

POLICY:	FINANCE - INVESTMENT OF SURPLUS FUNDS
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FILE REFERENCE:	16.00001
OBJECTIVE:	To provide guidelines about Council's on going Investment strategies.

Introduction

The aim of this policy is to provide guidelines regarding the appropriate procedures used for Council to invest surplus funds.

Purpose

To ensure that Council exercise care, diligence and skill that a prudent person would exercise in investing Council funds.

Definitions:

1. 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.
2. 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.
3. Bank Bill Swap Rate is the compilation and average rate of market rates supplied by domestic banks relating to multiple maturities of bank bills.
4. 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.

5. Debenture 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.
6. Floating Rate Notes are securities that (in Australia) pay a coupon normally priced at a fixed margin above the Bank Bill Swap Rate
7. TCorp means NSW Treasury Corporation
8. 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 Penalties apply if the funds are withdrawn before maturity and a notice period of 31 days is usually required.

Policy Objective

While exercising the power to invest, consideration needs to be given to preservation of capital, liquidity and the return on investment.

- (a) Preservation of capital is the principal objective of the investment portfolio. Investments are to be performed in a manner that seeks to ensure security and safeguarding the investment portfolio. Authorised officers are to manage the investment portfolio and to safeguard the portfolio in accordance with the spirit of this Investment Policy and the Ministerial Investment Order, and not for speculative purposes.
- (b) The investment portfolio will ensure there is sufficient liquidity to meet all reasonably anticipated cash flow requirements, as and when they fall due, without incurring significant costs due to the unanticipated sale of an investment.
- (c) The investment is expected to achieve an acceptable rate of return having reference to the Council's risk tolerance. Any additional return target set by the Council will also consider the risk limitation and prudent investment principles.

Policy Guidelines

1. Legislative Requirements

All investments are to comply with the following:

- Local Government Act 1993 – Section 412 & 625;
- Local Government Act 1993 – Order (of the Minister) Circular No: 11-01 gazetted on 11 February 2011.
- The Trustee Amendment (Discretionary Investments) Act 1997 – Sections 14A(2), 14C(1) & (2).
- Local Government (General) Regulation 2005 - Clause 212.
- Recommendations from the Review of NSW Local Government Investments – Final Report – Michael Cole, April 2008.
- The Local Government Code of Accounting Practice and Financial Reporting.
- Office of Local Government Circulars.

- Council Resolutions.

2. Authorised Investments

All of the Council's investments must be denominated in Australian Dollars. The Council may only invest money in the forms of investments, as taken directly from the Local Government Act 1993 – Order (of the Minister) Circular No: 11-01 gazetted on 17 February 2011.

- any public funds or securities issued by or guaranteed by, the Commonwealth, any State of the Commonwealth or a Territory
- any debentures or securities issued by a Council (within the meaning of the Local Government Act 1993 (NSW))
- 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
- 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
- a deposit with the NSW Treasury Corporation (Tcorp) or investments in a Tcorp Investment Management (TcorpIM) Investment Fund.

All investment instruments (excluding short term discount instruments) referred to above include principal and investment income (interest).

TRANSITIONAL ARRANGEMENTS

- Subject to paragraph (ii) nothing in this Order affects any investment made before the date of this Order which was made in compliance with previous Ministerial Order dated 12 January 2011, and such investments are taken to be in compliance with this Order.
- 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.

3. Delegation of Authority

The ultimate decision to make investments on Council's behalf is by delegation to the General Manager.

Authorised Officer	Roles & Responsibilities
General Manager	Authority to invest surplus funds and may delegate this function, subject to various dollar limits and restrictions as stated in this Investment Policy

Director of Corporate Services and Finance	Per Delegation
Manager Financial Services	Per Delegation
Expenditure Accountant	Per Delegation

4. Amendments

The General Manager is hereby authorised to approve a variation to this policy if the General Manager in his/her opinion the variation is to the advantage of Council and in the spirit of this policy and/or due to changes in legislation. Any such variations to this policy are to be reported to Council within 30 days.

5. Prohibited Investments

This Investment Policy prohibits any investment carried out for speculative purposes including:

- Derivative based instruments;
- Principal only investments or securities that provide potentially nil or negative cash flow;
- Standalone securities issued that have underlying futures, options, forward contracts and swaps of any kind; and
- The use of leveraging (borrowing to invest) of any investment.

6. Credit and Maturity Guidelines

Investments are to comply with three key criteria relating to:

- Overall Portfolio Credit Framework: limit overall credit exposure of the portfolio;
- Institutional Credit Framework: limit exposure to individual institutions based on their credit ratings, and;
- Term to Maturity Framework: limits based upon maturity of securities.

a) Overall Portfolio Credit Framework:

To control the credit quality on the entire portfolio, the following credit framework limits the percentage of the portfolio exposed to any particular credit rating category.

b) Institutional Credit Framework

Exposure to an individual institution will be restricted by their credit rating so that single entity exposure is limited, as detailed in the following table.

If any of the Council's investments are downgraded such that they no longer fall within the investment policy, they will be divested as soon as practicable.

The long-term credit rating limit will apply in the case of discrepancies between short and long-term ratings.

Standard & Poor's	Standard & Poor's	Maximum	By
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Long Term Rating	Short Term Rating	Portfolio %	Counterparty
AAA	A-1+	100%	100%
Major Australian Banks (CBA, WBC, NAB, ANZ) AA-	A-1+	100%	40%
Other AA+ to A banks	A-1+ to A-1	100%	30%
A-	A-2	40%	20% (max \$10m)
BBB+ to BBB	A-2	20%	5% (max \$5m)
BBB- and unrated	A-3 or unrated	Note*	Kept to a minimum. Allows for local institutions such as Reliance Credit Union

*Note: For reasons of practicality the number of these investments should be kept to a minimum.

c) Term to Maturity Framework

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

Overall Portfolio Return to Maturity		
Portfolio % < 1 year	Min 40%	Max 100%
Portfolio % > 1 year < 3 years	Min 0%	Max 60%
Portfolio % > 3 year < 5 years	Min 0%	Max 30%
Portfolio % > 5 year	Min 0%	Max 15%

7. Performance Benchmarks

The performance of the investment portfolio shall be measured against the industry standard UBS 90 day Bank Bill Index and/or the Official RBA 11am Cash Rate. For investments with a lifetime of more than 24 months Council will use the Ausbond Composite 2-5 year Index (<https://www.bloomberg.com/quote/BACM25:IND>).

Investment Strategy

An Investment Strategy will run in conjunction with the Investment Policy. The Strategy will take into consideration:

- Council's cash flow expectations.
- Ensure access is available within seven (7) days to at least \$1million or 1% of the value of its total investments, whichever is the greatest amount.
- Optimal target allocation of investment types, credit rating exposure, and term to maturity exposure.

- Appropriateness of overall investment types for Council's portfolio.
- Determine the investment portfolio level for the forthcoming year.

Reporting

- A monthly report shall be provided to Council, detailing the investment portfolio in terms of performance and amounts with each investment.
- For audit purposes, certificates must be obtained from Austraclear (if utilised) and each financial institution confirming the amounts of investment held on the Council's behalf at 30th June each year.

Safe Custody Arrangements

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

- Adequate documentation is provided, verifying the existence of the investments.
- The custodian conducts regular reconciliation of records with relevant registries and/or clearing systems.
- The Institution or Custodian recording and holding the assets will be:
 - Austraclear or;
 - An institution with a credit rating of 'A' or better from Standards and Poor's or equivalent;
 - An institution with adequate insurance, including professional indemnity insurance and other insurances considered prudent and appropriate to cover its liabilities under any agreements.

Ethical Investments

Within the limits of this Investment Policy and legislation, Council's investments will be made in consideration of the principals of ethical investment management. Preference will be given to institutions rated highly by recognised ethically responsible investment screening processes, provided the financial return and risk rating of investment products being considered at the time are otherwise equivalent.

Council will preference investment securities and financial institutions that meet socially responsible investments (SRI) criteria. SRI status may be in respect of the individual investment, the issuer of the investment, or both and should be endorsed by an accredited environmentally and socially responsible industry body or institution.

Environmentally and Socially Responsible Investments will be assessed on the same basis as other investment opportunities and Council will select the investment that best meets its overall investment selection criteria.

Council's criteria relating to an SRI are those which:

- direct investment towards the socially and environmentally productive activities listed below; and
- avoid investment in the socially and environmentally harmful activities listed below.

The criteria for SRI are all preferred and not mandatory requirements.

Environmentally productive activities are considered to be:

- resource efficiency-especially water and energy
- renewable energy
- production of environmentally friendly products
- recycling, and waste and emissions reduction

Socially productive activities are considered to be:

- fair trade and provision of a living wage
- human health and aged care
- equal opportunity employers, and those that support the values of communities, indigenous peoples and minorities
- provision of housing, especially affordable housing

Environmentally harmful activities are considered to be:

- production of pollutants, toxins and greenhouse gases (coal, oil and gas)
- habitat destruction, especially destruction of forests and marine eco-systems.
- nuclear power
- uranium mining

Socially harmful activities are considered to be:

- abuse of Human Rights and Labour Rights
- involvement in bribery/corruption
- production or supply of armaments
- manufacture of alcohol, tobacco or gambling products

Investment Advisor

Any independent investment adviser engaged by Council, with the exception of TCorp, must hold an Australian Financial Services licence from the Australian Securities and Investments Commission.

Council must obtain written confirmation from the investment adviser that they do not have any actual or potential conflicts of interest in relation to the investments they are recommending or reviewing, and that they are not receiving any commissions or other benefits in relation to the investments they are recommending or reviewing.

Policy Review

In accordance with the OLG Guidelines this Investment policy will be reviewed at least on an annual basis and any amendments should be approved by a resolution of Council.