



LEETON SHIRE COUNCIL
Preserving the Past, Enhancing the Future

LEETON SHIRE COUNCIL POLICY

INVESTMENTS

INTRODUCTION

Council can have large sums of surplus funds invested at any one time. Interest on these 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. The Local Government Act 1993 and the Order of the Minister relating to the forms of investment for purposes of Section 625(2) [of the Act] 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. The recommendations of the Cole Inquiry Report, April 2008 refer to certain investments types that are suspended until 31 December 2009 and certain securities that are grandfathered. This policy aims to clearly state the types of institutions with which Council can invest, the maximum proportion of funds that are placed with individual organisations, the types of investments entered into and the term of those investments.

OBJECTIVES

To provide a framework for the investing of 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 its liquidity requirements are being 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.

Investments are expected to achieve a market average rate of return in line with the Council's risk tolerance.

In support of the local community, Council will invest with local banks and financial institutions when the rates are competitive as a preference to other entities.

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*
- *NSW Trustee Act 1925 – Section 14A(2) and 14C(1) and (2)*
- Australian Accounting Standards; and
- Division 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.

The Director of Corporate Services, Financial Services Manager and Finance Co-ordinator are the delegated officers to place and redeem investments on behalf of Council.

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

Any Council funds not required for financial commitments are to be invested.

Investments are limited to those allowed by the most current Ministerial Investment Order that has been issued by the NSW Minister for Local Government.

The intention of the investment framework is to limit the overall credit exposure of Council's investment portfolio.

- 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).
- The Australian Government has guaranteed deposits up to \$250,000 in Authorised Deposit-taking Institutions (ADIs) such as banks of all sizes, building societies or credit unions. The guarantee applies to all ADIs incorporated in Australia, including Australian-owned banks and foreign subsidiary banks. Under the Financial Claims Scheme (FCS), the Government guarantees deposits up to a cap of \$250,000 per account-holder, per ADI.
- Investments may be made through the NSW Treasury Corporation Hour Glass facility as per the Minister's Investment Order.

Term to Maturity Framework: limits based upon maturity of securities.

- Short Term : 0 – 1 year
- Medium Term: 1 year – 5 years
- No securities are to be considered beyond 5 years.

Direct Investments

Short Term rating means the institution's capacity to repay debt in the short term. Examples of short term paper are: Commercial Bills, Certificate of Deposits, Term Deposits, Fixed Bill Lines and 11am Deposits etc.

The Short Term Rating Order 0 – 365 days (as defined by S & P Australian Ratings) is:

A1+	Extremely strong degree of safety regarding timely payment
A1	A strong degree of safety for timely payment
A2	A satisfactory capacity for timely payment

Medium Term Paper is usually Bonds, Senior Floating Rate Notes, Promissory Notes Government and Semi-Government Securities etc.

The Medium Term Rating Order is:

AAA AAA-	An extremely strong capacity to repay
AA+ To AA-	A very strong capacity to repay
A+ To A-	A strong capacity to repay

Council may invest with institutions with a medium term paper rating not lower than 'A-', according to the type of investment product.

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 may only invest money on the basis that all investments must be denominated in Australian Dollars.

Investments obtained are to be considered in light of the following key criteria:

- No Institution at any time shall hold more than 45% of Council's total investments when the investment was first made. The maximum will be determined by the short term rating of the institution viz A1+ up to 45% or issued by a major bank, A1 up to 35% and A2 up to 30%. Up to 100% of Council's investment portfolio can be invested in instruments of these ratings.
- The Trustee Act provides for investments with Building Societies and Credit Unions. Whilst they are not rated, they are now covered under Financial Prudential legislative controls. The maximum amount of funds invested with a Building Society/Credit Union will be 10% of Council's total investments at the time the investment was placed. Not more than 40% of Council's portfolio should be held with Building Societies/Credit Unions in total at the time of placing each investment.
- The investment shall be secured at all times as to both principal and interest.
- 3 Quotations from authorised institutions are to be obtained whenever possible or practical. Where this is not possible or practical, comparisons with similar investments with similar risk profile and term to maturity is required. The Investing Officer must satisfy themselves they are receiving a fair market price for all investments at all times.
- Council's investments should be placed in an appropriate mixture of short term (0 – 1 year) and medium term (1 – 5 years) categories according to Council's funding requirements and risk profile at the time of placing each investment.
- Should Any of Council's investments fall outside this policy at the time of its adoption by Council, or at any future time, such investments are to be divested as soon as practicable.
- Council may seek the assistance of finance brokers to source investments from time to time if it is the best interest of Council to do so. Council will ensure that any broker selected investment complies with the requirements of this policy.

INVESTMENT ADVISOR

The Council's investment advisor must be approved by Council and 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.

BENCHMARKING

Performance benchmarks need to be established and should be based on sound and consistent methodology.	
Investment	Performance Benchmark
Cash	Reserve Bank Cash Rate
Direct Investments	BBSW Rate: Average Mid - 90 day

REPORTING AND REVIEWING OF INVESTMENTS

Documentary evidence must be held for each investment and details thereof maintained in an Investment Register. The maintenance of the Investment Register is the responsibility of the Finance Department.

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. Confirmation of all investments is obtained each year end to as part of the annual Audit and Assurance processes.

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 or regulatory 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.

Policy History:

Date of Adoption/Amendment	Resolution Number
26 October 1994	94/161
23 October 2002	02/568
25 March 2009	09/77
15 August 2012	12/245
26 June 2013	13/136
22 February 2017	17/018