

Policy PP004 – Investment



Policy – Investment

Policy No. PP004

1 INFORMATION ABOUT THIS POLICY

Date Adopted By Board	23 February 2017	Resolution No.	17/007
Policy Responsibility	General Manager		
Review Timeframe	Annual		
Last Review Date	June 2016	Next Scheduled Review Date	June 2018

Document History

Doc No.	Date Amended	Summary of Changes
05/131		
10/133		
11/024		
14/058		
15/071		No Change
	23/05/2016	Policy reformatted, addition of Purpose, Scope and Definitions Generally, reference to “council” amended to GWCC Highlighting of Preservation of capital is the principal objective of the investment portfolio in part 7 Objectives. Removed Market, Liquidity and Maturity Risk definitions (now duplicated) in part 14 Risk Management Guidelines. Policy Review now separate from Reporting and Reviewing of Investments.
	23/02/2017	Additional wording to Prohibited Investments

Further Document Information and Relationships

Related Legislation	NSW Local Government Act 1993, NSW Local Government General Regulation 2005
Related Policies	GWCC Code of Conduct
Related Procedures / Protocols, Statements, Documents	Ministerial Investment Order Local Government Code of Accounting Practice and Financial Reporting Australian Accounting Standards and Office of Local Government Circulars

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Policy Title: Investment

3 PURPOSE

To assist Councillors, General Manager, and Council Officers to invest GWCC's funds in a prudent and appropriate manner.

4 SCOPE

The requirements of this Policy apply to all GWCC Investments.

5 DEFINITIONS

ADI:	Authorised Deposit Taking Institutions (ADI) are corporations that are authorised under the Banking Act 1959 (Cwth) to take deposits from customers.
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.
Credit Risk:	Credit risk is the risk of loss to an investor due to the failure of the institution/entity with which an investment is held to pay the interest and/or repay the principal if an investment.
Debentures:	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.
GWCC:	Goldenfields Water County Council.
Grandfather Clause:	Grandfather clause is a legislative clause, which in prohibiting a certain activity, exempts those who were already engaged in the activity at the time the legislation was passed.
Investment Rate Risk:	Investment rate risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market interest rates.
Investment Portfolio:	The total pool of all of the Council's investments.

LGGR:	Local Government (General) Regulation 2005 (NSW).
Liquidity Risk:	Liquidity risk is the risk and investor is unable to redeem the investment at a fair price within a timely period.
Market Risk:	Market risk is the risk that the fair or future cash flow of an investment will fluctuate due to changes in market prices.
Maturity Risk:	Maturity risk is 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.
Ministerial Investment Order:	Ministerial Investment Order is an Order issued by the Minister for Local Government.
Preservation of Capital:	Preservation of capital refers to an investment strategy with the primary goal of preventing losses in the investment portfolio's total value.
Prudent person standard:	Prudent person standard is a legal standard restricting the investing and managing of a client's account to what a reasonable person seeking reasonable income and preservation of capital might exercise for his or own investment.
RAO:	Responsible Accounting Officer (RAO) 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 296).
Securities:	For Financial markets these are the many types of financial instruments (e, documents) that are traded in financial markets (except futures contracts) eg, bonds and shares.

6 PROBITY AND CONFIDENTIALITY

All Investment activities are to be conducted in an ethical manner and in accordance with GWCC's Code of Conduct.

7 OBJECTIVES

To provide a framework for investing of GWCC's funds at the most favourable rate of interest available to it at the time, having due consideration of risk and security for that investment type and ensuring that its 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.

- **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.
- 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 tolerance.

8 LEGISLATIVE REQUIREMENTS

All investments are to comply with the following:

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

9 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 Responsible Accounting Officer or senior staff, 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.

10 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 GWCC's investment portfolio to safeguard the portfolio in accordance with the spirit of this Investment Policy, and not for speculative purposes.

11 ETHICS AND CONFLICTS OF INTEREST

Officers shall refrain from personal activities that would conflict with the proper execution and management of GWCC'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.

12 APPROVED INVESTMENTS

Investments are limited to those allowed by the most current Ministerial Investment Order.

(The most current Ministerial Investment Order at the time of the adoption of this policy is Attachment 1).

13 PROHIBITED INVESTMENTS

In accordance with the Ministerial Investment Order, 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, 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 the loan funds.

14 RISK MANAGEMENT GUIDELINES

Investments obtained are to be considered in light of the following key criteria:

- **Preservation of Capital** (principal objective) - preventing losses in the investment portfolio's total value (considering the time value of money);
- **Diversification** - limiting amounts invested with a particular financial institution or government authority to reduce **Credit risk** - the risk that council has invested in fails to pay the interest and or repay the principal of an investment;
- **Market, Liquidity and Maturity Risks** are also be considered.

Refer to Attachment 2 Guidelines in relation to diversification / credit risk;

15 INVESTMENT ADVISOR

Investment Advisors engaged by Council must be 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.

16 REPORTING AND REVIEWING INVESTMENTS

Documentary evidence must be held for each investment and details thereof maintained in an Investment Register.

The documentary evidence must provide GWCC's legal title to the investment.

Certificates must be obtained from the financial institutions confirming the amounts of investments held on the GWCC's behalf as at 30 June each year and reconciled to the Investment Register.

All investments are to be appropriately recorded in GWCC's financial records and reconciled at least on a monthly basis.

A bimonthly report will be provided to GWCC. The report will detail the investment portfolio in terms of performance, percentage exposure of total portfolio, maturity date and market value.

17 POLICY REVIEW

This Policy will be reviewed at least once a year or as required in the event of legislative changes. The Policy may also be changed as a result of other amendments that are to the advantage of GWCC and in the spirit of this policy. Any amendment to the Policy must be by way of council resolution.

DIVERSIFICATION / CREDIT RISK GUIDELINES

MANAGED INVESTMENTS

The total amount invested with any one fund manager should not exceed 45% of average annual funds invested by Council.

DIRECT INVESTMENTS

The amount invested with any one financial institution should not exceed the following percentages of average annual funds invested by Council: -

Long Term Rating (Standard & Poors)	Short Term Rating (Standard & Poors)	Maximum Percentage of Total Investments
AAA to AA-	A1+	45%
A+ to A-	A1	40%
BBB+ to BBB-	A2	20%
Not Rated	Not Rated	10%

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.