

INVESTMENTS POLICY

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<p>This document is to be reviewed once every Council Term. Next review date: February 2021</p>			
RESPONSIBLE OFFICER		General Manager	

PART 1: INTRODUCTION

1.1 Policy 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.

1.2 Scope of Policy

This policy shall apply to all investments made by Riverina Water County Council

1.3 Definitions

Act:	Local Government Act, 1993.
ADI:	Authorised Deposit-Taking Institutions (ADIs) are corporations that are authorised under the Banking Act 1959 (Cwth) to take deposits from customers.
Bill of Exchange:	A 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.
BBSW:	The Bank Bill Swap reference rate (BBSW) is the average of mid-rate bank-bill quote from brokers on the BBSW Panel. 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 section 625 of the Act
Debenture:	A 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.
OLG:	NSW Office of Local Government, Department of Premier and Cabinet.
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.
Grandfathered:	Investments held by Council that were previously allowed under the Minister's Order but were Grandfathered (i.e. eligible to retain but not add to or restructure

existing investments) when the NSW State Government changed the list of Approved Investments as a result of the Cole enquiry reflected in the Ministerial Order dated 31/7/2008.

- IP:** The Investment Policy (IP) provides the general investment goals and objectives of Council and describes the strategies that must be employed to meet these objectives. Specific information on matters such as asset allocation, risk tolerance, and liquidity requirements are also included in the IP.
- LGGR:** Local Government (General) Regulation 2005 (NSW).
- NCD:** Is a short term investment in an underlying security being a negotiable certificate of deposit (NCD) where the term of the security is usually for a period of 185 days or less (sometimes up to 2 years). NCDs are generally discount securities, meaning they are issued and on-sold to investors at a discount to their face value.
- RAO:** Responsible Accounting Officer of a council means a member of the staff of the council designated by the General Manager, or if no such member has been designated, the General Manager. (LGGR, clause 196)
- T-Corp:** New South Wales Treasury Corporation.
- UBSA BBI:** UBS Australia calculates a daily Bank Bill Index representing the performance of a notional rolling parcel of bills averaging 45 days.

1.4 Legislative Context

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.

PART 2: POLICY PROVISIONS

2.1 Delegation of Authority

Authority for implementation of the Investments 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 Investments to the Manager Corporate Services.

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.

2.2 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 portfolios to safeguard the portfolio in accordance with the spirit of this Investment Policy, and not for speculative purposes.

2.3 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.

2.4 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.

2.5 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 instruments;
- Principal only investments or securities that provide potentially nil or negative cash flow;
- 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.

2.6 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 (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 a council has invested in 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 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.

2.7 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.

2.8 Investment Guidelines

Investments are to comply with three key criteria relating to:

- (a) **Portfolio Credit Framework:** - limit overall credit exposure of the portfolio;
- (b) **Counterparty/Institution Credit Framework:**-limit exposure to individual institutions based on their credit ratings, and;
- (c) **Term to Maturity Framework:** - limits based upon maturity of securities.

(a) Portfolio Credit Framework

The portfolio credit guidelines to be adopted will be based on the Standard & Poors (S&P) ratings system criteria. The maximum available limits in each rating category are as follows:

OVERALL PORTFOLIO CREDIT LIMITS			
Long Term Credit Ratings	Short Term Credit Ratings	Maximum percentage of Portfolio	Definition
AAA Category	A-1+	100%	Extremely strong capacity to pay
AA Category	A-1	100%	Extremely strong capacity to pay
A Category	A-2*	75%	Strong capacity to pay
BBB Category*	A-3*	40%	Adequate capacity to pay
Unrated Category*	Unrated*	40%	Unrated eg. building societies

* Investments with counterparties below A Category (Long Term) and below A-1 (Short Term) are to be restricted to Authorised Deposit Taking Institutions (such as banks, building societies and credit unions) regulated by, and subject to the prudential standards of the Australian Prudential Regulation Authority (APRA).

(b) Counterparty/Institution Credit Framework

Exposure to individual counterparties/financial institutions will be restricted by their S&P rating so that single entity exposure is limited, as detailed in the table below:

INDIVIDUAL INSTITUTION LIMITS			
Long Term Credit Ratings	Short Term Credit Ratings	Maximum percentage of total investments with any one institution	Definition
AAA Category	A-1+	60%	Extremely strong capacity to pay
AA Category	A-1	50%	Extremely strong capacity to pay
A Category	A-2*	40%	Strong capacity to pay
BBB Category*	A-3*	30%	Adequate capacity to pay
Unrated Category*	Unrated*	30%	Unrated eg. building societies

* Investments with counterparties below A Category (Long Term) and below A-1 (Short Term) are to be restricted to Authorised Deposit Taking Institutions.

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

(c) Term to Maturity Framework

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

Overall Portfolio Term to Maturity Limits		
	Minimum	Maximum
Portfolio % < 1 Year	65%	100%
Portfolio % > 1 Year < 3 Years	0%	20%
Portfolio % > 3 Years < 5 Years	0%	15%
Portfolio % > 5 Years	0%	0%

Individual Investment Maturity Limits		
Non Authorised Deposit Taking Institutions (ADIs)	n/a	5 years*
ADI issues rated BBB or above*	n/a	5 years
ADI issues non-rated	n/a	n/a

* This will be the maximum investment term or WAL (weighted average life) for mortgage and asset backed securities.

2.9 Performance Benchmarks

Performance benchmarks need to be established and should be based on sound and consistent methodology.

Investment	Performance Benchmark
Cash	RBA Cash Rate
Fund	UBSA Bank Bill Index
Direct Investments	AFMA BBSW Rate: Average (term dependent on investment term)

2.10 Quotations on Investments

Not less than two (2) quotations shall be obtained from authorised institutions when a new direct investment is proposed. Investments may be 'rolled over' with the current holder of the investment within the guidelines set out above.

2.11 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 council term 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 that Council and in the spirit of this policy. Any amendment to the Investment Policy must be by way of Council resolution.