

Council Policy



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| Policy Title: | Investments |
| Policy Number: | 6.14 |
| Focus Area: | CS2 Great Support |
| Responsibility: | Finance |
| Meeting Adopted: | 20 October 2020 [201020/4] |

OBJECTIVE

To provide a framework for investing Council's funds to maximise revenue from authorised investments, while having due consideration of risk and security of the investment; using the care, diligence and skill that a prudent person would exercise in investing Council funds.

POLICY

1. Legislative Requirements

All investments are to comply with the following:

- § Section 625 *Local Government Act 1993*;
- § Clause 212 *Local Government (General) Regulation 2005*;
- § Ministerial Investment Order;
- § *Local Government Code of Accounting Practice and Financial Reporting*;
- § *Australian Accounting Standards*;
- § *Office of Local Government Circulars*; and
- § Section 14A(2), 14C(1) and (2) *Trustee Amendment (Discretionary Investments) Act 1997*.

2. Definitions

Authorised Deposit-taking Institutions (ADI's) - are corporations authorised under the *Bank Act 1959 (Cth)* 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 (APRA).

Bank Bill Swap Rate - is the compilation and average rate of market rates supplied by domestic banks relating to multiple maturities of bank bills.

Bills 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 - are 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 Note - are securities that (in Australia) pay a coupon normally priced at a fixed margin above the Bank Bill Swap Rate.

Term Deposits - are non-tradeable investments offered by ADI's 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 Penalties apply if the funds are withdrawn before maturity and a notice period of 31 days is usually required.

90 Day Bank Bill Reference Rate (BBSW) - is the wholesale interbank rate within Australia and is published by the Australian Securities Exchange (ASX). It is the borrowing rate among the country's top market makers and is widely used as the benchmark interest rate for financial instruments.

3. Delegation of Authority

Authority for implementation of the Investments Policy is delegated by Council to the General Manager in accordance with the *Local Government Act 1993*. The General Manager delegates the day-to-day management of Council's investments to the Chief Financial Officer/Manager Mid-Richmond, Financial Accountant, Principal Accountant and Business Development Accountant with assistance in collating data from other finance staff. 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.

All new investments require at least two of the above staff to approve and evidence of such is to be kept in the Investment Folders, maintained by the Financial Accountant. These documents should specify the amount of money invested, the security or form of investment made, the term of the investment and if appropriate the rate of interest to be paid and the amount of money that Council has earned.

4. Prudent Person Standard

Council Officers should act with the duty of care, skill, prudence and diligence that a prudent person would exercise when investing and managing their own funds. As trustees of public monies, Officers are to manage Council's investment portfolios to safeguard the portfolio in accordance with the spirit of this Investments Policy, and not for speculative purposes.

5. 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.

6. 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:

- (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 (Cth)*), 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 (now known as TCorpIM Fund) of the New South Wales Treasury Corporation.

7. 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 cashflow;
- § Stand-alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind;

This policy also prohibits the specific use of leveraging (borrowing to invest) of an investment. However, where loan funding is obtained for a specific project and there is a time lag between receiving the funds and final expenditure, funds may be invested in the short term.

8. Liquidity and Maturity

Surplus funds are determined by review of Council's "Daily Cashflow" spreadsheet, which forecasts known revenues and expected expenditures. It is revised each day by Council's Financial Accountant (a detailed procedure is included in the Financial Accountant's Procedure Manual). Generally, a cash balance of approximately \$500,000 is to be maintained to cover emergency situations. Funds over and above this are considered surplus however a level of cash is to be held in other at call accounts to cover short term payment demands. These accounts are chosen to attract interest at a higher rate than the general fund account and should be approximately \$3,000,000 - \$5,000,000. During periods of low returns on other investments, additional levels of cash may be held in these at call accounts where they offer equivalent or greater rates of return.

In the short term, the duration of investments will be determined by analysis of the "Daily Cashflow". For the longer term, cash requirements will be determined by Council's Long-Term Financial Plan. In addition, the current market for interest rates must be taken into consideration and input from Council's financial advisors should be sought as to the longer-term outlook.

9. Credit Rating, Portfolio and Counterparty Limits

The minimum and maximum holding percentage for each investment class and the counterparty limits for each institution are as follows:

| Investment Class | Minimum Holding | Maximum Holding | Counterparty Limit |
|---|-----------------|-----------------|--------------------|
| AAA Rated | 0% | 100% | 40% |
| AA+ to AA- Rated (including the four major banks) | 0% | 100% | 40% |
| A+ to A- Rated | 0% | 70% | 30% |
| BBB+ to BBB- Rated | 0% | 50% | 20% |
| Unrated | 0% | 20% | 10% |
| TCorpIM Cash Facility | 0% | 40% | 100% |
| TCorpIM Strategic Cash Facility | 0% | 40% | 100% |
| TCorpIM Medium Term Growth Facility | 0% | 40% | 100% |

Cash assets are no longer subject to any minimum or maximum holding.

Standard & Poor’s (or equivalent Moody’s or Fitch) ratings attributed to each individual institution will be used to determine maximum holdings. In the event of a disagreement between two agencies as the rating band (“split ratings”) Council shall use the lower of the ratings. Where more than two ratings exist, Council shall discard the lowest rating and then use the lower of the higher two ratings when assessing new purchases. This is an industry standard methodology that is widely used.

10. Risk Management Guidelines

Investments obtained are to be considered using the following criteria:

- § Preservation of capital – the requirement of preventing losses in an investment portfolio’s total value (considering the time value of money);
- § Diversification – setting limits to the amounts invested with a financial institution or government authority to reduce credit risk. An investment must not exceed 40% of the total investment portfolio;
- § Credit risk – the risk that an institution that 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 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 both gains and losses.

11. Term to Maturity Framework

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

| Overall Portfolio Term to Maturity | Maximum Portfolio % Limit |
|------------------------------------|------------------------------|
| < 12 months | 100% |
| > 12 months < 36 months | 40% |
| > 36 months < 60 months | 25% |

12. Investment Advisor

Council utilises Laminar Capital for its financial advisory services and for the use of its online investment platform Treasury Direct for a monthly fee. TCorp also offers this service free to Council although this is being used on as needs basis rather than a contracted monthly arrangement.

13. Measurement

As Council no longer holds grandfathered investments such as Collateralised Debt Obligations (CDOs), the investment returns for the portfolio are easily identifiable. This measurement of the market value is to be assessed at least once a month to coincide with monthly reporting.

14. Environmentally Sustainable Investments (ESI's)

Council is committed to investing in Environmentally Sustainable Investments (ESI's) and will:

- § Give preference to ESI's where their rate of return is equal or greater to other investment options;
- § Monitor the % of ESI's held in our portfolio and seek to increase this % over time;
- § Continually scan the market for ESI products that are compliant with the LG investment framework; and
- § Report on our progress towards achieving these objectives.

15. Benchmarking

Benchmarks are established to evaluate investment outcomes against objectives, and they must be easily measurable. The Bloomberg AusBond Bank Bill Index is used as Council's benchmark and is included in the Monthly Financial Analysis Report to Council.

16. Reporting and Reviewing of Investments

Documentary evidence must be held for each investment and details thereof maintained in an Investment Register, and it must provide Council legal title to the investment, i.e. a financial instrument that clearly defines the contractual arrangement needs to be provided to Council. It is imperative that this financial instrument states that the investment is held in the name of Council. The Investment Register must be reconciled to Council's financial records monthly.

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.

A monthly Financial Analysis Report will be provided to Council, detailing the investment portfolio in terms of performance, percentage exposure of total portfolio, maturity date and changes in market value. Where Council invests in debt securities that have a movement in their capital value, a monthly valuation report will be obtained.

17. Safe Custody Arrangements

Where necessary, investments may be held in safe custody on Council’s behalf, if 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 reconciliations of records with relevant registries and/or clearing systems; and
- § The institution or custodian recording and holding the assets will be: -
 - The Custodian nominated by TCorp;
 - 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.

REVIEW

This policy will be reviewed at least once a year or as required in the event of legislative changes. Any amendment to the policy must be by way of Council resolution.

| Version Number | Date | Reason / Comments |
|----------------|-----------------|-----------------------------|
| 1 | 16 July 2019 | Review |
| 2 | 22 October 2019 | Review |
| 3 | 20 October 2020 | Review and update to format |