

GEORGES RIVER COUNCIL

Investment Policy

Document Status and Version Control

Ownership and Version Control

Document Name:	Investment Policy
Document Status:	Approved
Version:	1.0
Date:	20/06/2016
Author:	Chief Financial Officers
Document Owner:	Finance
Authorised By:	Council Resolution
Distribution:	Internet/Intranet
Council Report Reference:	
Council Meeting Date:	04/07/2016
Document No:	
File No:	15/892

Change History

Version	Release Date	Author	Reason for Change
1.0	04/07/2016	Chief Financial Officers	New Council

Related Documents

Local Government Act 1993 - Section 625

Local Government Act 1993 - Order (of the Minister) dated 12 January 2011;

The Trustee Amendment (Discretionary Investments) Act 1997 – Sections 14A(2), 14C(1) & (2);

Local Government General Regulation 2005;

Division of Local Government Investment Policy Guidelines, May 2010;

Office of Local Government Circulars;

Local Government Code of Accounting Practice and Financial Reporting; and

Australian Accounting Standards.

Contents

Contents	3
General	4
Purpose of Document	4
Related Documents	4
Application/Scope	4
Definition of Terms	5
Investment Policy	7
Investment Objectives	7
Legislative and Regulatory References	7
Delegation of Authority	8
Prudent Person Standard	8
Ethics and Conflicts of Interest	8
Authorised Investments	8
Prohibited Investments	9
Risk Management Guidelines	9
Investment Advisor	10
Accounting	10
Safe Custody Arrangements	10
Credit Quality Limits	11
Counterparty Limits	12
Term to Maturity Limits	13
Performance Benchmarks	14
Reporting	15
Review of Policy	15

General

PURPOSE OF DOCUMENT

The purpose of this document is to establish the framework within which investment principles are to apply to the investment of Council funds. It details:

- Council Funds covered by this Investment Policy;
- Council's objectives for its investment portfolio/s;
- how investments are to be undertaken;
- the applicable risks to be managed;
- any constraints and other prudential requirements to apply to the investments of Funds having regard to the applicable legislation and regulations governing Council investment;
- the manner in which compliance with the Policy & Strategy will be monitored and reported;
- appropriate benchmarks for each category of investments.

RELATED DOCUMENTS

This policy statement has been prepared to recognise the legislative requirements and obligations for the investment of Council's funds. The legislative requirements are detailed within this Investment Policy.

Council's will comply with investment regulations and directions of the Office of Local Government – which will prevail in the event of inconsistencies with published Policy and Strategy.

APPLICATION/SCOPE

The effective date of this Investment Policy Statement is **4 July 2016** and will be reviewed at regular twelve monthly intervals, or when either changes in regulation or market conditions necessitate a review.

This policy applies to all officers within Georges River Council delegated to invest surplus funds of Council.

DEFINITION OF TERMS

Act	<i>Local Government Act, 1993.</i>
ADI	Authorised Deposit-Taking Institutions (ADIs) are corporations that are authorised under the <i>Banking Act 1959 (C'wlth)</i> to take deposits from customers.
AusBond BBI	Formerly the UBS BBI. The UBS Australia index family was acquired by Bloomberg from Q3 2014, and while branding changed the benchmark construction is unaltered. It 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 investors.
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.
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.
LGGR	<i>Local Government (General) Regulation 2005 (NSW).</i>
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.

OLG	NSW Office of Local Government, and its predecessors the Division / Department of Local Government.
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 been designated, the General Manager. (LGGR, clause 196)
Semi-government	Issued or guaranteed by a State or Territory government (within Australia)
T-Corp	New South Wales Treasury Corporation.
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 enquiry (which was reflected in the Ministerial Order dated 31/7/2008).
IPS	The Investment Policy Statement 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 IPS.

Investment Policy

INVESTMENT OBJECTIVES

The purpose of this **Policy** is to provide a framework for the optimum investment of Georges River Council's Funds at the most favourable rate of return available to it at the time to maximise returns, whilst having due consideration of risk, liquidity and security for its investments.

While exercising the power to invest, consideration is to be given to the preservation of capital, liquidity and the return of investment. Council therefore has several primary objectives for its investment portfolio:

- Compliance with legislation, regulations, the prudent person tests of the Trustee Act and best practice guidelines;
- The preservation of the amount invested;
- To ensure there is sufficient liquid funds to meet all reasonably anticipated cash flow requirements; and
- To generate income from the investment that exceeds the performance benchmarks mentioned later in this document.

Council's Investment **Strategy** will run in conjunction with its Investment **Policy** and will outline:

- Councils current cash flow expectations and the implications for deviations from a long-term liquidity profile;
- Diversification: allocation of investment type, credit quality, counterparty exposure and term to maturity profile;
- Market conditions and the appropriate responses – particularly relative positioning within the limits outlined in this policy;
- Relative return outlook, risk-reward considerations, assessment of the market cycle and hence constraints on risk; and
- Appropriateness of overall investment types for Council's portfolio.

LEGISLATIVE AND REGULATORY REFERENCES

All investments are to comply with the following:

- *Local Government Act (1993)*;
- *Local Government (General) Regulation (2005)*;
- Ministerial Investment Order;
- *The Trustee Amendment (Discretionary Investments) Act (1997)* – Section 14;
- Local Government Code of Accounting Practice and Financial Reporting;
- Australian Accounting Standards;
- Office of Local Government *Investment Policy Guidelines*; and
- Office 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 Director responsible for Finance and Chief Financial Officer, 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.

PRUDENT PERSON STANDARD

The 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 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 must also declare that they have no actual or potential conflicts of interest, and receive no inducements in relation to Council's investments.

AUTHORISED INVESTMENTS

All investments must be denominated in Australian Dollars. Authorised Investments are limited to those allowed by the Ministerial Investment Order, currently:

- Commonwealth / State / Territory Government securities e.g. bonds;
- Interest bearing deposits / senior securities issued by an eligible ADI;
- Bills of Exchange (< 200 days duration) guaranteed by an ADI;
- Debentures issued by a NSW Council under *Local Government Act (1993)*;
- Deposits with T-Corp &/or Investments in T-Corp Hour-Glass Funds;
- Existing investments grandfathered (included structured investments) under the Ministerial Investment Order.

Where referencing Growth assets, new Core (Medium Term or Long Term) or single sector Asset Class (all but Cash or Bond Funds) Hour-Glass investments must be ratified by Council before purchase, backing specific long-term liabilities.

PROHIBITED INVESTMENTS

This Investment Policy prohibits the following types of investment:

- 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. 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.

Prohibited investments are not limited to the list above, and extend to any investment carried out for speculative purposes.

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.
- **Credit Risk** – The risk that a party or guarantor to a transaction will fail to fulfil its obligations. In the context of this document it relates to the risk of loss due to the failure of an institution/entity with which an investment is held to pay the interest and/or repay the principal of an investment;
- **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;
- **Liquidity Risk** – the risk an institution runs out of cash, is unable to redeem investments at a fair price within a timely period and thereby Council incurs additional costs (or in the worst case is unable to execute its spending plans), or that Council requires funds prior to the maturity of its investments and incurs additional costs;
- **Market Risk** – the risk that fair value or future cash flows will fluctuate due to changes in market prices, or benchmark returns will unexpectedly overtake the investment’s return;
- **Maturity Risk** – the risk relating to the length of term to maturity of the investment. The longer the term, the greater the length of exposure and risk to market volatilities; and
- **Rollover Risk** – the risk that income will not meet expectations or budgeted requirement because interest rates are lower than expected in future.
- **Counterparty** – The risk that a party to a transaction will fail to fulfil its obligations. In the context of this document it relates to Council’s policy of limiting its exposure to any one ADI based on its credit rating;

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 independent and have 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 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 rebated to Council promptly.

ACCOUNTING

Council will comply with appropriate accounting standards in valuing its investments and quantifying its investment returns.

In addition to recording investment income according to accounting standards, published reports may show a break-down of its duly calculated investment returns into realised and unrealised capital gains and losses, and interest.

Other relevant issues will be considered in line with relevant Australian Accounting Standards, such as discount or premium, designation as held-to-maturity or on a fair value basis and impairment.

SAFE CUSTODY ARRANGEMENTS

Where necessary, investments may be held in safe custody on Council's behalf, as long as the following criteria are met:

- Council must retain beneficial ownership of all investments, and assets cannot be pledged, secured, or lent by the custodian;
- Adequate documentation is provided, verifying the existence of the investments at inception, in regular statements and for audit;
- The Custodian conducts regular reconciliation of records with relevant registries and/or clearing systems; and
- The Institution or Custodian recording and holding the assets will be:
 - The Custodian nominated by TCorp for Hour-Glass Funds;
 - Austraclear;
 - A major global bank subsidiary specialising in custody arrangements with adequate licensing and insurance, including professional indemnity insurance and other insurances considered prudent and appropriate to cover its liabilities under any agreement.

CREDIT QUALITY LIMITS

The portfolio credit guidelines to be adopted will reference the Standard & Poor's (S&P) ratings system criteria and format - however, the Minister's Order also previously referenced Moody's and Fitch Ratings and any of the three ratings may be used where available.

The primary control of credit quality is the prudential supervision and government support and explicit guarantees of the ADI sector, not ratings.

The maximum holding in each rating category for Council’s portfolio shall be:

Credit Quality	Maximum Holding
Federal Government	100%
AAA semi-government (State guarantee)	100%
AA Other semi-government and Major Banks*	100%
A Category	70%
BBB Category & unrated Category	40%

*For the purpose of this policy, “Major Banks” currently defined as:

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, and brands (such as St George):

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

Council may ratify an alternative definition from time to time.

AAA Category includes *TCorp Hour-Glass Cash Facility*, which typically maintains a credit score consistent with AAA rating.

AA Category also includes *TCorp Hour-Glass Strategic Cash Facility*, which typically maintains a credit score consistent with AA rating.

Unrated Category includes unrated ADI’s such as some Credit Unions and Building Societies to the extent not Commonwealth guaranteed.

Standard & Poor’s ratings attributed to each individual institution will be used to determine maximum holdings.

In the event of disagreement between agencies as to the rating band (“split ratings”) Council shall use the higher in assessing compliance with portfolio policy limits, but for conservatism shall apply the lower in assessing new purchases.

COUNTERPARTY LIMITS

Exposure to individual counterparties/financial institutions will be restricted by their rating so that single entity exposure is limited, as detailed in the table below. It excludes any government guaranteed investments.

Breaches of individual or aggregate limits due to downgrades of an institution require only suspension of new purchases within the affected category until compliance is restored. However, Council will not purchase new investments contrary to the policy limits.

Individual Institution or Counterparty Limits	
Credit Quality	Limit
AAA Semi-government (State guarantee)	40%
AA Other semi-government and Major Banks*	30%
A Category	15%
BBB Category	10%
Unrated Category	5%

INVESTMENT HORIZON LIMITS

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

“Horizon” represents the intended minimum term of the investment; it is open for the Investment Strategy to define a target date for sale of a liquid investment.

Once the primary aim of liquidity is met, Council will ordinarily diversify its maturity profile as this will ordinarily be a low-risk method of obtaining additional return as well as reducing the risks to 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 capex 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	5%	100%
Short term funds	3-12 months	10%	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%

Within these broad ranges, Council relies upon assumptions of expected investment returns and market conditions that have been examined with its investment advisor.

PERFORMANCE BENCHMARKS

The performance of each investment will be assessed against the benchmarks listed in the below.

It is Council's expectation that the performance of each investment will be greater than or to the applicable benchmark by sufficient margin to justify the investment taking into account its risks, liquidity and other benefits of the investment.

It is also expected that Council will take due steps to ensure that any investment is executed at the best pricing reasonably possible.

Investment	Performance Benchmark	Time Horizon
11 am Account, short dated bills, deposits issued by financial institutions of appropriate term.	AusBond Bank Bill Index (BBI)	3 months or less
Term Deposits of appropriate remaining term, FRN's nearing maturity.	AusBond Bank Bill Index (BBI)	3 months to 12 months
Term Deposits with a maturity date between 1 and 2 Years, FRN's.	AusBond Bank Bill Index (BBI)	1 to 2 years
FRN's, Bonds, Term deposits with a maturity date between 2 and 5 Years (except as otherwise designated on a shorter horizon).	AusBond Bank Bill Index (BBI)	2 to 5 Years
T-Corp Hour Glass Managed Funds	Fund's Internal Benchmark	5 to 10 Years

The decision on when to exit investments are based on a range of criteria specific to the investments – including but not limited to factors such as:

- Executing best value
- Returns expected over the remaining term
- Fair values
- Competing investment opportunities
- Costs of holding
- Liquidity and transaction costs
- Outlook for future investment values

REPORTING

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 (or, where an approved custodian, clearing house or nominee is used, beneficial ownership).

For audit purposes, certificates must be obtained from the banks/fund managers/custodian confirming the amounts of investment held on Council's behalf at 30th June each year.

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 holdings and impact of changes in market value since the previous report. The monthly report will also detail the investment performance against the applicable benchmark, investment income earned versus budget year to date and confirm compliance of Council's investments within legislative and policy limits. Council may nominate additional content for reporting.

REVIEW OF POLICY

The Investment Policy will be reviewed annually and as required in the event of legislative change or as a result of significantly changed economic/market conditions.

As mandated by the Minister's Order, an amended policy does not take effect until ratified by a resolution of Council.

To the extent that the policy becomes inconsistent with the regulatory framework, the regulations will prevail.