




Investment Policy

DOCUMENT AUTHORISATION

RESPONSIBLE OFFICER:		CHIEF FINANCIAL OFFICER			
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9	23/06/2022	20.06/22	Update to current format. Increase the frequency of review of policy to one year.	Chief Financial Officer	Council
8	25/06/2020	8.06/20		Chief Financial Officer	Council
7	24/04/2019	6.04/19		Chief Financial Officer	Council

Note: Document Control continued at Appendix A



 General Manager (Interim)

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 30.4.22
 Date

ACKNOWLEDGEMENT OF COUNTRY

Glen Innes Severn Council acknowledges and pays respect to the Ngoorabul people as the traditional custodians of this land, their elders past, present and emerging and to Torres Strait Islander people and all First Nations people.

PREAMBLE

This policy incorporates the provisions of Section 625 of the *Local Government Act 1993*, Clause 212 of the *Local Government (General) Regulations 2021*, the Investment Policy Guidelines and the current Ministerial Investment Order enacted on 11 February 2011.

PURPOSE

The purpose of this policy is to:

- provide a framework for the investing of Council's funds while
 - Investing at the most favorable interest available at the time;
 - Considering risk and investment security; and
 - Ensure liquidity requirements are met.

APPLICABILITY

This policy applies to:

- All Council staff.

OUTCOMES

Glen Innes Severn Council is committed to prudent and sustainable investment practices. While exercising the power to invest, consideration is to be given to the preservation of capital, liquidity, return on investments and sustainably ethical practices:

- 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 safeguard the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters. In setting these limits Council is determining the general level of risk that is acceptable for public monies managed for the Glen Innes Severn Council community;
 - 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 rate of return in line with Council's risk tolerance; and
 - Ethical Investments are to be considered if returns from fossil fuel free institutions are better or identical to mainstream investments.
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ROLES AND RESPONSIBILITIES

It will be the responsibility of the **Chief Financial Officer (CFO)** to induct staff into this Policy where required. Revised versions of the Policy that contain significant changes will be communicated to all relevant staff by the CFO.

DEFINITIONS

Definitions of terms used in this policy:

- **Authorised Deposit-taking institutions (ADI's)** – are corporations authorised under the *Bank Act 1959* (Commonwealth) 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 (BBSW)** – 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. These can be underwritten by banks, to become “bank bills” on which the benchmark return is calculated;
 - **Bloomberg Ausbond Bank Bill Index** – is an index comprising of 13 synthetic instruments defined by rates interpolated from the **Reserve Bank of Australia (RBA)** 24-hour cash rate and the one (1) and three (3) month Bank Bill Swap Rates;
 - **Council Funds** – surplus monies that are invested by Council in accordance with section 625 of the *Local Government Act 1993*;
 - **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;
 - **TCorp/TCorpIM – New South Wales Treasury Corporation (NSW TCorp)**, including the **TCorp Investment Management (TCorpIM)** arm which manages the TCorpIM Funds (formerly Hour-glass);
 - **Term Deposits** – are non-tradeable investments offered by ADI's with varying maturity dates (normally from one (1) month to 60 months) and an interest 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;
 - **Ethical Investments** – are investments offered by institutions which have a fossil fuel free banking policy.
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POLICY STATEMENT

An investment policy is a governing document that guides the investment process. It should communicate the-Council's:

- investment philosophy;
- overall risk philosophy;
- investment objectives and expectations;
- identify the roles for those involved in the investment process; and
- detail the requirements for compliance with the policy's goals and procedures.

Interest on investments represents a significant contribution to the total income of Council and it is essential that Council has clear policy guidelines as to how funds can be invested. While the *Local Government Act 1993 – Order* (relating to investments by Councils) is quite explicit as to the types of institutions with which Council can invest, there are nevertheless variations in the financial ratings of these institutions and the types of investments that can be purchased, which are not explained. This policy aims to clearly state the institutions with which Council can invest, the maximum proportion of funds that may be placed with individual organisations, and the types of investments entered into.

Council officers that are involved in selecting, reviewing and/or monitoring investment products should use this policy to ensure they understand the parameters, risks and expectations that councils are required to consider when making an investment.

SCOPE

This policy applies to Investment monies built up through:

- General unrestricted reserves created through rate income and other revenue sources exceeding (re)current expenditure, sale of properties and other assets;
- Restricted reserves that accrue through contributions under Section 94 of the *Environmental Planning and Assessment Act 1979*;
- Internally restricted reserves;
- Restricted reserves accruing through special purpose grants, donations etc.;
- Loan proceeds drawn down awaiting expenditure; and
- Timing differences within the year between rate receipts and applications.

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 Director of Corporate and Community Services, subject to regular reviews.

Council Officers' delegated authority to manage Council's investments shall be recorded, and they shall be 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.

Whenever an investment deposit is proposed, the Council Officer shall obtain not less than two (2) quotations from authorised institutions.

ETHICS AND CONFLICTS OF INTEREST

Council 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 conflicts of interest to the General Manager.

Council's investments are primarily restricted to ADI's (banks, building societies, credit unions) that are governed by APRA. As far as is practicable these investments are considered to be environmentally and socially ethical.

Independent advisors are also required to declare that they have no actual or perceived conflicts of interest.

APPROVED INVESTMENTS

The Ministerial Investment Order allows the following as approved investments:

- Commonwealth/State/Territory Government security i.e. bonds;
- Interest bearing deposits issued by an Authorised Deposit-taking Institution (ADI);
- Bills of exchange, (<200 days duration), guaranteed by an Authorised Deposit-taking Institution (ADI);
- Debentures issued by NSW Local Government;
- Deposits with NSW Treasury and/or investments in TCorp's IM Funds; and
- Investments grandfathered under the previous Ministerial Investment Order.

PROHIBITED INVESTMENTS

This Investment Policy prohibits, but is not limited to, any investment carried out for speculative purposes including:

- Any investment product that is not included in the Ministerial Investment Order and the "Approved Investments" listing outlined above;
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- 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) 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.

Trust funds are excluded from this Policy as they must be kept in a separate bank account.

INVESTMENT ADVISOR

If an investment advisor is engaged he or she must be approved by Council and licensed by the **Australian Securities and Investment Commission (ASIC)**. The advisor must be an independent person who has no actual or potential conflict of interest in relation to investment products being recommended. The investment advisor may recommend the most appropriate product within the terms and conditions of the Investment Policy.

The independent advisor is required to provide written confirmation that he or she does not have any actual or potential conflicts of interest in relation to the investments he or she is recommending or reviewing, including that he or she is not receiving any commissions or other benefits in relation to the investments being recommended or reviewed.

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 of Financial Institutions – the requirement to place investments in a broad range of institutions so as not to be over exposed to a particular organisation within the investment market;
 - 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 institution runs out of cash, is unable to redeem the investment 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);
 - 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; and
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- Rollover Risk – the risk that income will not meet expectations or budgeted requirements because interest rates are lower than expected in future.

INVESTMENT PROTOCOLS

Council's investments protocols are as follows:

- Delegation for investing surplus funds is the responsibility of the General Manager or his or her delegate and must be accordance with Council's adopted Investment Policy;
- Funds will be invested as per the credit and maturity limits as outlined below;
- Council will balance the considerations of risk and return with each investment lodged and will seek to reduce the risk of its investments over time in line with capital preservation principles identified in this policy;
- New investment deposits shall be only lodged after Council has received at least two (2) interest rate quotations;
- Investment deposits shall be only lodged after Council has considered cash flow expectations;
- Investment deposits shall only be lodged after Council has considered an optimal target allocation of investment types, credit rating exposure and term to maturity exposure; and
- Investment deposits shall only be lodged after Council has considered the appropriateness of overall investment types for Council's portfolio i.e. term deposit and on call accounts.

Credit and Maturity Limits

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 to the Minister's Order also recognises Moody's and Fitch Ratings and any of the three (3) 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 ADI sector, not ratings.

The maximum holding limit in each rating category and the target credit quality weighting for Council's portfolio shall be:

(a) Overall Portfolio Limits

Long Term Rating Range (or Moody's equivalent)	Maximum Holding
AAA Category	100%
AA Category or major banks*	100%
A Category	45%
BBB Category	25%
Government	100%

* 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:

- **Australian and New Zealand Banking Group Limited (ANZ);**
- **Commonwealth Bank of Australia (CBA);**
- **National Australia Bank Limited (NAB); and**
- **Westpac Banking Corporation (WBC).**

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

Similarly, with other ADI groups (such as Bendigo Bank, Macquarie Bank, ING, Bank of Queensland and Adelaide Bank) own multiple banking licences, rating categories are based on the parent bank even if the subsidiary is not explicitly rated.

Council may ratify an alternative definition from time to time.

In the event of a disagreement between agencies as to the rating ("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.

(b) Counterparty Limits

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

In other words, the maximum percentage of the total investment portfolios funds that can be invested with one (1) institution is:

Long Term Rating Range (or Moody's equivalent)	Limit
AAA Category ²	45%
AA Category or major banks *	35%
A Category	15%
BBB Category	5%

² *Commonwealth Government and Government-guaranteed deposits are included in this category to the extent of the guarantee and not according to the bank's actual rating, but without any upper limit applying to the government as counterparty.*

* The definitions are as in the previous section.

(c) 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 internal 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 capex forecasts;
- Known grants, asset sales or similar one-off inflows; and
- Seasonal patterns to Council's investment balances.

Investment Horizon - Description	Investment Horizon – Maturity Date	Minimum Allocation	Maximum Allocation
Working capital funds	0-3 months	Less than 100%	100%
Short term funds	3-12 months	20%	100%
Short – medium funds	1-2 years	0%	70%
Medium term funds	2-5 years	0%	50%

**An exception to the above limits applies to funds placed with either the Australian Federal Government or the NSW State Government or their respective Treasury Functions. 100% of Council's monies can be placed with these institutions.*

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

BENCHMARKING

Performance benchmarks are to be provided for comparative purposes only. The benchmark is not an investment return target. The rate of return on Council investments will be dependent on Council's risk tolerance.

The Term Deposit rate for the average 90-day rate of the five (5) largest banks identified in the Ausbond Bank Bill Index is considered appropriate for the purpose of benchmarking Council investments.

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

REPORTING AND REVIEWING OF INVESTMENTS

Documentary evidence must be held for each investment and details thereof maintained in an Investment Register.

Certificates must be obtained from the financial institutions confirming the amounts of investments held on 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 interest returns, maturity date and changes in market value. Any material deterioration in investment portfolio is to be reported to Council at the next available Council Ordinary Meeting.

LEGISLATION AND SUPPORTING DOCUMENTS

Relevant Legislation, Regulations and Industry Standards include:

Council's power to invest is derived from Section 625 of the *Local Government Act 1993*, as amended by the *Statute Law (Miscellaneous Provisions) Act 2000*, which limits investments to only those that the Minister approves.

The Local Government Act 1993 section 625 (2) of the Act states that:

"Money may be invested only in a form of investment notified by order of the Minister published in the Gazette"

All investments are to comply with the following:

- *Local Government Act 1993* - Section 412 and 625;
- *Local Government Act 1993* – Investment Order (of the Minister) – in accordance with the most recently published Order;
- *The Trustee Amendment (Discretionary Investments) Act 1997* – Sections 14A(2), 14C(1) and (2);
- *Local Government (General) Regulation 2021* – Clause 212;
- Local Government Code of Accounting Practice and Financial Reporting;
- Office of Local Government – Investment Policy Guidelines – May 2010;
- Australian Accounting Standards; and
- Office of Local Government Circulars.

VARIATION AND REVIEW

The Investment Policy will be reviewed every one (1) year, or earlier if deemed necessary, to ensure that it meets the requirements of legislation and the needs of Council. The term of the Policy does not expire on the review date, but will continue in force until superseded, rescinded or varied either by legislation or a new resolution of Council.

Appendix A**Document Control Continued**

PREVIOUS VERSIONS:	DATE:	RESOLUTION NO:	DESCRIPTION OF AMENDMENTS:	AUTHOR / EDITOR:	REVIEW / SIGN OFF:
6	22/02/2018	9.02/18		Chief Financial Officer	Council
5	24/09/2015	13.09/15		Chief Financial Officer	Council
4	26/06/2014	12.06/14		Chief Financial Officer	Council
3	24/2/2011	16.02/11		Chief Financial Officer	Council
2	26/03/2009	8.03/09		Chief Financial Officer	Council
1	22/02/2007	11.02/07		Chief Financial Officer	Council