



Murrumbidgee
COUNCIL

Investment Policy

(Revision 1)

	Name	Position	Signature	Date
Responsible Officer	Kaitlin Salzke	Chief Financial Officer		27 July 2022
Authorised By	John Scarce	General Manager		27 July 2022

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Related Documents

Local Government Act 1993
Local Government (General) Regulation 2005
Government Information (Public Access) Regulation 2009
Trustee Act 1925 (NSW)
Relevant Office of Local Government Circulars
Ministerial Investment Order – dated 12 February 2011
Local Government Code of Accounting Practice and Financial Reporting
Australian Accounting Standards

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1. Policy Statement and Scope

1.1. Purpose and Objectives

1.1.1. The purpose of this Policy is to provide a framework for investing surplus Council funds at the most favourable rate of interest available to it at the time whilst 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 the investment:

- Preservation of capital is the principal objective of Council's investment portfolio. Investments are to be placed in a manner that safeguards 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; and
- Investments are expected to achieve a market average rate of return in line with Council's risk tolerance.

1.2. Delegation of Authority

1.2.1. Authority for implementing the Investment Policy is delegated by Council to the General Manager in accordance with the *Local Government Act 1993*.

1.2.2. The General Manager has the authority to invest surplus funds, and to ensure adequate skill, support and oversight, may, in turn, delegate this function to the Responsible Accounting Officer (RAO) or senior staff, subject to regular reviews. Officers investing funds on behalf of the Council must do so in accordance with this Policy.

1.2.3. Officers delegated authority to administer and/or manage the Council's investments shall be recorded and required to acknowledge they have received a copy of this Policy and understand their obligation in this role. A sample form is included at Attachment 1.

1.2.4. Adequate controls are in place to safeguard the Council's assets, such as the separation of the duties of authorising and executing transactions through the requirement of two authorised signatories for each transaction.

1.2.5. The General Manager, or their delegated representative, have the authority to approve variations to this Policy if the investment is to Council's advantage or due to revised legislation or a change in market conditions. Any variations to the Policy will be reported to Council at the next meeting.

1.3. Prudent Person Standard

1.3.1. 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 portfolio to safeguard the portfolio in accordance with the spirit of this Investment Policy and not for speculative purposes.

1.4. Ethics and Conflicts of Interest

1.4.1. Officers shall refrain from personal activities that would conflict with the proper execution and management of the Council's investment portfolio. This Policy requires officers to disclose any conflict of interest to the General Manager as soon as they arise.

1.4.2. Independent advisors utilised in accordance with clause 2.2 must also declare that they have no actual or perceived conflicts of interest.

2. Investment Guidelines

2.1. Risk Management

2.1.1. 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 particular financial institution or government authority that the Council is invested in fails to pay the interest and/or repay the investment principal of an investment;
- *Diversification* – setting limits to the amounts invested with a particular financial institution or government authority to reduce credit risk;
- *Liquidity risk* – the risk that an investor is unable to redeem the investment at a fair price within a timely period;
- *Market risk* – the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices; and
- *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.

2.2. Investment Advisor and/or Advisory Services

- 2.2.1. The Council may use the services and/or seek advice from a suitably qualified and experienced investment advisor licenced by the Australian Securities and Investment Commission to achieve this Policy's objectives.
- 2.2.2. Any such advisor is required to be independent and provide written confirmation that they do not have any actual or potential conflicts of interest in relation to investment products being recommended or reviewed.
- 2.2.3. Under Circular 17-29 Council may also engage the NSW Treasury Corporation (TCorp) to provide investment advice.

2.3. Non-Financial Factors

- 2.3.1. When assessing an investment opportunity as part of the prudent person rule, there will always be factors which are not easily quantifiable that should be considered. These factors may lead to Council accepting a lower rate of return on a particular investment. The highest rate should not always be accepted. Instead, the investment which delivers the best value to Council should be selected.
- 2.3.2. To ensure accountability and transparency and to enable these factors to be identified subsequently, staff making such a decision should document their decision-making process.
- 2.3.3. Factors which may be considered when choosing investments include, but are not limited to:
- transaction costs
 - ease of making transactions
 - ability to swap funds
 - level of service from an institution
 - benefits to local government
 - liquidity terms
 - reduced costs to other services, or
 - choosing ethical and socially responsible investments.
- 2.3.4. Ethical and Socially Responsible Investments
- 2.3.4.1. Ethical and socially responsible investments are a means for investors (including Council) to support their principles and consider factors other than the financial return potential of particular investments. In addition to standard risk assessment, investments can be further evaluated in terms of environmental, social and governance issues. Several independent organisations have been

established to evaluate and rate companies according to these criteria.

- 2.3.4.2. Subject to compliance with government legislation and the outlined investment strategic objectives, Council supports investments in ethical or socially responsible investments.

2.4. Investment in Coleambally Community Bank

- 2.4.1. In recognition of the significant community role, support and activities undertaken within the Local Government Area, Council will aim to hold 50% of its portfolio with the Coleambally Community Bank.

- 2.4.2. If, when considering a new investment, an equivalently-rated or better-rated institution is offering an interest rate 0.40% p.a. (or more) higher than Coleambally Community Bank with a comparable term to maturity, Council may invest in that institution in preference to Coleambally Community Bank, irrespective of the target set out in clause 2.4.1

- 2.4.3. Notwithstanding clause 2.4.2, Council will hold a minimum of 10% of its portfolio with the Coleambally Community Bank at all times.

3. Mandatory Investment Constraints

3.1. Legislative Requirements

- 3.1.1. All investments must comply with legislative requirements including, but not limited to:

- *Local Government Act 1993*;
- Local Government (General) Regulation 2005 – Clause 212;
- Ministerial Investment Order – dated 12 February 2011;
- Local Government Code of Accounting Practice and Financial Reporting;
- Australian Accounting Standards; and
- Office of Local Government Circulars.

3.2. Approved Instruments

- 3.2.1. Investments are limited to those allowed by the most current Ministerial Order that has been issued by the NSW Minister for Local Government.

3.3. Prohibited Investments

- 3.3.1. This Investment Policy prohibits any investment carried out for speculative purposes including, but not limited to:

- Derivative based instruments;
- Principal only investments or securities that provide potentially nil or negative cash flow; and
- Standalone securities issued that have underlying futures, options, forwards contracts and swaps of any kind.

3.4. Borrowing

3.4.1. This Policy prohibits leveraging (borrowing to invest).

3.4.2. However, nothing in this Policy shall prohibit the short-term investment of loan proceeds where the loan is raised for non-investment purposes, and there is a delay before the spending occurs.

3.5. Currency

3.5.1. Investments must be denominated in Australian Dollars.

3.6. Ownership

3.6.1. Investments must be held in the name of Murrumbidgee Council.

3.6.2. Notwithstanding the above, investments may be held in safe custody on Council's behalf where it is cost-effective to do so, as long as the following criteria are met:

- a) Council must retain beneficial ownership of all investments;
- b) Adequate documentation is provided verifying the existence of the investment, both at inception and on an ongoing basis;
- c) The custodian conducts regular reconciliations of records with relevant registries and/or clearing systems;
- d) The custodian has an AFS licence issued by ASIC that explicitly covers custodial services;
- e) The institution or custodian recording and holding the assets must be one of the following:
 - Austraclear;
 - the custodian nominated by TCorp for T-Corp's Investment Management (IM) Cash Funds;
 - an institution with an investment-grade rating;
 - a specialist custodian with adequate insurance, including professional indemnity insurance and other insurances considered prudent and appropriate to cover its liabilities under any agreement.

3.7. Term to Maturity

3.7.1. The maximum duration of investments in each credit rating category shall be:

Long Term Credit Rating	Maximum Duration
AAA	5 years
AA	4 years
A	3 years
BBB	1 year

3.8. Overall Credit Quality Limits

3.8.1. The maximum total holding limit in each credit rating category shall be:

Long Term Credit Rating	Maximum Percentage
AAA	100%
AA	100%
A	60%
BBB	40%

3.8.2. Overall credit quality limits exclude Council's trading account and funds invested with Coleambally Community Bank.

3.8.3. Where the principal amount and accrued interest of any investment with a financial institution are directly guaranteed by the Australian Federal Government for full repayment, the total exposure to credit ratings lower than AA may be exceeded. The excess amount must comprise only guaranteed investments.

3.9. Individual Counterparty Limits

3.9.1. All investments must have a long-term credit rating of BBB or stronger. Investments with institutions below Class A are restricted to licenced banks, building societies and credit unions.

3.9.2. Exposure to individual counterparties/financial institutions will be determined by the counterparty's credit rating and will be limited to:

Long Term Credit Rating	Maximum Percentage
AAA	40%
AA	30%
A	14%
BBB	10%

3.9.3. Counterparty limits exclude Council's trading account and funds invested with Coleambally Community Bank.

- 3.9.4. Where the principal amount and accrued interest of any investment with a financial institution are directly guaranteed by the Australian Federal Government for full repayment, the exposure to individual institutions may exceed the stated limit provided that the excess amount comprises only guaranteed investments.

3.10. Changes in Credit Ratings

- 3.10.1. 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 practicable.

4. Reporting

4.1. Investment Register

- 4.1.1. Documentary evidence must be recorded and held for each investment, and details maintained in an Investment Register. The Investment Register must specify:

- the source and the amount of money invested,
- particulars of the security or form of investment in which the money was invested,
- the term of the investment
- if appropriate, the rate of interest to be paid

4.2. Reconciliations

- 4.2.1. Certificates must be obtained from the financial institution confirming the amounts of all investments held on the Council's behalf as at 30 June each year and reconciled to the Investment Register. All investments must be appropriately prepared in Council's financial records and reconciled at least monthly.

4.3. Performance Benchmarks

- 4.3.1. Investment performance for the current month and year-to-date will be measured monthly against the Bloomberg AusBond Bank Bill Index.

4.4. Monthly Reporting to Council

- 4.4.1. In accordance with the *Local Government (General) Regulation 2005*, the Responsible Accounting Officer (RAO) will provide Council with a monthly written report setting out details of all money that the Council has invested under section 625 of the Act, including:

- the source and amount of money invested;
- particulars of the security or form of investment in which the money was invested; and

- if appropriate, the interest rate to be paid, and the amount of money that Council has earned, in respect of funds invested.

4.4.2. The report must include a certificate as to whether or not the investment has been made in accordance with the Act, the regulations and Council's Investment Policy.

4.4.3. In addition, the report will detail:

- the performance of the investment portfolio, including:
 - investment income earned versus budget; and
 - a comparison between the relevant performance benchmark(s) outlined in this Policy and the money-weighted rate of return on Council's portfolio;
- percentage exposure of total portfolio; and
- maturity date and term of the investment.

4.5. Annual Financial Statements

4.5.1. In accordance with Section 413 of the *Local Government Act 1993*, Council must recognise, measure and disclose investments in its annual financial statements in accordance with the publication(s) issued by the Australian Accounting Standards Board and the Local Government Code of Accounting Practice and Financial Reporting.

4.6. Breach of Policy

4.6.1. If a breach of this Investment Policy occurs, Council's Responsible Accounting Officer (RAO) should notify Council at its next ordinary meeting. Council should also consider notifying the Office of Local Government of any such breach.

5. Review of Investments

5.1. Council's Audit, Risk & Improvement Committee will, from time to time, review the investments of Council to verify:

- a) that new investment types/products comply with this Policy;
- b) the performance of Council's investments against the benchmarks established within this Policy;
- c) that investments have been placed in accordance with this Policy.

5.2. Council's external auditor is also required to review Council's investments as part of the audit of the annual financial reports.

6. Policy Review

6.1. This Policy:

- i. To be reviewed within the first year of the new Council term;

- ii. May be reviewed and amended at any time at Council's discretion (or if legislative or State Government policy changes occur)

6.2. Any amendment to the Investment Policy must align with the 'Delegation of Authority' provisions of this Policy.

7. Definitions

Act	<i>Local Government Act 1993</i>
Credit rating	<p>Credit risk investment parameters are based on credit rating bands published by the credit rating agencies Standard & Poor's (S&P), Moody's, and Fitch. 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 shall apply the lower in assessing new purchases.</p> <p>Credit ratings apply to both products and institutions. This Policy requires the rating applicable to the institution responsible for the product to be taken as the relevant rating, as this represents the underlying risk to Council.</p>
Responsible Accounting Officer (RAO)	<p>A member of Council staff designated by the General Manager, or, if no such member has been designated, the General Manager. (Local Government (General) Regulation 2005 (NSW) – Clause 196)</p>

Attachment 1: Officers with Delegated Authority

This form is to be completed by officers with Delegated Authority under this Investment Policy and retained in the Investments Register.

DECLARATION

I have read and understood the Murrumbidgee Council Investment Policy and understand and accept my obligations under the Policy.

NAME: _____

POSITION: _____

SIGNATURE: _____ DATE: _____