

INVESTMENT OF COUNCIL FUNDS

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OBJECTIVES

- To establish the framework that Orange City Council adopts in investing its funds having due consideration of all legislative requirements.
- To maximise returns to Council consistent with all requirements of this Policy.
- To comply with the legislative requirements and regulations relevant to the management of Council's investments.
- To preserve the capital 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.
- To establish a framework for monitoring the investments. The investment portfolio is expected to achieve a predetermined market average rate of return that takes into account Council's risk tolerance. Any additional return target set by Council will also consider the risk limitation and prudent investment principles.

GENERAL

This Policy recognises the role of the Council in ensuring adequate control over the investment of surplus funds by providing guidance for staff through this Policy, which establishes a framework for selection of quality securities that give consideration to the risk, return and liquidity requirements of the Council.

LEGISLATIVE REQUIREMENTS

All investments are to be made in accordance with:

- 1 The Local Government Act 1993
- 2 The Local Government (General) Regulation 2005
- 3 Ministerial Investment Order (Gazetted 11 February 2011)
- 4 The Trustee Act 1925
- 5 Recommendations from the Review of NSW Local Government Investments – Final Report – Michael Cole, April 2008
- 6 The Local Government Code of Accounting Practice and Financial Reporting
- 7 Office of Local Government Circulars, Guidelines and Practice Notes
- 8 Australian Accounting Standards
- 9 Council Resolutions

DELEGATION OF AUTHORITY

The authority for the implementation of the Investment Policy has been delegated by Council to the General Manager in accordance with the Local Government Act 1993.

The General Manager has delegated the day-to-day management of Council's Investment Portfolio to the staff as identified in Council's adopted Register of Delegations.

All policies can be reviewed or revoked by a resolution of Council, at any time.

RELATED POLICIES/DOCUMENTS

Investment of Council Funds Procedures

Local Government Act 1993

Local Government (General) Regulation 2005

Ministerial Investment Order (Gazetted 11 February 2011)

Trustee Act 1925

Recommendations from the Review of NSW Local Government Investments – Final Report – Michael Cole, April 2008

Local Government Code of Accounting Practice and Financial Reporting

Office of Local Government Circulars, Guidelines and Practice Notes

Australian Accounting Standards

Responsible Area – Corporate and Commercial Services

REVISION					
	DATE	RESOLUTION		DATE	RESOLUTION
1	January 1998		7	19 Nov 2009	09/453
2	January 2003 Policy B.3.1	File 033.07.19	8	15 Dec 2011	11/576
3	January 2004 Policy B.3.1	File 033.07.19	9	4 Feb 2014	14/38
4	January 2005 Policy B.3.1	File 112/212/25/3/1	10	Dec 2014	15/084
5	20 July 2006	06/702/9	11	3 July 2018	18/308
6	7 June 2007	07/207			

SUMMARY OF AMENDMENTS

Amendment Date	Section/Reference and Amendment
April 2018	Formatting amendments Definitions – Addition of AusBond Bank Bill Index Prohibited investments – Addition of “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” in part 4. Clarification – Tier 1 rated banks replaced with “major banks” (being Commonwealth Bank, ANZ, Westpac, National Australia Bank). Minor word changes/additions
December 2014	Formatting amendments. Addition of performance benchmark.

Investment of Council Funds

Procedures

All policies can be reviewed or revoked by a resolution of Council, at any time.

DEFINITIONS

ADI	Authorised Deposit-taking Institutions (ADI) are corporations that are authorised under the Banking Act 1959 (Cwth) to take deposits from customers.
AusBond Bank Bill Index	The Bank Bill Index (BBI), formerly the UBS BBI, represents the performance of a notional rolling parcel of bills averaging 45 days, and is the widely used benchmark for local councils and other institutional cash investments.
BBSW	The Bank Bill Swap reference rate (BBSW) is the average of mid-rate bank-bill quotes from brokers on the BBSW Panel. The BBSW is calculated daily. Floating rate securities are most commonly reset quarterly to the 90-day BBSW.
CFRN	A Corporate Floating Rate Note (CFRN) 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” when the NSW State Government changed the list of Approved investments as a result of the Cole Inquiry.
LGGR	Local Government (General) Regulation 2005
OLG	NSW Office of Local Government
RAO	The Responsible Accounting Officer (RAO) of a council refers to a member of staff of the council designated by the General Manager, or if no such member of staff has been designated, the General Manager (LGGR Clause 196).
T-Corp, TCorp-IM	New South Wales Treasury Corporation and its investment management operation

PRUDENT PERSON STANDARD

The Council’s investments 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.

APPROVED INVESTMENTS

All investments must be denominated in Australian Dollars and must be in accordance with the Local Government Act 1993 – Investment Order (Gazetted 11 February 2011).

As published in the Local Government Act 1993 Investment Order, Council may only invest money 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;*

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- (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;*

In addition, the Investment Order provides transitional arrangements to grandfather those investments held prior to the date of the Order.

PROHIBITED INVESTMENTS

This Investment Policy prohibits any investment carried out for speculative purposes including:

- 1 Derivative based instruments
- 2 Principal only investments or securities that provide potentially nil or negative cash flow
- 3 Stand-alone securities issued that have underlying futures, options, forward contracts and swaps of any kind
- 4 The use of leveraging (borrowing to invest) of 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.

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
- Diversification – the requirement to place investments in a broad range of products so as not to be over exposed to a particular sector of 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 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
- Leveraging Risk – the magnification of an investor's risk and return that occurs when the investor takes on financial leverage through an investment product.

INVESTMENT STRATEGY

The Investment Strategy shall be developed to support Council's investment objectives for liquidity, security and return. The current investment strategy, inclusive of portfolio percentage and dollar based allocations is set out in tabular form later in this document.

i. Liquidity

Liquidity refers to the minimum level of liquid funds available to finance day to day requirements. Cash flow must be monitored daily and Council will ensure that it has access within 7 days to at least \$3 million or 5 per cent of the value of its total investments, whichever is the lower amount.

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ii. Diversification

Diversification is used to spread risk and is achieved by establishing maximum percentage investment limits for the value of investments in the following:

- Individual Institutions (varies per credit rating)
- Credit Rating Bands (e.g.: AAA v A) – these are Standard & Poor’s Long-Term ratings, Moody’s or Fitch equivalents, or other ratings that have an established credibility in the market.

iii. Investment Management Practices

To ensure that Council funds are prudently invested with care, due diligence and skill, the following investment management practices will be undertaken with the applicable outcomes and objectives in mind:

Risk Area	Outcomes and Objectives
Investment Policy Compliance	The portfolio is at all times compliant with Council’s Investment Policy and relevant regulation.
Liquidity	<p>Under this Investment Strategy, Council shall at all times maintain sufficient funds in “Working Capital” to meet the anticipated liabilities of Council for the following 90 days.</p> <p>In addition, sufficient capital shall be retained in short-term assets to meet Council’s funding requirements, net of anticipated borrowings, for the following 3 to 12 month period.</p> <p>Medium and long-term investments will have varying degrees of liquidity. An early exit from these investments may result in penalties being incurred. Regular reviews of Council’s allocation to these investments relative to Council’s underlying investment horizons should minimise the risk of having to exit an investment in adverse market conditions. Exposure to medium and long-term investments will be limited to the proportion of the portfolio identified for these investment horizons.</p>
Security	<p>Working Capital Funds, Short-Term Funds and Short-Medium Term Funds (as defined in this document) are to be invested to target capital (principal) security over their nominated investment horizon to an extremely high probability level. Medium Term Funds and Long Term Funds (as defined in this document) are to be invested to target capital (principal) security over their nominated time horizon, and assuming they are held to maturity, to a high probability level.</p> <p>This will be achieved through Counterparty and Credit Quality targets to minimise the risk of loss of capital.</p>
Income	The target for investment income will be consistent with the assumptions included in Council’s operational budget.
Total Return	Having provided liquidity, security and income needs, total returns on Council Funds are maximised with the view of achieving the stated investment objective.

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iv. Risk Management

All investments carry a trade-off between risk, liquidity and return. Further, risks can either be amplified or reduced when investments are combined within a portfolio. To address these risks the following mechanisms are in place:

- Council’s Investment Policy is the key risk control document, setting out counterparty risk limits, minimum credit quality of the portfolio and relevant restrictions on particular investment types.
- Council will receive professional assistance with evaluation and monitoring investments to ensure they will meet Council needs. The advisor shall also assist Council to ensure that the commercial terms on which Council is offered investments by fund managers, issuers and brokers are fair and reasonable.
- Council will receive professional assistance with portfolio construction so that:
 - The overall risk of the portfolio can be appropriately assessed;
 - The portfolio can be adjusted over time as circumstances warrant;
 - Regulatory changes are accommodated; and
 - This Investment Strategy can be properly reviewed from time to time and recommendations made for improvement as required.

v. Portfolio Construction

Council’s investment portfolio strategy shall be built around allocation of Council funds into a multidimensional framework that has regard to three key aspects, being:

- a. Credit Quality of the portfolio and the management of Counterparty exposure;
- b. Allocation of investments within defined Investment Categories (or asset class) that are included within the approved investment guidelines; and
- c. Time horizon or maturity profile of the portfolio.

The framework in which Council’s portfolio is managed for each of these aspects is considered below.

Credit Quality Limits

The portfolio credit guidelines to be adopted will be based on the Standard & Poor’s (S&P) ratings system criteria. The equivalent Moody’s or Fitch ratings, or the equivalent ratings of other credible agencies may be applied. The maximum holding limit in each rating category for Council’s portfolio shall be:

Long-Term Credit Ratings	Maximum Holding
AAA Category	100%
AA Category or Major Banks ¹	100%
A	60%
BBB & Unrated ADIs ²	40%

¹ AA category also includes TCorpIM Strategic Cash Fund, which typically maintains a credit score consistent with an AA rating. For the purpose of this policy, the current definition of “Major Banks” is:

The ADI deposits or senior guaranteed principal and interest ADI securities issued by the major Australian banking groups including ADI subsidiaries, whether or not explicitly guaranteed, including brands (such as St George)

- Australia and New Zealand Banking Group Limited
- Commonwealth Bank of Australia
- National Australia Bank Limited
- Westpac Banking Corporation

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² Council may invest with unrated ADIs up to the limit of the protected investment cap of \$250,000 under the Financial Claims Scheme (FCS).

Counterparty Limits

Exposure to individual counterparties/financial institutions will be restricted to their S&P (or equivalent) rating so that single entity exposure is limited, as detailed in the table below. This table does not apply to any managed fund or structured investment grandfathered in accordance with OLG directions where it is not possible to identify a single counterparty exposure.

Long-Term Credit Ratings	Maximum Holding
AAA Category ¹	40%
AA Category or Tier 1 ADIs	30%
A Category	15%
BBB Category	10%
Unrated Category ²	5%

¹ 100 per cent Commonwealth Government and Government-guaranteed deposits are included in this category.

² This category includes unrated ADIs such as Credit Unions and Building Societies and where possible Council will use the Federal Government's bank deposit guarantee under the FCS to limit the exposure to unrated entities.

Term to Maturity Limits

Council's investment portfolio will be structured around the time horizon of investments to ensure that liquidity and income requirements are met.

Once the primary aim of liquidity is met, Council will ordinarily diversify its maturity profile as this will ordinarily be a low-risk source of additional return as well as reducing the volatility of 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 capital expenditure forecasts;
- Known grants, asset sales or similar one-off inflows;
- Seasonal patterns to Council's investment balances.

Investment Horizon Description	Investment Horizon Maturity Date	Minimum Allocation	Maximum Allocation
Working Capital Funds	0 – 3 Months	10%	100%
Short-Term Funds	3 – 12 Months	20%	100%
Short – Medium-Term Funds	1 – 2 Years	0%	70%
Medium-Term Funds	2 – 5 Years	0%	50%
Long-Term Funds	5 – 10 Years	0%	25%

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INVESTMENT ADVISOR

The Council's investment advisor must be approved by the General Manager and be licensed by the Australian Securities and Investment Commission. The Advisor must be independent and have not actual or perceived conflict of interest in relation to the pool of investment products available to NSW Local Government; and is free to choose the most appropriate product within the terms and conditions of the Investment Policy. The 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, except as fully and promptly rebated to Council.

ACCOUNTING

Council will comply with appropriate accounting standards in valuing its investments and quantifying its investment returns. In addition to recording investment income in accordance with accounting standards, published reports may show a break-down of its duly calculated investment returns into capital gains and losses, and interest.

From time to time financial assets may be acquired at a discount or a premium to their face value. Discount or premium is to be taken into account in line with relevant Australian Accounting Standards. Investments will be accounted for in accordance with all applicable legislation and guidelines.

MEASUREMENT

A monthly report on Council's investment portfolio will be provided to Council by the RAO. The report will detail the investment portfolio in terms of performance, percentage exposure of the total portfolio, maturity date, any changes in market value and a review against the performance benchmark as established by Council's Long Term Financial Plan.

The following performance benchmarks will be used:

- Cash – Official RBA 11am Cash Rate
- Enhanced and Direct Investments – Bloomberg Aug Bond Bank Bill Index

The investment return for the portfolio is to be reviewed quarterly by Council's independent financial advisor by assessing the market value of the portfolio. Within one month of the end of each calendar quarter Council's independent financial advisor is to certify Council's investments are compliant with Council's Investment Policy.

ETHICALLY AND SOCIALLY RESPONSIBLE INVESTMENTS

Ethical and socially responsible investments (SRIs) are a means for investors to support their values in terms of socially responsible investments. In addition to normal risk assessment, investment can be further evaluated in terms of environment, social and governance issues. A number of independent organisations have been established to evaluate and rate companies according to these criteria.

Subject to legislative compliance and investment policy objectives, Council supports investments in Ethical or Socially Responsible Investments, but only where all other investment criteria are met and the performance outlook is not disadvantageous to Council.

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SECURITY

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.

POLICY REVIEW

This investment policy will be reviewed at least annually or as required in the event of legislative requirements.