

# Central Tablelands *Water*



## Investment Policy

<b>Policy Title:</b>	Investment Policy	
<b>Responsible Officer:</b>	Director Finance and Corporate Services	
<b>Adopted:</b>	Date: 12.10.2016	Minute Number: 16/079
<b>Last Reviewed:</b>	Date: May 2016	
<b>Version Number:</b>	v1	

## Objectives

- (a) To undertake investment of surplus funds, maximising earnings from authorised investments, whilst ensuring the security of Council Funds.
- (b) To ensure there is sufficient liquidity to meet all reasonably anticipated cash flow requirements, as and when they fall due, without incurring significant costs due to the unanticipated sale of an investment.

## Policy

### Legislative Requirements

All investments are to be made in accordance with:

- (a) Local Government Act 1993;
- (b) Ministerial Investment Order;
- (c) Trustee Act 1925;
- (d) Local Government (General) Regulation 2005;
- (e) Local Government Code of Accounting Practice and Financial Reporting;
- (f) Australian Accounting Standards; and
- (g) Division of Local Government Circulars.

### Delegation of Authority

Authorised Officer	Roles & Responsibilities
General Manager	Authority to invest surplus funds and authority to delegate this function.
Director Finance and Corporate Services	Authority to invest surplus funds.

### Authorised 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.

Council shall only invest money (on the basis that all investments must be denominated in Australian Dollars) 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;
- (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 Local Government Financial Services Pty Ltd;
- (f) a deposit with the New South Wales Treasury Corporation or investments in an Hour-Glass investment facility of the New South Wales Treasury Corporation.

All investment instruments (excluding short term discount instruments) referred to above include principal and investment income (interest).

### **Transitional Arrangements**

- (i) Subject to paragraph (ii) nothing in this Order affects any investment made before the Ministerial Order dated 31 July 2008 which was made in compliance with the previous Ministerial Order dated 15 July 2005, and such investments are taken to be in compliance with this Order.
- (ii) Paragraph (i) only applies to those investments made before the Ministerial Order dated 31 July 2008 and does not apply to any restructuring or switching of investments or any re-investment of proceeds received on disposal or maturity of such investments, which for the avoidance of doubt must comply with this Order.

### **Prudent Person Standard**

The investments shall be managed with 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.

If engaged, independent advisors shall also be required to declare that they have no actual or perceived conflicts of interest.

### **Prohibited Investments**

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

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

### **Risk Management Guidelines**

Investments are to comply with the following criteria:

- (a) Preservation of Capital - all reasonable measures are to be taken to prevent losses in portfolio value (considering the time value of money);
- (b) Institutional Diversification:

- a. Not less than three (3) quotations shall be obtained from authorised institutions when an investment is proposed with an investment time period of a minimum of 3 months to a maximum of 5 years.
  - b. Direct investments shall not exceed \$3,000,000 with any one institution, at any one time.
  - c. All term deposit investments are to be made with authorised deposit taking institutions.
- (c) Maturity Risk - the investment portfolio is to be invested within the following maturity constraints:

Overall Portfolio Return to Maturity		
Portfolio % < 1 year	Min 40%	Max 100%
Portfolio % > 1 year	Min 0%	Max 60%
Portfolio % > 3 year	Min 0%	Max 30%
Portfolio % > 5 year	Min 0%	Max 20%

- (d) Market/Credit Risk - consideration shall be given to the risk that the fair value or the future cash flows of an investment will fluctuate due to changes in market prices, or the risk of failure to repay principal or pay interest of in investment;
- (e) Liquidity Risk -
  - (i) Matching investments with cash flow requirements.
  - (ii) Ensure access is available within seven (7) days to at least \$1,000,000 or 10% of value of total investments, whichever is greater.

### Performance Benchmarks

The performance of the investment portfolio shall be against the industry standard 11am Cash Rate for cash investments and BBSW 90 Day Swap Rate for direct investments.

### Measurement

As Council continues to hold grandfathered investments such as Collateralised Debt Obligations (CDOs), the investment returns of the portfolio is to be regularly reviewed by an independent financial advisor by assessing the market value of the portfolio.

### Reporting and Responsibilities of Council Officers

- (a) The Responsible Accounting Officer shall be responsible for reconciling the investment register on a monthly basis and ensuring sufficient records are maintained, including:
  - (i) the source and amount of money invested;
  - (ii) particulars of the security or form of investment in which the money was invested;
  - (iii) the term of the investment, and
  - (iv) if appropriate, the rate of interest to be paid, and the amount of money earned, in respect of money invested.

- (b) A monthly report shall be provided to Council, detailing the investment portfolio in terms of performance, investment institution and amount of each investment.
- (c) The report should also detail each average return percentage against the performance benchmark rates.
- (d) For audit purposes, certificates must be obtained from financial institution confirming the amounts of investment held on the council's behalf at 30<sup>th</sup> June each year.
- (e) The documentary evidence must provide Council legal title to the investment.

### **Investment Advisor**

Should council engage an investment advisor, the 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.

### **Review of Investment Policy**

This policy shall be reviewed annually and any amendments, if necessary shall be approved by resolution of council.