



Investment of Surplus Funds

Application	All staff, particularly Finance, Council
Responsible Officer	Director Corporate and Community Services
File No	CM:POL:CWP
Authorised by	Council
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Purpose

The purpose of this document is to establish the framework within which investment principles are to apply to the investment of Council funds. It details:

- Council Funds covered by this Investment Policy;
- Council's objectives for its investment portfolio;
- how investments are to be undertaken;
- the applicable risks to be managed;
- any constraints and other prudential requirements to apply to the investment of Funds having regard to the applicable legislation and regulations governing Council investment;
- the manner in which compliance with the Policy & Strategy will be monitored and reported; and
- appropriate benchmarks for each category of investments

Definitions

Council: Carrathool Shire Council

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 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

BBSW The Bank Bill Swap reference rate (BBSW) is the midpoint of the nationally observed best bid and offer for AFMA Prime Bank eligible securities. 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

Debenture 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.

OLG NSW Office of Local Government.

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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.
LGGR	Local Government (General) Regulation 2005 (NSW).
NCD / TCD	Is an investment in an underlying security, being a negotiable certificate of deposit (NCD) where the term of the security is often for a period of 185 days or less (but occasionally longer terms). Short NCDs are generally discount securities, meaning they are issued and on-sold to investors at a discount to their face value. Sometimes also “transferable certificate of deposit” (TCD).
RAO	Responsible Accounting Officer of a council means a member of the staff of the council designated by the General Manager. (LGGR, clause 196)
T-Corp	New South Wales Treasury Corporation.
AusBond BBI	Formerly the UBS BBI. The UBS Australia index family was acquired by Bloomberg from Q3 2014, and while branding changed the benchmark is unaltered. The Bank Bill Index represents the performance of a notional rolling parcel of bills averaging 45 days and is the widely used benchmark for local councils and other institutional cash investments.

Reference

This policy statement has been prepared to recognise the legislative requirements and obligations for the investment of Council’s funds. The legislative requirements are detailed within this Investment Policy.

Council will comply with investment regulations and directions of the Office of Local Government – which will prevail in the event of inconsistencies with the adopted Policy and Strategy.

Policy statements

Investment Objectives

The purpose of this **Policy** is to provide a framework for the optimum investment of Council’s funds.

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

- Compliance with legislation, regulations, the prudent person tests of the Trustee Act and best practice guidelines;
- The preservation of the amount invested;
- To ensure there are 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.

Council’s Investment **Strategy** will run in conjunction with this Investment **Policy** and will outline:

- Councils current cash flow expectations and the implications for deviations from a long-term liquidity profile;

- Diversification: the allocation of investment type, credit quality, counterparty exposure and term to maturity profile;
- Market conditions and the appropriate responses – particularly relative positioning within the limits outlined in this Policy;
- Relative return outlook, risk-reward considerations, assessment of the market cycle and hence constraints on risk; and
- Appropriateness of overall investment types for Council's portfolio.

Legislative and Regulatory References

All investments are to 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;
- Australian Accounting Standards;
- Office of Local Government Investment Policy Guidelines; 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 has in turn delegated the day-to-day management of Councils investments to the Director Corporate and Community Services and the Finance Officer who must ensure adequate skill, support and oversight is exercised in the investment of Council funds.

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

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 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.

Independent advisors are also to declare that they have no actual or perceived conflicts of interest and receive no inducements in relation to Council's investments.

Authorised Investments

All investments must be denominated in Australian Dollars. Authorised Investments are limited to those allowed by the Ministerial Investment Order issued in January 2011, currently:

- 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);
- Deposits with T-Corp &/or Investments in T-CorpIM Funds; and
- Existing investments grandfathered under the Ministerial Investment Order.

Prohibited Investments

This Investment Policy prohibits the following types of investment:

- Derivative based instruments;
- Land mortgage;
- Deposits with Local Government Investment Services Pty Ltd;
- 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 any investment with speculative purposes, including the use of leveraging (borrowing to invest) for 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 loan funds.

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.
- **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 institution runs out of cash, is unable to redeem investments at a fair price within a timely period, and thereby Council 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 future.

Investment Advisor

The Council's investment advisor is appointed by Council resolution and must be licensed by the Australian Securities and Investment Commission. The advisor must be independent and

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. Independence includes receiving no commissions or other benefits in relation to the investments being recommended or reviewed, except as fully rebated to Council, promptly.

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 break-down 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 a fair value basis and impairment.

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 at inception, in regular statements and for audit;
- 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:
 - The Custodian nominated by TCorpIM for their Funds;
 - Austraclear;
 - An institution with an investment grade Standard and Poor’s, Moody’s or Fitch 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.

Credit Quality Limits

The portfolio credit guidelines to be adopted will reference the Standard & Poor’s (S&P) ratings system criteria and format - however, references in the previous Minister’s Orders 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 Approved Deposit Institution (ADI) sector, not ratings.

The maximum holding limit in each rating category for Council’s portfolio shall be:

Long Term Rating Range (or Moody’s equivalent)	Maximum Holding
AAA Category	100%
AA Category or Major Bank*	100%

Long Term Rating Range (or Moody's equivalent)	Maximum Holding
A Category	45%
BBB Category	30%
Unrated ADIs	10%

*For the purpose of this Policy, "Major Banks" are currently defined as:

The ADI deposits or senior guaranteed principal and interest ADI securities issued by the major Australian banking groups:

- Australia and New Zealand Banking Group Limited
- Commonwealth Bank of Australia
- National Australia Bank Limited
- Westpac Banking Corporation

including ADI subsidiaries whether or not explicitly guaranteed, and brands (such as St George).

Council may ratify an alternative definition from time to time.

Standard & Poor's ratings attributed to each individual institution will be used to determine maximum holdings.

In the event of disagreement between agencies as to the rating band ("split ratings") Council shall use the higher in assessing compliance with portfolio Policy limits, but for conservatism shall apply the lower in assessing new purchases.

Counterparty Limits

Exposure to individual counterparties/financial institutions will be restricted by their rating so that single entity exposure is limited, as detailed in the table below.

Limits do not apply to Federal or NSW-guaranteed investments, which are uncapped. It should be noted that the NSW government does not guarantee the capital value or unit price of the TCorpIM Funds.

Individual Institution or Counterparty Limits

Long Term Rating Range (or Moody's equivalent)	Limit
AAA Category ¹	30%
AA Category or Major Bank ²	30%
A Category	30%
BBB Category	15%
Unrated Category	10%

- No institution at any time shall hold more than 30% of Council's total investments when the investment was first made.

¹ AAA Category includes *TCorp Hour-Glass Cash Facility*, which typically maintains a credit score consistent with a AAA^f rating.

² AA Category also includes *TCorp Hour-Glass Strategic Cash Facility*, which typically maintains a credit score consistent with a AA^f rating.

- The Trustee Act provides for investments with Building Societies however they are not rated. The maximum amount of funds invested with a Building Society will be 10% of Council's total investments.
- The investment shall be secured at all times as to both principal and interest.
- Not less than (3) quotations shall be obtained from authorised institutions whenever and investment is proposed. The best quote on the day will be successful after allowing for administrative and banking costs.”

Investment Horizon Limits

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

“Horizon” represents the intended minimum term of the investment; it is open for the Investment Strategy to define a target date for sale of a liquid investment.

Once the primary aim of liquidity is met, Council will ordinarily diversify its maturity profile as this will ordinarily be a low-risk method of obtaining additional return as well as reducing the risks to Council’s income. However, Council always retains the flexibility to invest as short as required by cashflow 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 capital expenditure forecasts;
- Known grants, asset sales or similar one-off inflows;
- Seasonal patterns to Council’s surplus funds.

Investment Horizon Description	Investment Horizon	Minimum Allocation	Maximum Allocation
Working capital funds	0-3 months	10%	100%
Short term funds	3-12 months	10%	100%
Short-Medium term funds	1-3 years	0%	20%
Medium term funds	3-5 years	0%	0%
Long term funds	5-10 years	0%	0%

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

Performance Benchmarks

The performance of each investment will be assessed against the benchmarks listed in the table below.

Investment	Performance Benchmark	Time Horizon
Funds held in overnight accounts - 11 am Account, Term Deposits, Cash Management Accounts, Professional Funds Accounts	AusBond Bank Bill Index (BBI)	3 months or less
Short dated bills, deposits issued by ADIs of appropriate term. Term Deposits.	AusBond Bank Bill Index (BBI)	3 months to 12 months
Term Deposits with a maturity date between 1 and 3 Years.	AusBond Bank Bill Index (BBI)	1 to 3 years

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

It is also expected that Council will take due steps to ensure that any investment is executed at the best pricing reasonably possible.

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 as at the end of the Financial 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 by maturity, reconciliation of movements by *Financial Statements Note 6* category returns generated for the portfolio compared to the AusBond Bank Bill Index, and comparison with the budget. The monthly report will also confirm compliance of Council’s investments within legislative and policy limits. Council may nominate additional content for reporting.

Revision Table

Minute /Date	Amendment Summary	Reason or Reference
21.10.03	Adopted	
0467/20.02.18	Adopted	Include risk management principles, credit quality, performance benchmarks and reporting guidelines

Associated Documents

Review

The Investment Policy will be reviewed by Council within four years of its adoption, or as required in the event of legislative change or as a result of significantly changed economic/market conditions. As mandated by the *Minister’s Order*, an amended Policy does not take effect until ratified by a resolution of Council. To the extent that the Policy becomes inconsistent with the regulatory framework, the regulations will prevail.

SIGNED: POSITION: GENERAL MANAGER

DATE:...../...../.....