

Subject **INVESTMENTS**

Description: This document describes Council's policy on the investment of its funds

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 Council's 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.

- Investment of surplus funds will be in line with Council's investment practice strategy.
- 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.
- Earnings will be optimised within Risk Management criteria that have a high risk aversion to ensure the security of Council's funds.
- 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 aversion.

Legislative Requirements:

All investments are to comply with the following:

- Local Government Act 1993;
- Local Government (General) Regulation 2005;
- Ministerial Investment Order dated 12 January 2011;
- Local Government Code of Accounting Practice and Financial Reporting;
- Australian Accounting Standards; and
- Department of Local Government Circulars.

PART 1 - POLICY

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* and the terms of the Uralla Shire Council Investment Practice Note.

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 they will be required to acknowledge they have received a copy of this policy and understand their obligations in this role.

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 Practice Note, 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

Investments are limited to those allowed by the Ministerial Investment Order and include:

- Commonwealth/State/Territory Government security eg bonds;
- Interest bearing deposits, or any debentures or bonds issued by an authorised deposit-taking institution (ADI);
- Bills of exchange, (<200 days duration), 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 (ADI);
- Debentures issued by NSW Local Government;
- Deposits with NSW Treasury; or investments in an Hour-Glass investment facility of the NSW Treasury Corporation and
- Investments grandfathered under the previous Ministerial Investment Order.

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

Prohibited Investments

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, forward contracts and swaps of any kind.

This policy also prohibits the use of leveraging (borrowing to invest) of an investment.

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; and
- 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 Practice Strategy

An Investment Practice Strategy will run in conjunction with the investment policy. The Strategy will outline:

- Council's cash flow expectations;
- Optimal target allocation of investment types, credit rating exposure and term to maturity exposure; and
- Appropriateness of overall investment types for Council's portfolio.

Investment Advisor

Council may resolve to appoint an Investment Advisor, such an 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 on a risk adjusted basis at a high risk aversion level.

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 year 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.

PART 2 - EXEMPTIONS

Nil

PART 3 - CRITERIA

Nil

PART 4 - OTHER MATTERS

This Policy is to be considered in conjunction with the NSW Department of Local Government Investment Policy Guidelines- May 2009, Pages 1 to 16.

Review: This policy is to be reviewed as necessary or every four (4) years in accordance with Section 165, Local Government Act, 1993.

Resolution No: 265/97; 596/99; Revised Sept. 03: 452/03; Revised Nov. 03: 515/03; Revised March 05: 94/05; Replaced September 2009: 419/09; Revised June 2011: 207/11; Adopted without Change August 2013 (249/13).

LOCAL GOVERNMENT ACT 1993 – INVESTMENT ORDER

(Relating to investments by councils)

I, the Hon. Barbara Perry MP, Minister for Local Government, in pursuance of section 625(2) of the *Local Government Act 1993* and with the approval of the Treasurer, do, by this my Order, notify for the purposes of section 625 of that Act that a council or county council may 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 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 both principal and investment income.

Transitional Arrangements

- (i) Subject to paragraph (ii) nothing in this Order affects any investment made before the date of this Order which was made in compliance with the previous Ministerial Orders, and such investments are taken to be in compliance with this Order.
- (ii) Paragraph (i) only applies to those investments made before the date of this Order 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.

Key Considerations

An investment is not in a form of investment notified by this order unless it also complies with an investment policy of council adopted by a resolution of council.


All councils should by resolution adopt an investment policy that is consistent with this Order and any guidelines issued by the Chief Executive (Local Government), Department of Premier and Cabinet, from time to time.

The General Manager, or any other staff member, with delegated authority by a council to invest funds on behalf of a council must do so in accordance with the council's adopted investment policy.

Councils have a fiduciary responsibility when investing. Councils should exercise the care, diligence and skill that a prudent person would exercise in managing the affairs of other persons.

When exercising the power of investment councils should consider, but not be limited by, the risk of capital or income loss or depreciation, the likely income return and the timing of income return, the length of the term of the proposed investment, the liquidity and marketability of the proposed investment, the likelihood of inflation affecting the value of the proposed investment and the costs (including commissions, fees, charges and duties payable) of making the proposed investment.

Dated this 12th day of January 2011


 Hon BARBARA PERRY MP
 Minister for Local Government