

# **Investments Policy 2022**

## **POL025**



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**Policy No:** POL025  
**Policy Title:** Investments Policy  
**Section Responsible:** Finance  
**Minute No/Ref:** 22/049  
**Doc ID:** 8340

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## **1. INTENT**

To provide a framework for the investing of Council's funds at the most favourable interest rate available at the time whilst giving due consideration to risk and security for that investment type and ensuring that its liquidity requirements are being met.

## **2. SCOPE**

This policy applies to all Council investments.

## **3. OBJECTIVE**

Preservation of capital is the principal purpose of the investment portfolio. Investments are to be placed in a manner that seeks to ensure the security and safeguarding of the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters

## **4. POLICY STATEMENT**

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

- Preservation of capital is the principal objective of the investment portfolio. Investments are to be placed in a manner that safeguards 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 anticipated sale of an investment.
- Investments are expected to achieve a market average rate of return in line with the Council's risk tolerance.
- An investment is not in a form of investment notified by the Ministers order unless it also complies with an investment policy of Council adopted by a resolution of Council.

- Council should by resolution adopt an investment policy that is consistent with the Ministers order and any guidelines issued by the Deputy Secretary (Local Government) Department of Planning, Industry & Environment, from time to time.

## **5. PROVISIONS**

### **5.1 AUTHORITY FOR INVESTMENT**

All investments are to be made in accordance with:

- Local Government Act 1993
- 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
- Office of Local Government Policy Guidelines May 2010
- Trust Deeds that Council administers.

### **5.2 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 portfolio to safeguard the portfolio in accordance with the spirit of this Investment Policy, and not for speculative purposes.

### **5.3 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.

### **5.4 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.

### **5.5 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 investments
- 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
- Investing in the mortgage of land (part (c) of the Investment Order dated July 2008) is prohibited
- This policy also prohibits the use of leveraging (borrowing to invest) for an investment.

## **5.6 RISK MANAGEMENT GUIDELINES**

Investments obtained are to be considered in light of the following 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 the instrument Council has invested in fails to pay the interest and or repay the principal of the 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
- 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.

## **5.7 INVESTMENT ADVISOR**

An investment advisor must be approved by Council and licensed by the Australian Securities 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.

An 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.

## **5.8 INVESTMENT REPORTING AND REVIEWS**

Documentary evidence must be held for each investment and details maintained in an Investments 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 every two years 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.

## 5.9 OPERATION

### 5.9.1 Council Direct Investments

1. Not less than three (3) quotations shall be obtained from authorised institutions when a new investment is proposed.
2. When assessing quotations for fixed deposits with the Bendigo Bank, recognition will be given to the Narrandera Community Bank contribution of its commission to a community fund.

### 5.9.2 Council Investments Framework

Investments are to comply with three key criteria relating to:

1. **Portfolio Credit Framework:** limits the overall credit exposure of the portfolio
2. **Counterparty Institution Credit Framework:** limits exposure to individual institutions based on their credit ratings
3. **Term to Maturity Framework:** limits based upon maturity of securities.

### 5.9.3 Council Investments Framework

The maximum available limits in each rating category are as follows:

Portfolio Credit Limits			
Long Term Credit Ratings	Short Term Credit Ratings	Direct Investments Maximum	TCorp Managed Funds Maximum
AAA	A-1+	100%	100%
AA+ to AA-	A-1+	100%	100%
A+ to A	A-1+, A-1	100%	100%
A-	A-1, A-2*	30%	40%
BBB+ to BBB	A-2*	30%	30% overall (BBB max 10%)
BBB- & below*	A-3*	0%	5%**
Unrated*	Unrated*	0%	5%**

Note: \* Direct Investments are to be restricted to senior ranked debt from Australian Authorised Deposit Taking Institutions (ADI's) such as banks, building societies and credit unions that are regulated by, and subject to the prudential standards of the Australian Prudential Regulation Authority (APRA).

Note: \*\* Managed funds are restricted to those available through the NSW TCorp Hour Glass facility and have been given specific approval per the Cole Inquiry Report.

#### 5.9.4 Counterparty / Institution Credit Framework

Exposure to individual counterparties / financial institutions will be restricted by their credit rating (ratings based on Standard & Poor's or Moody's credit ratings) so that single entity exposure is limited, as detailed in the table below:

Individual Counterparty Limits			
Long Term Credit Ratings	Short Term Credit Ratings	Direct Investments Maximum	TCorp Managed Funds Maximum
AAA	A-1+	35%	100%
AA+ to AA-	A-1+	35%	100%
A+ to A	A-1+, A-1	25%	100%
A-	A-1, A-2*	15%	20%
BBB+ to BBB	A-2*	10%	10%
BBB- & below*	A-3*	0%	5%
Unrated*	Unrated*	0%	5%

Note: \* Direct Investments are to be restricted to senior ranked debt from Australian Authorised Deposit Taking Institutions (ADI's)

#### 5.9.5 Term to Maturity Framework

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

	Individual Counterparty Limits		
	Short Term (0-1yr)	Medium Term (1yr-5yrs)	Long Term (5yrs-10yrs max)
Maximum	100%	50%	30%
Minimum	30%	0%	0%

#### 5.9.6 Credit Ratings

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

#### 5.9.7 Performance Benchmarks

Investment	Performance Benchmark
Cash / Cash Plus / Direct Investments	11 AM and UBSWA Bank Bill Index

## 6. DEFINITIONS

- **ADI:** An Authorised Deposit-taking Institution (ADI) is a corporation that is authorised under the Banking Act 1959 (C'with) to take deposits from customers
- **BBNSW:** 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 s625 LG Act 1993.
- **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.
- **NSC:** Narrandera Shire Council
- **OLG:** NSW Office of Local Government
- **TCorp:** NSW Treasury Corporation

## 7. ROLES AND RESPONSIBILITIES

### General Manager

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.

Officer's 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 under this policy.

## 8. RELATED LEGISLATION

- Local Government (General) Regulation 2005
- Local Government Act 1993
- S14 The Trustee Amendment (Discretionary Investments) Act 1997

## 9. RELATED POLICIES AND DOCUMENTS

- Australian Accounting Standards
- Council Code of Conduct
- Local Government Code of Accounting Practice and Financial Reporting
- NSW Office of Local Government Investment Policy Guidelines 2010

## 10. VARIATION


Council reserves the right to review, vary or revoke this policy in accordance with legislation, regulation and award changes, where applicable. Council may also make changes to this policy and the relevant procedures from time-to-time to improve the effectiveness of its operation.

## 11. PREVIOUS VERSIONS

Reference to a superseded policy number and/or name is also considered a reference to the new policy number. This policy was previously named:

- CS40 Investments Policy
- F1520 Investments Policy

### POLICY HISTORY

<b>Responsible Officer</b>	<b>Finance Manager</b>		
<b>Approved by</b>	<b>General Manager</b>		
<b>Approval Date</b>	<b>3 May 2022</b>		
<b>GM Signature</b> <i>(Authorised staff to insert signature)</i>			
<b>Next Review</b>	<b>1 May 2024</b>		
<b>Version Number</b>	<b>Endorsed by ELT</b>	<b>Endorsed by Council</b>	<b>Date signed by GM</b>
1 Adopted	-	21/03/2006	21/03/2006
2 Reviewed	-	16/01/2007	16/01/2007
3 Reviewed	-		29/06/2007
4 Reviewed	-	9/12/2008	9/12/2008
5 Reviewed	-	21/09/2010	21/09/2010
6 Reviewed	-	20/09/2011	20/09/2011
7 Reviewed	-	9/12/2014	10/12/2014
8 Reviewed	-	21/08/2018	21/08/2018
9 Reviewed	4/05/2020	-	4/05/2020
10 Reviewed	24/11/2020	15/02/2022	3/05/2022

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