



Draft Policy:

Council Investments

2017

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#838120	9/4/09	Draft amendments reported to Council – further amendments see Res 09-181
#847260	21/4/09	Incorporating amendments 09-181 – On Public Exhibition
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#E2012/1401	15/8/12	Adopted after close of Public Exhibition – no submissions received
#E2017/18817	13/4/17	Draft updated policy reported to Finance Advisory Committee

Further Document Information and Relationships

List here the related strategies, procedures, references, policy or other documents that have a bearing on this Policy and that may be useful reference material for users of this Policy.

Related Legislation*	Local Government Act 1993 – Section 625. Local Government Act 1993 – Investment Order (of the Minister) dated 12 January 2011 (attached to policy). Local Government (General) Regulation 2005 – Regulation 212 The Trustee Amendment (Discretionary Investments) Act 1997 – Sections 14A(2), 14(C)(1) & (2)
Related Policies	
Related Procedures/ Protocols, Statements, documents	

Note: Any reference to Legislation will be updated in the Policy as required. See website <http://www.legislation.nsw.gov.au/> for current Acts, Regulations and Environmental Planning Instruments.

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1. OBJECTIVES

The purpose of this Policy is to provide a framework for the investment of Council's funds at the most favourable rate of interest available to it at the time of investment and maximising return whilst having due consideration of risk, liquidity, and security for its investments. Council must consider the purpose of an investment opportunity in terms of environmental and social outcomes when investing funds where the investment return is favourable relative to alternate investment opportunities.

2. SCOPE

This Policy is to cover:

- Council's objectives for its investment portfolio;
- Applicable Risks to be managed;
- Detail any constraints or other prudential requirements to apply to the investment of Funds;
- The applicable legislation and regulation governing Council investments;
- The reporting of investments;
- Appropriate performance benchmark(s)

The Investment Policy is a policy produced by the Corporate and Community Services Directorate. The Finance Branch is responsible for the operation and updating of this Policy.

This Policy document replaces any previous Investment Policy document approved by Council.

3. DEFINITIONS

ADI	Authorised Deposit Taking Institution as defined in the Banking Act 1959 (Cwth).
Delegated Officers	Director of Corporate and Community Services Manager Finance Management/Assets Accountant Financial Operations Accountant
RAO	Responsible Accounting Officer as prescribed by Regulation 196 of the Local Government (General) Regulation 2005. The Responsible Accounting Officer of Byron Shire Council is the Manager Finance.

4. STATEMENT

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

- a) Compliance with legislation, regulations, the prudent person tests of the Trustee Act and guidelines issued by the Office of Local Government.
- b) Preservation of the investment principal amount invested.
- c) To ensure there is sufficient liquid funds to meet all reasonably anticipated cash flow requirements of Council.
- d) To generate income from the investment portfolio that exceeds the performance benchmark(s) established in this Policy.

- e) Facilitate the enhancement of environmental and social outcomes through investment of Council funds where available that support these purposes where the investment is compliant with legislation and the rate of return is favourable relative to comparable investments at the time the investment opportunity arises.
- f) Investment opportunities for Council that support environmental and social outcomes will be considered on the merits of the investment opportunity presented as priority and not the environmental/social merits on the ADI offering the investment opportunity.

4.1. Delegation of Authority

Authority for the implementation of the Investment Policy is delegated by Council to the General Manager in accordance with Section 377 of the Local Government Act 1993. The General Manager has in turn delegated the management of the Investment Policy to the Delegated Officers as defined in this Policy. Specifically, day-to-day management of Council's investments rests with the Manager Finance as Council's RAO.

Any investment undertaken under this Policy requires two Delegated Officers to approve the investment on the following basis:

- i) Investments up to \$1,000,000 in accordance with this Policy can be authorised by the RAO and one of the Delegated Officers.
- ii) Investments greater than \$1,000,000 in accordance with this Policy can be authorised by the RAO and Director Corporate and Community Services.

Such authorisations extends to Council Officers that may fill these positions from time to time when the position incumbent is on approved leave.

4.2 Prudent Person Standard/Ethics and Conflict of Interest

The investment portfolio of Council will be managed with the care, diligence and skill that a prudent person would exercise. As Trustees of public money, Delegated Officers are to manage the Council Investment Portfolio to safeguard the portfolio in accordance with the requirements of this Investment Policy and not for speculative purposes.

Delegated Officers shall refrain from personal activities that would conflict with the proper execution and management of Council's Investment Portfolio. This Policy requires Delegated Officers to disclose any conflict of interest to the General Manager.

4.3 Authorised Investments

All investments must be denominated in Australian Dollars and be only those investments prescribed by the Investment Order (of the Minister) issued from time to time. The current Investment Order (of the Minister) is attached to this Policy. Individual investments will generally be in at least \$1,000,000 parcels wherever possible.

4.4 Risk Management

In regard to performing investment management on Council's behalf, due consideration must also be given to the following:

- a) Preservation of Capital – The requirement for preventing losses in an investment portfolio's total value.
- b) 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.
- c) 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.
- d) Liquidity Risk – the risk an investor runs out of cash, is unable to redeem investments at a fair price within a timely period, and thereby incurs additional costs (or in the worst case is unable to execute its spending plans).
- e) 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.
- f) 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.
- g) Rollover Risk – the risk that income will not meet expectations or budgeted requirement because interest rates are lower than expected in future.

4.5 Credit Quality and Limits

a) Direct Investments

The amount invested with any one financial institution should not exceed the following percentages of average annual funds invested.

Long Term Rating (Standard & Poors)	Short Term Rating (Standard & Poors)	Maximum Percentage of Total Investments
AAA to AA	A1+	100%
A+ to A-	A1	60%
BBB+ to NR	A2, NR	40%

As an alternate to credit ratings issued by Standard and Poor's, Council can also utilise credit ratings published by Moody's and Fitch rating agencies. However, it needs to be recognised that the primary control of credit quality is the prudential supervision of the Authorised Deposit-Taking Institutions (ADI) sector.

Council should also consider counterparty limits in terms of the amounts of investments held with any single ADI. This should especially be the case for longer term investments.

Term to maturity limits should be structured around the time horizon of investment to ensure that liquidity and income requirements are met. Council always retains the flexibility to invest as short as required by internal requirements or the economic outlook.

b) Credit 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 whilst preserving invested capital.

4.6 Safe Custody Arrangements – Security of Title

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

- i) Council must retain beneficial ownership of all investments.
- ii) Adequate documentation is provided, verifying the existence of the investments.
- iii) The custodian conducts regular reconciliation of records with relevant registries and/or clearing systems
- iv) The Institution or Custodian recording and holding the investment on Council's behalf will be:
 - o The Custodian nominated by New South Treasury Corporation for Hour Glass Facilities (if used).
 - o Austraclear
 - o An institution with an investment grade Standard and Poor's, Moody's or Fitch rating.
 - o An institution with adequate insurance, including professional indemnity insurance and other insurances considered prudent and appropriate to cover its liabilities under any agreement.

b) Prior to undertaking any investment it is imperative that the security of title of the investment proposed must be in the name and ownership of Byron Shire Council.

4.7 Accounting and Reporting

Council will comply with appropriate Accounting Standards in valuing its investments and quantifying its investment returns including interest and fair value gains/losses. Council will provide disclosure relating to its investment portfolio at the conclusion of each financial year as prescribed by Accounting Standards and the Local Government Code of Accounting Practice and Financial Reporting.

Council is to maintain a register of its investments including documentary evidence to Council's legal title to the investments held. The register of investments is to be reconciled monthly to the general ledger which forms the basis of monthly reporting to Council in accordance with Regulation 212 of the Local Government (General) Regulation 2005 and the monthly financial report to the Executive Team.

4.8 Performance Benchmarks

The performance expectation of all Council's individual investments within the overall Council investment portfolio will meet the performance benchmark in the table below:

Investment	Performance Benchmark
Cash / Direct Investments	Exceed average 90 day Bank Bill Swap Index

5. LEGISLATIVE AND STRATEGIC CONTEXT

5.1. Community Strategic Plan

Council's Investment Policy supports the effective governance, business, project and financial management of Council. Specifically strategy CM1.1 Improve the transparency, effectiveness and accountability of Council and CM1.3 Improve organisational sustainability (economic, social, environmental and governance).

5.2. Legislative Requirements

- a) Local Government Act 1993 – Section 625(2).
- b) Local Government Act 1993 – Investment Order (of the Minister) dated 12 January 2011.
- c) Trustee Amendment (Discretionary Investments) Act 1997 – Section 14A(2), 14C(1) 7 (2).
- d) Local Government (General) Regulation – Regulation 212.
- e) Local Government Code of Accounting Practice and Financial Reporting as amended from time to time.
- f) Australian Accounting Standards
- g) Office of Local Government Investment Policy Guidelines and Circulars.
- h) Council resolution 15-515 – Environmentally and Socially Responsible Investments.

6. SUSTAINABILITY

6.1. Social

The investment of Council's funds may provide the Council to seek investment opportunities that assist in the improvement of society or the community through the investment into projects where allowable that have positive social outcomes.

6.2. Environmental

The investment of Council's funds may provide the Council to seek investment opportunities that assist in the improvement of the Environment through the investment into projects where allowable that have positive environmental outcomes.

6.3. Economic

The investment of Council's funds provides the opportunity to generate revenue to assist in the financial sustainability of the Council and to carry out its functions.

6.4. Governance

This Policy establishes the framework for the management of Council's invested funds and to ensure due diligence and care is exercised by those charged with the investment of Council's funds,

ATTACHMENT

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