

Policy No. PP004

# Investment Policy

## 1 INFORMATION ABOUT THIS POLICY

### POLICY INFORMATION

<b>Date Adopted by Board</b> 23 February 2017	<b>Resolution No.</b> 20/034
<b>Policy Responsibility</b> Corporate Services Manager	
<b>Review Timeframe</b> 4 Yearly (Once Per Council Term)	
<b>Last Review</b> 23/04/2020	<b>Next Scheduled Review</b> 04/2024

### DOCUMENT HISTORY

DOCUMENT NO.	DATE AMENDED	SUMMARY OF CHANGES
05/131	DD/MM/YYYY	
10/133	DD/MM/YYYY	
11/024	DD/MM/YYYY	
14/058	DD/MM/YYYY	
15/071	DD/MM/YYYY	No change
	23/05/2016	<p>Policy reformatted, addition of Purpose, Scope and Definitions</p> <p>Generally, reference to “council” amended to GWCC</p> <p>Highlighting of Preservation of capital is the principal objective of the investment portfolio in part 7 Objectives.</p> <p>Removed Market, Liquidity and Maturity Risk definitions (now duplicated) in part 14 Risk Management Guidelines.</p> <p>Policy Review now separate from Reporting and Reviewing of Investments.</p>
17/007	23/02/2017	Additional wording to Prohibited Investments
20/034	23/04/2020	Amend wording to be in line with OLG Investment Guidelines. Update portfolio framework limits.

### FURTHER DOCUMENT INFORMATION AND RELATIONSHIPS

<b>Related Legislation</b>	<p>Local Government Act 1993</p> <p>Local Government (General) Regulation 2005</p>
<b>Related Policies</b>	CP037 Code of Conduct

<b>Related Procedures, Protocols, Statements and Documents</b>	Ministerial Investment Order Local Government Code of Accounting Practice and Financial Reporting Australian Accounting Standards Office of Local Government Circulars Investment Procedure
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### 3 PURPOSE

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.

### 4 SCOPE

This Policy shall apply to all investments made by Goldenfields Water County Council.

### 5 DEFINITIONS

**ADI** - Authorised Deposit Taking Institutions (ADI) are corporations that are authorised under the Banking Act 1959 (Cwth) to take deposits from customers.

**BBSW** – Bank Bill Swap Rate (BBSW) is a short-term interest rate used as a benchmark for the pricing of Australian derivatives and securities.

**Bill of Exchange** - A 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 in money to or to the order of a specified person, or to bearer.

**Debentures** - A debenture is a document evidencing an acknowledgement of a debt, which a company has created for the purposes of raising capital. Debentures are issued by companies in return for medium and long term investment of funds by lenders.

**Grandfather Clause** - Grandfather clause is a legislative clause, which in prohibiting a certain activity, exempts those who were already engaged in the activity at the time the legislation was passed.

**Investment Portfolio** - The total pool of all of the Council's investments.

**Ministerial Investment Order** - Ministerial Investment Order is an Order issued by the Minister for Local Government.

**Preservation of Capital** - Preservation of capital refers to a conservative investment strategy with the primary goal of preventing losses in the investment portfolio's face value.

**Prudent person standard** - Prudent person standard is a legal standard restricting the investing and managing of a client's account to what a reasonable person seeking reasonable income and preservation of capital might exercise for his or own investment.

**RAO** - Responsible Accounting Officer (RAO) 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 296).

**RBA** – Reserve Bank of Australia

## **6 OBJECTIVES**

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 safeguarding 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.

## **7 LEGISLATIVE REQUIREMENTS**

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
- OLG Circulars.

## **8 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, subject to regular reviews.

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.

## **9 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 this Investment Policy, and not for speculative purposes.

## 10 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.

## 11 APPROVED INVESTMENTS

Investments are limited to those allowed by the most current Ministerial Investment Order that has been issued by the NSW Minister for Local Government.

(The most current Ministerial Investment Order at the time of the adoption of this policy is under Attachments at the end of this policy).

## 12 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;
- 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) of an investment. However, nothing in the 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 expenditure of the loan funds.

## 13 RISK MANAGEMENT GUIDELINES

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

- **Preservation of Capital** (principal objective) - preventing losses in the investment portfolio's total value (considering the time value of money);
- **Diversification** - limiting amounts invested with a particular financial institution or government authority to reduce credit risk;
- **Credit risk** – the risk that a 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 that 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 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.

## 15 REPORTING AND REVIEWING 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 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 report will be provided to Council every two months. The report will detail the investment portfolio in terms of performance, percentage exposure of total portfolio, maturity date and market value.

## 16 INVESTMENT GUIDELINES

### Credit Quality Limits

The portfolio credit guidelines are based on Standard & Poors (S&P) or Equivalent (Moody's or Fitch) ratings system criteria. The maximum holding limit in each rating category are as follows:

<b>Long Term Rating (S &amp; P)</b>	<b>Short Term Rating (S &amp; P)</b>	<b>Maximum Holding</b>
AAA to AA- or Major Bank	A1+	100%
A+ to A-	A1	100%
BBB+ to BBB-	A2	70%
Unrated	Unrated	20%



### Counterparty Limits

Exposure to individual counterparties / financial institutions will be restricted by their rating as shown below:

<b>Long Term Rating (S &amp; P)</b>	<b>Short Term Rating (S &amp; P)</b>	<b>Limit</b>
AAA to AA- or Major Bank	A1+	60%
A+ to A-	A1	50%
BBB+ to BBB-	A2	30%
Unrated	Unrated	10%

### Term to Maturity Framework

Council's investment portfolio shall be structured to ensure that liquidity requirements are met. The investment portfolio is to be invested within the following terms to maturity constraints:

<b>Portfolio Term to Maturity</b>	<b>Maximum Allocation</b>
Working capital funds (0-3 months)	100%
Short term funds (3-12 months)	100%
Short-Medium term funds (1-2 years)	70%
Medium term funds (2-5 years)	50%
Long term funds (5-10 years)	5%

### Credit Rating Downgrades and Timing Corrections

If any of Council's investments are downgraded such that they no longer fall within these investment policy guidelines, no further investments will be made in the effected categories until such time that the investments are within portfolio limits. Existing investments will be divested as soon as is practicable to bring the portfolio within limits.

There may be occasions where portfolio limits may be exceeded due to maturity or roll over of investments. These rare, short-term timing corrections are acceptable.

### Credit Rating Categories

Long-Term (Short-Term) Category	Definition
AAA (A1+)	The obligor's capacity to meet its financial commitments on the obligation is extremely strong.
AA (A1+)	An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitments on the obligation is very strong.
A (A1)	An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitments on the obligation is still strong.
BBB (A2)	An obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to weaken the obligor's capacity to meet its financial commitments on the obligation.
Unrated	Issuer is not rated (eg. building societies).

## 17 BENCHMARKING

Performance benchmarks need to be established and should be based on sound and consistent methodology. Council's portfolio will be measured against the following benchmarks:

Investment	Performance Benchmark
Cash and On Call	RBA Cash Rate
Floating Rate Deposit	3m BBSW
Term Deposit	3m BBSW

## 18 QUOTATIONS ON INVESTMENTS

Not less than two (2) quotations shall be obtained from authorised institutions when a new direct investment is proposed. Investments may be 'rolled over' with the current holder of the investment within the guidelines set out in this policy.

## 19 BREACH OF POLICY

If a breach of this policy occurs, Council will be notified at the next ordinary Council meeting by Council's RAO.

## 20 ATTACHMENTS

### Attachment 1

#### 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.

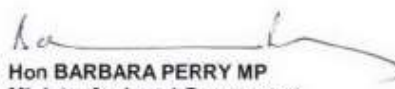
All councils should by resolution adopt an investment policy that is consistent with this Order and any guidelines issued by the Chief Executive (Local Government), Department of Premier and Cabinet, from time to time.

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 12<sup>th</sup> day of January 2011



Hon BARBARA PERRY MP  
Minister for Local Government