PENRITH
CITY COUNCIL

POLICY DOCUMENT

POLICY NAME
Investment Policy

POLICY NUMBER
Click here to enter text.

DATE ADOPTED
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POLICY TYPE
Council

REVIEW DATE
June 2022

RESPONSIBLE DEPARTMENT
Financial Services

RELATED DOCUMENTS
Investment Strategy

1. Purpose

The purpose of this policy is to:

a) Outline considerations for investment of surplus funds in line with Council's current Investment Strategy
b) Provide a strategy & framework to maximise earnings from authorised investments and ensure the security of Council funds, and
c) Ensure that Council and its representatives exercise care, diligence and skill that a prudent person would exercise in investing Council's funds.

2. Objectives

While exercising the power to invest, consideration needs to be given to preservation of capital, liquidity, and the return on investment.

- **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. Officers are to manage the investment portfolio to safeguard the portfolio in accordance with the spirit of this Investment Policy and the Ministerial Investment Order, and not for speculative purposes.
- The investment portfolio seeks to ensure the **liquidity** needs of the Council - to meet all reasonably anticipated cash flow requirements, as/when they fall due; and without incurring significant costs due to the unanticipated sale of an investment.
- The investment is expected to achieve an acceptable **rate of return** having reference to the Council's risk tolerance. Any additional return target set by the Council will also consider the risk limitation and prudent investment principles.

3. Legislative Requirements

All investments are to be made in accordance with:

- Local Government Act 1993 – Section 412 & 625 (Attachment A)

- Local Government Act 1993 – Prevailing Order (of the Minister) (Attachment B)
- Local Government (General) Regulation 2005 – Clause 212 (Attachment C)
- The Trustee Act 1995 – Sections 14A(2), 14C(1) & (2) (Attachment D)
- Australian Accounting Standards
- Division of Local Government Investment Policy Guideline May 2010
- Division of Local Government Circulars
- Local Government Code of Accounting Practice and Financial Reporting

4. Policy Statement

4.1 Overview

The Council will seek to maximise earnings from authorised investments within agreed levels of risk, return, and exposure, in consideration of the current economic climate.

4.2 Scope

This Policy applies to all members of Council staff who are involved in the investment of surplus funds.

4.3 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 Chief Financial Officer has delegated authority as the Responsible Accounting Officer to exercise functions in order to comply with Section 11 of the Local Government (Financial Management) Regulation or any section of the legislation that replaces this section.

Authority to sign documents to invest money on behalf of the Council has been given to the Director Corporate Services, Financial Services Manager, Operational Finance Coordinator, Operational Finance Accountant, Treasury and Operations Accountant, Business Support Accountant and Asset Accountant, as noted in the Councils Delegation Register.

Delegated staff will have the appropriate level of skills to undertake the investment functions of the Council.

Officers delegated to manage the Council's investments shall be recorded and are required to acknowledge that they have received a copy of this Policy; and understand their obligations in this role.

4.4 Responsibility for Implementing and Reviewing this policy and Reporting of Investments

The Trustee Amendment (Discretionary Investments) Act 1997 requires at Section 14 (4) that: "*A trustee must, at least once in each year, review the performance (individually and as a whole) of trust investments*." This policy provides far more stringent reporting requirements as detailed below.

The Financial Services Manager is responsible for implementing this Investment Policy and providing the following reports:

a) A monthly report to Council showing:

    - Confirmation of compliance with legislation and policy limits, and

- Investment portfolio performance.

b) For audit purposes, certificates must be obtained from financial institutions confirming the amounts of investment held on Council's behalf at 30 June each year.

The Investment Policy will be reviewed on a regular basis, at least once a year or as required in the event of legislative changes. Any amendment to this Policy must be by way of Council resolution.

5 Investment

(Refer to attachment E for Investment Descriptions and attachment F for other Definitions)

5.1 Authorised Investments

The Council may only invest money in the following forms of investment vehicle, as taken directly from the Local Government Act 1993 – Order (of the Minister) Circular No: 11/01 gazetted on 11 February 2011 *(full document included in attachment B)*:

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 and floating rate notes with, or any debentures or bonds issued by, an authorised deposit-taking institution (as defined in 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, or
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 of Council's investments must be denominated in Australian Dollars.

<u>Transitional Arrangements</u>

(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 Order dated 31 July 2008 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.

<u>Key Considerations</u>

All investments must be done in accordance with the Council's adopted Investment Policy.

5.2 Investment Responsibilities

The relevant Finance officer who prepares the daily cash forecast and/or investment recommendation would need to consider the following – to achieve compliance and best value for money:

- Forecast of Cash Requirements,
- Credit and Maturity Guidelines (refer to 6.1); and,
- Two alternative investment options – if possible, preferably of similar credit rating.

The daily cash forecast and/or investment recommendation are to be authorised by one of the delegated officers mentioned in 4.3 (paragraph 3).

5.3 Prohibited Investments

This policy prohibits 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, forwards contracts and swaps of any kind.

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

5.4 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 investments must be held in Council's name.
- Adequate documentation is provided, verifying the existence of the investments.
- The Custodian conducts regular reconciliation of records with relevant registries and/or clearing systems.
- The Institution or Custodian recording and holding the assets will be:
    - Austraclear, or
    - An institution with an investment grade rating from Moody's Investor Services (Moody's) or Standard and Poor's (S&P) or Fitch Ratings (Fitch), or
    - An institution with adequate insurance, including professional indemnity insurance and other insurances considered prudent and appropriate to cover its liabilities under any agreement.

5.5 Minimum Investment

Face value of individual investments should generally be a minimum of $250,000 but typically a larger amount.

5.6 Benchmark of Investment Returns

Within legislative and policy constraints, the Council's performance benchmark from which to measure rates of return, will be the 90 day Bank Bill Swap Rate (BBSW).

5.7 Use of Investment Advisors

Any investment advisor to Council must be independent and with no actual or potential conflict of interest in relation to the investment products they recommend or review; including that they are not receiving any commissions or other benefits in relation to the investments they are recommending or reviewing. An exception applies where any commission is fully remunerated to Council.

The investment advisor will be engaged in line with the Council's adopted procurement guidelines and procedures or consulted on a one-off basis as required.

5.8 Use of Third-Party Suppliers and Dealers

The Council will structure its affairs to minimise costs, favouring dealing directly with institutions with the assumption of better net terms. At times, it will be advantageous to deal with third parties that are remunerated on a transaction rather than retainer basis. The Council will use such suppliers where favourable and have regard to obtaining the most favourable terms comparing quoted rates, net of administrative and brokerage fees. This would include the use of including TCorp's Bank Term Deposit Distribution Service.

Specifically, Council will have regard to:

- Administrative cost savings;
- Ability to access higher (retail) rates where these outweigh any additional direct transaction costs;
- Access to ADIs that would not normally have an institutional direct channel; and
- Limited access or Initial Public Offering (IPO) deals, or other secondary market opportunities that are only available from specific sources.

Council will take steps to ensure that:

- Any suppliers used are appropriately licensed, reputable and capable;
- Funds and identification data are sufficiently secured;
- Third party arrangements do not materially worsen Council's credit risks by creating exposure to the dealer as counterparty; and
- Remuneration arrangements are reasonable and transparent, whether paid by Council or by the issuer directly.

5.9 Direct Investments

For direct investments made by the Council, independent of investment advice from an advisor, not less than 3 quotations from authorised institutions must be sought whenever an investment is proposed. The best quote of the day will be allowed after allowing for risk and other costs; and after having regard to thresholds as listed in the Council's Investment Portfolio Guidelines.

5.10 Ethical 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, investments can be further evaluated in terms of environment, social and governance issues.

Subject to legislative compliance and investment policy objectives, the Council supports investments in Ethical and Socially Responsible Investments.

6 Risk Management

6.1 Credit and Maturity Guidelines

Investments are to comply with key criteria relating to:

i. **Overall Portfolio Credit Framework**: limit overall credit exposure of the portfolio;
ii. **Institutional Credit Framework**: limit exposure to individual institutions based on their credit ratings, and;

iii. **Liquidity Framework**: limits based upon maturity of securities.

All references to credit ratings refer to that applied by ratings agency, in the order of, Moody's or S&P or Fitch Agency (refer to Attachments G for Credit Rating Agency Scale comparison and Attachment H for Standard and Poor's definitions).

i. Overall Portfolio Credit Framework

To control the credit quality on the entire portfolio, the following credit framework limits the percentage of the portfolio exposed to any credit rating category – credit ratings are as per Moody's.

Portfolio Credit Limits		
Long Term Credit Ratings Categories	**Short Term Credit Ratings**	**Maximum**
Aaa	Prime 1 (P1)	100%
Aa1, Aa2, Aa3		100%
A1		60%
A2	Prime 2 (P2)	40%
A3		20%
Specific Ministerial Approved Forms of Investment		
NSW Treasury Corp Deposits and TCorpIM Cash Funds		40%

ii. Institutional Credit Framework

Individual Counterparty Limits		
Long Term Credit Ratings Categories	**Short Term Credit Ratings**	**Maximum**
Aaa	Prime 1 (P1)	40%
Aa1, Aa2, Aa3		40%
A1		25%
A2	Prime 2 (P2)	20%
A3		10%
NSW Treasury Corp Deposits and TCorpIM Funds		
Cash Fund/Short Term Income Fund		30%
Medium Term/Long Term Growth Funds		10%

iii. Liquidity Framework

The liquidity framework specifies the maximum and minimum amounts or percentages of the Council's total investment portfolio that can be held within the various investment maturity bands. The primary purpose of investment is to hold to collect contractual cash flow. Sale of Investment is only of extraordinary in nature, as opportunity presents itself to trade the security to Council's advantage.

Minimum frameworks are set to ensure that there will always be an adequate amount of liquidity available in earlier maturity bands before funds may be committed to longer term investments. The minimum frameworks are obviously higher in the shorter term where liquidity is of the greatest concern.

Maximum frameworks are set to control the proportion of the total portfolio that can be invested into longer term investments to ensure that Council has adequate access to short and medium term liquidity to satisfy its business objectives. The maximum framework reduces as the maturity horizon extends further into the future.

To illustrate the effects of the minimum and maximum frameworks, the table below uses the Council's average Investment Portfolio amount of $155M.

Note: Clause (d) of the Minister's Order restricts "Bills of Exchange" to 200 days.

	Minimum Framework		Maximum Framework	
	Minimum % of the total portfolio	Minimum ($)	Maximum % of the total portfolio	Maximum ($)
1 month (incl. Call Account & General Fund)	10% or $20M (whichever comes first)	15,500,000	100%	155,000,000
2 to 12 months	40%	62,000,000	95%	147,250,000
1 to 5 years	5%	7,750,000	40%	62,000,000
Over 5 years	0%	0	5%	7,750,000

Additional Guidelines

The following Risk Management Strategies will apply where appropriate:

- Investment credit rating and maturity percentage limits will be applicable as at the time of making the specific investment taking into consideration of reasonable cash flow expectations.
- Council officers to ensure that before new investments are made, they establish whether a product complies with the investment policy and, where necessary, obtain independent financial advice in writing on the nature and risk of the financial product.
- Investments must also be approved by the Responsible Accounting Officer (Chief Financial Officer) before investment in medium to long term products including growth funds.

Breaches of framework

Procedures for dealing with unavoidable breaches of any frameworks are contained below.

Grandfathering of Investments

This policy imposes framework in relation to the acquisition and holding of investments. However, situations may occur where inadvertent breaches of these framework arise, other than from the acquisition of investments. For example:

- amendments to regulatory directives or legislation
- changes in the total value or amount of the Council's investment portfolio which consequently changes any of the threshold limits so that they no longer meet the portfolio liquidity framework.

Breach as a result of regulatory change

When frameworks are breached due to amendments to regulatory directives or legislation, the investment portfolio must be managed in accordance with the respective amendments. Where the amendments enable retention and grandfathering of existing investments, the Council may continue to actively manage those investments within the portfolio in accordance with all other regulations and policies applicable to such products. This includes a strategy of holding or divesting such investments in accordance with regular investment considerations.

Breach as a result of a change in the total investment portfolio
Where frameworks are breached due to a change in the overall size of the total investment portfolio, the following process will apply:

- an immediate freeze is imposed on the acquisition of new investments in the relevant category, until the portfolio can be effectively managed back to accord with the requirements of this policy
- the relevant category of investments must be managed back in accord with the policy limits within a period that considers any adversity created by market liquidity, current valuations of these investments and the risks of default.

A change in external factors, unless would result in severe loss of asset, should only serve as a 'warning' and not a decision to divest the investment product(s). Therefore, immediate forced sale of the investments in breach of the framework will not be required.

6.2 Risk Profile

The Council's risk profile for the purposes of investing surplus cash funds can generally be described as conservative, risk averse, and income defensive and has the following characteristics:

- A requirement for secure income stream, and
- A requirement for capital protection.

Section 14C of the Trustee Act 1925 provides guidelines for trustees to have regard to when exercising the power of investments. These guidelines (Attachment D) are considered appropriate for Council and underpin the formulation of this investment policy and are in accordance with legislative requirements.

7 Investment Strategy

Council's investment objective is to optimise interest income within acceptable risk parameters whilst ensuring the security of these funds.

An Investment Strategy will run in conjunction with the Investment Policy. The Strategy will be reviewed as required and may involve consultation with independent investment advisors. The Strategy will consider:

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

The Investment Strategy will fully comply with legislative requirements and the investment policy.