

TEMORA SHIRE COUNCIL



TEMORA

The Friendly Shire

INVESTMENTS

ACTIVE

Review Details

ABOUT THIS RELEASE

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REVIEW

Revision Date	Revision Description		Date approved by Council	General Managers Endorsement
December 2012	Change the percentage of a quote to 0.10%	1	20/12/2012	Gary Lavelle
April 2019	Review	2	18 April 2019	Gary Lavelle
October 2022	Review	3	20 October 2022	Gary Lavelle

PLANNED REVIEW

Planned Review Date	Revision Description		Review by
October 2023			Director of Administration & Finance

INVESTMENT POLICY

PURPOSE

The purpose of this policy is to provide a framework for investing 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 Council's liquidity requirements are met.

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.
- Council will seek to achieve the best rates of return available in line with the Council's risk tolerance.

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
- 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 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.

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.

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.

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.

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
- Stand-alone 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.

RISK MANAGEMENT GUIDELINES

Council's primary strategy is to preserve the capital invested by diversifying with different approved financial institutions.

This minimizes the risk in terms of interest rate movement and integrity of individual financial institutions.

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 (considering the time value of money);
- Diversification – setting limits to the amounts invested with a particular financial institution or government authority to reduce credit risk;
- Credit risk – the risk that council has if an institution 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.

DIVERSIFICATION/CREDIT RISK

The table below sets out limitations for Investment funds to be observed by Council, in conjunction with any other conditions set by NSW Treasury Corporation (T-Corp) under existing loan agreements.

Column A Long Term Debt Rating		Column B	Column C	Column D
S&P	Moody's	Portfolio Limit	Counterparty Limit	Maximum Tenor
AAA	Aaa	100%	60%	Not Applicable
AA+ to AA-	AA1 to Aa3	100%	60%	5 years
A+ to A	A1 to A2	100%	60%	3 years
A-	A3	40%	20%	3 years
BBB+	Baa1	35% (a 15% sub limit applies to investments rated BBB/Baa2)	10%	3 years
BBB	Baa2		5%	12 months
BBB- and below: Local ADIs	Baa3 and below: Local ADIs	0%	0%	-
BBB- and below: Other	Baa3 and below: Other		0%	-
Other Eligible Investments		100%	100%	Not applicable

For the avoidance of doubt, the Long Term Debt Rating of a Council's investments for the purposes of this Schedule will be determined as follows: (i) if only one Rating Agency provides a Long Term Debt Rating, the Long Term Debt Rating will be based on the rating of that Rating Agency and (ii) if a Long Term Debt Rating has been assigned by both Rating Agencies and such ratings are not equivalent, the lower of such ratings shall apply.

LIQUIDITY RISK PARAMETERS

All investments are to be placed with institutions regulated by the Australian Prudential Regulation Authority (APRA) in accordance with the Banking Act 1959 i.e. Authorised Deposit-taking Institutions (ADIs) or T-Corp, but excluding subordinated debt obligations.

At least three quotations shall be obtained from qualifying institutions whenever an investment is proposed. The best quote of the day will be successful, providing the investment will not breach any parameters contained within this policy and after allowing for administrative and banking costs, whilst also giving consideration to institutional diversification. Council may accept a quote up to 0.10% less than the highest quote in a bid to spread the risk across a number of institutions.

BENCHMARKING

Investment performance will be measured against the Bank Bill Swap Rate (BBSR) or the Bank Bill Index depending upon the term of the investments.

REPORTING AND REVIEWING OF 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 monthly report will be provided to Council. The report will detail the investment portfolio in terms of performance, percentage exposure of total portfolio, maturity date and changes in market value.

This Investment Policy will be reviewed at least once a year or as required in the event of legislative changes. The Investment Policy may also be changed as a result of other amendments that are to the advantage of Council and in the spirit of this policy. Any amendment to the Investment Policy must be by way of Council resolution.

INVESTMENT ADVISOR

In the event that Council engages the services of an investment advisor, the investment advisor must be approved by Council and with the exception of T-Corp, 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.

DEFINITIONS

ADI means Authorised Deposit Taking Institution

Counterparty Limit means the sub limit of the Portfolio Limit for each counterparty

Long Term Debt Rating means the rating assigned by the Rating Agency to the long term, unsecured and unsubordinated indebtedness of an ADI.

Other Eligible Investments means the investments made by Council in T-CorpIM funds, T-Corp term deposits, and bonds issued by T-Corp or other Australian state government central borrowing authority.

Portfolio Limit is the limit of the Council's investment funds which varies according to the Long Term Debt Rating of the counterparty

Rating Agency means Standard and Poor's Rating Services and Moody's Investors Service Inc.

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 12th day of January 2011


Hon BARBARA PERRY MP
Minister for Local Government