative cash flow; and
- 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) an investment, but to clarify, does not exclude loans for other purposes (such as loans under the Local Infrastructure Renewal Scheme) being invested prior to the expenditure of those funds for their intended purpose.

12. Investment Advisor

If an investment advisor is engaged s/he must be approved by Council and licensed by the Australia Securities and Investment Commission. The advisor must be an independent person who has no actual or potential conflicts of interest in relation to investment products being recommended. The investment advisor may recommend the most appropriate product within the terms and conditions of the investment Policy.

The independent advisor is required to provide written confirmation that s/he does not have any actual or potential conflicts of interest in relation to the investments s/he is recommending or reviewing, including that s/he is not receiving any commissions or benefits in relation to the investments being recommended or reviewed.

13. 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;
- Diversification of Financial Institutions – the requirement to place investments in a broad range of institutions so as not to be over exposed to a particular organisation within the investment market;
- 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.

14. Credit and Maturity Limits

Investments obtained must comply with key criteria as indicated below relating to:

- a) Portfolio Credit Framework: limit overall credit exposure to the portfolio;
- b) Counterparty Credit Framework: limit exposure to individual counterparties/institutions;
- c) Term of Maturity Framework: limits based upon maturity of securities;
- d) Protection of Principal: Investments entered into must be structured to minimise risk of loss of principal;
- e) Grant Funding Conditions: conditions relating to grant funding available to invest must be complied with;
- f) Trust funds are excluded from this Policy as they must be kept in a separate bank account.

A) Overall Portfolio Limits

The following credit framework limits the percentage of the portfolio exposed to any particular credit rating category:-

S&P Long Term Rating	S&P Short Term Rating	Direct Investment Maximum %
AAA to AA-	A-1+	100%
A to A-	A-1	45%
BBB+ to BBB-	A-2	25%
BB+ to D	-	10%
Government*		100%

B) Counterparty Credit Framework

This limits the exposure to an individual institution based on the credit rating of that institution such that exposure to any one institution is limited, as detailed in the table below:-

S&P Long Term Rating	S&P Short Term Rating	Direct Investment Maximum %
AAA to AA-	A-1+	50%* (was 45%)
A to A-	A-1	35%
BBB+ to BBB	A-2	15%
BB+ to D	-	5%
Government*		100%

*Recognising that at times due to timing issues this may increase to 100% for brief periods.

For the purpose of determining the "Direct Investment Maximum %", an investment in an approved institution which operates as a division of a parent institution, shall be treated as being an investment in the parent institution.

C) Term to Maturity Framework

The investment portfolio is to be invested within the following maturity constraints:

Overall Portfolio Term to Maturity Limits	
Portfolio % < 1 year	100% maximum 60% minimum
Portfolio % > 1 year < 5 years	40%
Individual Investment Maturity Limits	
ADI	Five (5) years
Non ADI	Three (3) years

*An exception to the above limits applies to funds placed with either the Australian Federal Government or the NSW State Government or their respective Treasury Functions. 100% of Council's monies can be placed with these institutions. In the event that an entity is unrated by S&P but rated by Moody's or Fitch, the S&P equivalent to that rating is to be utilised into the above framework. The short term credit rating will apply in the case of discrepancies between the short and long term rating.

15. Benchmarking

Performance benchmarks are to be provided for comparative purposes only. The benchmark is not an investment return target. The rate of return on Council's investments will be dependent on Council's risk tolerance.

The Term Deposit rate for the average 90-day rate of the five (5) largest banks identified in the Bloomberg Ausbond Bank Bill Index is considered appropriate for the purpose of benchmarking Council's investments.

16. Reporting and Reviewing of Investments

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

Certificates must be obtained from the financial institutions confirming the amounts of investments held on 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. Any material deterioration in Council's investment portfolio is to be reported to Council at the next available Ordinary Council Meeting.

Any breaches of the Policy will also be included in the first investment report following the discovery of any breach.

This 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.

17. Accountability, Roles & Responsibility

Elected Council

- Provide strategic direction and stewardship;
- Consider legislative requirements and good governance when setting policies and strategies;
- Adopt an Investment Policy annually.

Chief Executive, Executive and Management Teams

- Implement the policy and oversee the compliance of Council investments with the policy;
- Keeping abreast of legislative amendments and review and make recommendations for variations to the policy as required.

Individual Managers

- Manager Finance and Technology to ensure adherence to this Policy and report any breaches;
- 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.

18. Related Documents, Standards & Guidelines

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 and Financial Reporting;*
- *Australian Accounting Standards;* and
- *Division of Local Government Circulars.*

19. Version Control & Change History

Version	Date	Modified by	Details
V1.0	27/04/00	Council	Adoption of Original Policy (Res No. 334/00)
V2.0	28/11/07	Council	Revised (Res No. 690/07)
V3.0	22/10/08	Council	Revised (Res No. 236/08)
V4.0	22/09/10	Council	Revised (Res No. 680/10)
V5.0	26/10/11	Council	Revised (Res No. 509/11)
V6.0	24/10/12	Council	Revised (Res No. 427/12)
V7.0	23/10/13	Council	Revised (Res No. 385/13)
V8.0	21/05/14	Council	Revised (Res No. 159/14)
V9.0	20/05/15	Council	Revised (Res No. 137/15)
V9.1	18/05/16	Council	Revised (Res No. 120/16)
V10.0	28/06/17	Council	Revised (Res No. 105/17)
V11.0	23/05/18	Council	Revised (Res No. 97/18)
V12.0	22/05/19	Council	Revised (Res No. 121/19)
V13.0	24/06/20	Council	Revised (Res No. 108/20)