

POLICY REGISTER

INVESTMENT POLICY

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INVESTMENT OBJECTIVES

The Purpose of this policy is to provide a framework for the optimum investment of Warren Shire Council's funds at the most favourable rate of interest available to it at the time, maximising returns whilst having due consideration of risks, liquidity and security for its investments.

While exercising the power to invest, consideration is to be given to the preservation of capital, liquidity and the return on investment. Therefore, Council has several primary objectives for its investment portfolio:

- Compliance with legislation, regulations, the prudent persons tests of the *Trustee Act* and best practice guidelines;
- The preservation of the amount invested;
- To ensure there is sufficient liquid funds to meet all reasonably anticipated cash flow requirements; and
- 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:

- Local Government Act 1993;
- Local Government (General) Regulation 2005;
- Ministerial Investment Order;
- The Trustee Amendment (Discretionary Investments) Act 1997 – Section 14;
- Local Government Code of Accounting Practice and Financial Reporting;
- Investment Policy Guidelines (Office of Local Government);
- Australian Accounting Standards; and
- Office of Local Government Circulars.

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 (RAO) and ensure adequate skill, support and oversight.

A Council officer's delegated authority to manage Council's investments must be formally recorded. The officer must also acknowledge receipt of this policy and its obligations.

a. 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 portfolios to safeguard the portfolio in accordance with the spirit of the Investment Policy and NOT for speculative purposes.

b. 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 conflicts of interest to the General Manager.

Independent advisors are also to declare, by written confirmation, that they have no actual or perceived conflicts of interest.

c. Authorised Investments

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

- Commonwealth /State/ Territory Government securities e.g. bonds;
- Interest bearing deposits /senior securities issued by an eligible ADI;
- Bills of Exchange (<200 days duration) guaranteed by an ADI;
- Debentures issued by a NSW Council (under Local Government Act 1993)
- Land mortgages which are first mortgages (< 60% of land value);
- Deposits with Local Government Financial Services Pty Limited (LGFS)
- Deposits with NSW T–Corp &/or Investments in NSW T-Corp Hour Glass Facility; and
- Investments grandfathered under the Ministerial Investment Order.

d. Prohibited Investments

This investment policy prohibits the following types of investments (and extends the prohibition to any investment carried out for speculative purposes) other than for securities specifically covered by grandfathering arrangements in the Minister’s Order:

- Derivative based instruments;
- Principal only investments or securities that provide potentially nil or negative cash flow; and
- Stand-alone securities issues 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.

e. Risk Management

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;
- *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 principal of an investment;
- *Diversification* – the requirement to place investments in a broad range of products so as not to be over exposed to a particular sector of the investment market.
- *Liquidity Risk* – the risk an investor runs out of cash, is unable to redeem investments 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);

- *Market Risk* – the risk that fair value or future cash flows will fluctuate due to changes in market prices or benchmark returns will unexpectedly overtake the investment's return;
- *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
- *Rollover Risk* – the risk that income will not meet expectations or budgeted requirement because interest rates are lower than expected in the future.

f. Investment Advisor

Council's Investment Advisor must be approved by Council and licensed by the Australian Securities and Investment Commission. The advisor must be independent. They must 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 conditions of the Investment Policy. This includes receiving no commissions or other benefits in relation to the investments being recommended or reviewed.

g. Accounting

Council will comply with appropriate accounting standards in valuing its investments and quantifying its investment returns.

In addition to recording investment income according to accounting standards, published reports may show a breakdown of its duly calculated investment returns into realised and unrealised capital gains and losses and interest.

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

h. Safe Custody Arrangements

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

- Council must retain beneficial ownership of all investments;
- Adequate documentation is provided, verifying the existence of the investments;
- The custodian conducts regular reconciliation of records with relevant registries and/or clearing systems; and
- The institution or custodian recording and holding the assets will be:
 - Austraclear;
 - An institution with an investment grade Standard and Poor's or Moody's rating; or
 - An institution with adequate insurance including professional indemnity insurance and other insurances considered prudent and appropriate to cover its liabilities under any agreement.

i. Counterparty Limits

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

This table does not apply to any grandfathered managed fund or structured investment where it is not possible to identify a single counterparty exposure.

Individual Institution or Counterparty Limits		
Long Term Rating	Short Term Credit Ratings	Limit
AAA Category	A-1+	40%
AA Category	A-1+	30%
A Category	A-2	15%
BBB Category	A-3	10%
Unrated Category	Unrated	5%

j. Credit Quality Target and Limits

The portfolio credit guidelines to be adopted will reference the Standard and Poor's (S&P) ratings system criteria and format – however, references to the Minister's Order also recognised Moody's and Fitch Ratings and any of the three ratings may be used where available.

However, the primary control of credit quality is the prudential supervision and government support and explicit guarantees of the ADI sector, not ratings.

The maximum holding limit in each rating category and the target credit quality weighting for Council's portfolio shall be:

Long Term Rating	Short Term Credit Rating	Maximum Holding
AAA Category	A-1+	100%
AA Category	A-2	100%
A Category	A-2	60%
BBB Category & Unrated ADIs	A-3	40%

k. Term to Maturity Limits

Council's investment portfolio shall be structured around the time horizon of investment to ensure that liquidity and income requirements are met.

Once the primary aim of liquidity is met, Council will ordinarily diversify its maturity profile as this will ordinarily be a low-risk source of additional return as well as reducing the volatility of Council's income. However, Council always retains the flexibility to invest as short as required by internal requirements or the economic outlook.

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

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

Investment Horizon Description	Investment Horizon Maturity Date	Minimum Allocation	Maximum Allocation
Working capital funds	0-3 months	10%	100%
Short term funds	3-12 months	20%	100%
Short-medium term	1-2 years	0%	70%
Medium term funds	2-5 years	0%	50%
Long term funds	5-10 years	0%	25%

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

l. Performance Benchmarks

The performance of Council's investment portfolio will be benchmarked against the 90 day UBSA Bank Bill Index (BBI).

It is Council's expectation that the performance of each investment will be greater than or equal to the applicable benchmark by sufficient margin to justify the investment taking into account its risks, liquidity and other benefits of the investment.

It is also expected that Council will take due steps to ensure that any investment, notwithstanding a yield above the benchmark rate is executed at the best pricing reasonably possible.

The decision to exit grandfathered investments (i.e. managed funds and securities) is based on a range of criteria specific to the investments – including but not limited to factors such as:

- Returns expected over the remaining term.
- Fair values.
- Competing investment opportunities.
- Costs of holding.
- Liquidity and transaction costs.
- Outlook for future investment values.

In general, it is expected that professional advice will be sought before transacting in grandfathered investments.

m. Reporting

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.

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

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 holdings and impact of changes in market value since the previous report. The monthly report will also detail the investment performance against the applicable benchmark, investment income earned versus budget year to date and

confirm compliance of Council investments within legislative and policy limits. Council may nominate additional content for reporting.

n. Review of Policy and Investments

The Investment Policy will be reviewed annually and as required in the event of legislative change or significant changes to the market conditions.

The Investment Policy may also be changed to advantage Council. Any amendment must be by way of Council resolution.

DEFINITIONS

Act	Local Government Act 1993
ADI	Authorised Deposit Taking Institutions (ADIs) are corporations that are authorised under the Banking Act 1959 (Commonwealth) to take deposits from customers.
Bill of Exchange	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 money to or to the order of a specified person, or to bearer.
BBSW	The Bank Bill Swap reference rate (BBSW) is the average of mid-rate bank bill quote from brokers on the BBSW Panel. The BBSW is calculated daily. Floating rate securities are most commonly reset quarterly to the 90 day BBSW.
Council Funds	Surplus monies that are invested by Council in accordance with section 625 of the Act.
Debentures	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.
FRN	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 reset at regular intervals - most commonly quarterly.
Grandfathered	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 reflected in the Ministerial Order dated 31/7/2008.
IPS	The Investment Policy Statement provides the general investment goals and objectives of Council and describes the strategies that must be employed to meet these objectives. Specific information on

matters such as asset allocation, risk tolerance and liquidity requirements are also included in the IPS.

LGGR	Local Government (General) Regulation 2005 (NSW)
NCD	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.
OLG	NSW Office of Local Government, Department of Premier and Cabinet.
RAO	Responsible Accounting Officer of a council means a member of the staff of the council designated by the General Manager, or if no such member has been designated, the General Manager. (LGGR – clause 196)
T-Corp	New South Wales Treasury Corporation.
UBSA BBI	UBS Australia calculates a daily <i>Bank Bill Index</i> representing the performance of a notional rolling parcel of bills averaging 45 days.