



PARKES SHIRE COUNCIL

INVESTMENT POLICY

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INTRODUCTION

This Policy relates to the investment of Council's funds.

PURPOSE

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 but is not limited to:

- + Council Funds covered by this Investment Policy Statement;
- + Council's objectives for its investment portfolio/s;
- + how investments are to be undertaken;
- + the applicable risks to be managed;
- + the strategy adopted by Council to achieve the investment objectives;
- + 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;
- + appropriately reflecting the expected level of future returns; and
- + appropriate benchmarks for each category of investments.

Definitions

Act	Local Government Act, 1993.
ADI	Authorised Deposit-Taking Institutions (ADIs) are corporations that are authorised under the Banking Act 1959 (Cwth) to take deposits from customers. ADI's include banks, building societies and credit unions. ADI's are regulated by the Australian Prudential Regulation Authority (APRA).
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.
Call Account	An investment account with a financial institution that offers customers access to their funds at any time. Deposits and withdrawals can be made at any time without penalty.
Council Funds	Surplus monies that are invested by Council in accordance with section 625 of the Act. These funds are generally subject to external restrictions by legislation or funding agreement or by internal restrictions that are resolved by Council. At some points in time funds may be unrestricted and available for use by Council to meet unexpected expenditures or periods with limited revenue.
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.



DLG	NSW Division of Local Government, Department of Premier and Cabinet.
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.
Grandfathered	Investments held by Council that were previously allowed under the Minister’s Order but were Grandfathered (i.e. eligible to retain but not add to or restructure existing investments) when the NSW State Government changed the list of Approved Investments as a result of the Cole enquiry reflected in the Ministerial Order dated 31/7/2008. Council’s structured investments that were made prior to revised investment order are subject to these grandfathering provisions.
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.
LGGR	Local Government (General) Regulation 2005 (NSW).
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.
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 has been designated, the General Manager. (LGGR, clause 196).
TaA	Target Asset Allocation or TaA is Council’s medium-term allocation to different asset types, where prescribed by the IPS, to ensure that the portfolio is diversified across particular sectors of the investment market.
TaR	Target Maturity Profile or TaR is Council’s medium-term positioning of the maturity profile of the portfolio to meet Council’s liquidity and return objectives.
Term Deposit	Is a deposit held with a financial institution that has a fixed term. They can vary in term from a month to up to 5 years. When a term deposit is purchased the customer understands that the money can only be withdrawn after the agreed term. Penalties in form of reduced interest will apply if the deposit is withdrawn before the agreed term,
T-Corp	New South Wales Treasury Corporation.
UBSA BBI	UBS Australia calculates a daily <i>Bank Bill Index</i> representing the performance of a notional rolling parcel of bills averaging 45 days.



RESPONSIBILITY

The General Manager, Chief Financial Officer and Financial Accountant have authority to invest funds in accord with this Policy.

RELATED DOCUMENTATION

This statement has been prepared to recognise the legislative requirements and obligations for the investment of Council's funds. The legislative requirements are listed in the Investment Policy adopted by Council from time to time.

It is Council's intention to comply with investment regulations and directions of the Office of Local Government - where inconsistent, the Policy is to be read as subject to these.

EFFECTIVE DATE

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

The effective date of this Investment Policy Statement is the date of adoption by Council and will be reviewed at regular intervals going forward, or when either changes in regulation or market conditions necessitate a review.

INVESTMENT OBJECTIVES

The purpose of this Policy is to provide a framework for the optimum investment of Parkes Shire Council's Funds at the most favourable rate of interest available to it at the time and maximising 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.
- + To ensure that Council's restrictions (reserves) are cash backed as required by the Local Government Act.
- + 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 portfolio that equals or 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: Target allocation of investment type, credit quality, counterparty exposure and term to maturity profile;
- + Market conditions and the appropriate responses – particularly relative positioning within IPS limits;
- + 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 Requirements

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; and
- + Division 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 investments to the authorised officer/s of Council to ensure adequate skill, support and oversight of the portfolio.

Council Officers' who have delegated authority to manage Council's investments include the Chief Financial Officer and Financial Accountant. Each of these Officers shall be 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 are also to declare that they have no actual or perceived conflicts of interest.

AUTHORISED INVESTMENTS

All investments must be denominated in Australian Dollars. Authorised Investments are limited to those allowed by the Ministerial Investment Order as issued by the Division of Local Government from time to time and include:

- + 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 Facility; and

Investments grandfathered under the Ministerial Investment Order. These consist of Council's existing Structured Investments.



PROHIBITED INVESTMENTS

This investment policy prohibits the following types of investment:

- + Derivative based instruments of any type ;
- + Principal only investments or securities that provide potentially nil or negative cash flow;
- + Stand-alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind and .
- + Securities of any type in non-Approved Deposit Institutions.

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 spending occurring. These externally restricted funds are referred to as unexpended loan funds.

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 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);
- + **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.

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 an independent person. They must confirm in writing that they 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 investment policy. This includes receiving no commissions or other benefits in relation to the investments being recommended or reviewed.



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.

Unless otherwise specified future investments will be classified as “held to maturity”.

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;
- + Adequate documentation is provided, verifying the existence of the investments;
- + 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:
 - Austraclear;
 - An institution with an investment grade Standard and Poor’s or Moody’s rating; or
 - An institution with adequate insurance, including professional indemnity insurance and other insurances considered prudent and appropriate to cover its liabilities under any agreement.



CREDIT QUALITY TARGET AND LIMITS

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

However, 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 limit in each rating category and the target credit quality weighting for Council's portfolio shall be:

Long Term Rating Range	Short Term Credit Ratings	Maximum Holding
AAA Category	A-1+	100%
AA Category	A-2	80%
A Category	A-2	60%
BBB Category & unrated ADIs	A-3	40%

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.

This table does not apply to any grandfathered managed fund or structured investment where it is not possible to identify a single counterparty exposure.

Please note that these limits apply based upon the face value of the investments held at any point in time. Mark to market fluctuations in investment value will not be taken into account when determining these limits.

Individual Institution or Counterparty Limits

Long Term Rating Range	Short Term Credit Ratings	Limit
AAA Category	A-1+	40%
AA Category	A-1+	40%
A Category	A-2	30%
BBB Category	A-3	20%
Unrated Category	Unrated	20%



TERM TO MATURITY LIMITS

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

Once the primary aim of liquidity is met, Council will ordinarily diversify its maturity profile as this will ordinarily be a low-risk source of additional return as well as reducing the volatility of 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 capital expenditure forecasts;
- Recurrent grants, asset sales or similar one-off inflows that can be estimated with a large degree of certainty.;
- Seasonal patterns to Council's investment balances.

Investment Horizon Description	Investment Horizon Maturity Date	Minimum Allocation	Maximum Allocation
Working capital funds	0-3 months	10.0%	100.0%
Short term funds	3-12 months	20.0%	100.0%
Short-Medium term funds	1-2 years	0%	50.0%
Medium term funds	2-5 years	0%	30.0%
Long term funds	5-10 years	0%	10.0%

These allocations are referenced to the face value of the investments.

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 table below.

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

Council will seek information about both current and historical reward for the investments contemplated in its Strategy document – where insufficient, it will hold cash and not impose a minimum outperformance obligation as to do so mandates risk-seeking at times of minimal reward.

It is also expected that Council will take due steps to ensure that any investment, notwithstanding a yield above the benchmark rate, is executed at the best pricing reasonably possible.

Grandfathered investments (*i.e.* managed funds and securities) are allocated to the appropriate horizon based on expected maturity date and should be taken into account when allocating the rest of the portfolio.

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

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

In general, it is expected that professional advice will be sought before transacting in “grandfathered” investments.

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.

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 include additional content for reporting as considered relevant from time to time, this may include commentary on matters relating to or impacting upon Council's investments.



REVIEW OF POLICY

The Investment Policy will be reviewed every two years and as required in the event of legislative change or as a result of significantly changed economic/market conditions. The Investment Policy may also be changed as a result of other amendments that are to the advantage of Council and in the spirit of this policy.

Any amendment to the Investment Policy must be by way of Council resolution.

