

MURRAY RIVER COUNCIL
COUNCIL POLICY

INVESTMENT POLICY

POL-203.V#2



murray river
council

1. INTRODUCTION

The purpose of this policy is to outline the framework within which Council will make investment of surplus funds. The framework covers:

- ▶ Council's objectives for investing;
- ▶ How applicable legislation and regulations govern the investment process;
- ▶ Risk management guidelines, including acceptable risk and how investment risk is to be managed;
- ▶ The type of investments allowed and how investments are to be undertaken; and
- ▶ Compliance reporting requirement to Council.

2. OBJECTIVES

The objectives of this policy are to:

- ▶ Provide a framework for the investing of Council's funds at the most favourable rate, whilst ensuring consideration is given to the preservation of capital, liquidity, level of risk and security;
- ▶ Undertake the investment of surplus funds in authorised investments, to secure maximum returns, taking into account legislative requirements, managing risk within identified thresholds, diversification, funds availability, overdraft exposure and adequate working capital funds available to carry out its strategic objectives as outlined in the Council's Annual Operational Plan and Four Year Delivery Program;
- ▶ Ensure the rate of return on funds invested is optimised and above the minimum benchmark set in this policy;
- ▶ Manage Council's cash flow to meet obligations as and when due. This includes holding a reasonable level of funds that provide Council with immediately access in the event of a disaster or unexpected failure of infrastructure. Access to liquidity should be without incurring signification cost due to the unanticipated sale/ call of an investment;
- ▶ Give consideration to local economic benefit when making investment decisions;
- ▶ Maintain an appropriate relationship with Council's investment institutions and investment advisors (if one is appointed);
- ▶ Ensure legally restricted funds are appropriately accounted for and invested to earn reasonable income towards their purposes. Legally restricted funds include unexpended grants, water and sewer funds;
- ▶ Resolves to set aside investments for particular purposes and these funds earn interest towards those purposes and are readily available when called upon (it should be recognised that these funds are restricted by policy of Council only and have no enduring legal status that would bind a future Council); and
- ▶ Report to Council in accordance with the Local Government (General) Regulation 2005.

3. SCOPE

The policy applies to all Council investments.

The policy provides details on the investment of surplus funds and funds tied to approved grants by Murray River Council in undertaking well considered investments that meet the legislative requirements set by government.

Under Section 625 (1) of the Local Government Act 1993, 'a council may invest money that is not, for the time being, required by the council for any other purpose'.

4. POLICY STATEMENT

Risk Management Guidelines

Investments are expected to achieve a market average rate of return in line with the Council's risk tolerance and are to be considered in the light of the following considerations:

- ▶ **Preservation of Capital** – the requirement for preventing losses in an investment portfolio's total value (the time value of money);
- ▶ **Diversification** – the requirement to place investments in a broad range of products so as not to be over exposed to an entity or sector of the market;
- ▶ **Credit Risk** – the risk that a council has invested in fails to pay interest and/ or principal on maturity;
- ▶ **Market Risk** - the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices;
- ▶ **Liquidity Risk** – the risk an investor is unable to redeem the investment at a fair price within a timely period;
- ▶ **Maturity Risk** - 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; and
- ▶ **Leveraging Risk** - the magnification of an investor's risk and return that occurs when the investor takes on financial leverage through an investment product.

Delegation of Authority

Authority for the implementation of this policy is delegated by Council to the Chief Executive Officer (CEO). The CEO has delegated the day-to-day management of Council's investments to those positions as outlined in Council's Delegations of Authority.

Officers who are given delegated authority to manage Council's investments are required to acknowledge that they have received a copy of this policy and understand its terms and their obligations.

Prudent Person

The investment portfolio and associated decisions regarding investments are to be made/ 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.

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 immediately to the CEO and a report to go to the next Council meeting.

Authorised Officers must also act in accordance with the Statement of Business Ethics, Code of Conduct and Fraud Policy of Council.

If Council appoints an independent advisor, the advisor is also to declare that they have no actual or perceived conflicts of interest and receive no inducements in relation to Council's investments.

Approved Investments

Investments are limited to those allowed by the Ministerial Investment Order that has been issued by the NSW Minister of Local Government. This policy limits the types of investments to:

- ▶ Interest-bearing deposits or senior bonds issued by an authorised deposit taking institution (ADI);

- ▶ Securities issued by the Commonwealth Government, any State of the Commonwealth, or a Territory;
- ▶ Any debentures or securities issued by a NSW Council (within the meaning of the Local Government Act 1993);
- ▶ A bill of exchange where the maturity date is not greater than 200 days' duration and is issued by an authorised deposit taking institution (ADI); and
- ▶ A deposit with NSW Treasury Corporation or investments in an hour-glass investment facility of the NSW Treasury Corporation.

Authorised investments allowed under this policy include the following examples:

- ▶ Bonds and Debentures
- ▶ Term Deposits
- ▶ On-Call/ Cash Accounts
- ▶ Bills of Exchange
- ▶ Negotiable Certificate of Deposit

All examples above must only be issued by ADIs (such as banks, credit unions and building societies) or by the Commonwealth, State, or Territory Governments.

All investments must be denominated in Australian Dollars.

Prohibited Investments

In accordance with the Ministerial Investment Order, this investment policy prohibits but is not limited to the following investments:

- ▶ Derivative based instruments;
- ▶ 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;
- ▶ Investment trusts, even where the trusts adhere to the Ministerial Order; and
- ▶ Any other investment written out of the Ministerial Order.

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

Investment Advisor

If Council elects to appoint an investment advisor, this appointment is to be by the Council and the advisor must be:

- ▶ Licensed by the Australian Securities and Investment Commission;
- ▶ Must be independent;
- ▶ Have no actual or perceived conflict of interest in relation to the investment products being recommended; and
- ▶ Receives no commissions or other benefits in relation to the investment being recommended, unless such remuneration is rebated 100% to Council.

Safe Custody Arrangements

Council must retain ownership at all times of the investment and must be in receipt of documentation confirming the existence of the investment. Where the investment is held by a custodian, the custodian must be:

- ▶ The custodian nominated by TCorp for investment in TCorp IM Funds; or
- ▶ An investment grade institution so rated by Standard and Poor's, Moody or Fitch.

Accounting

Council will comply with the appropriate accounting standards in valuing its investments and quantifying its investment returns.

Reporting

A monthly report is to be submitted to Council, detailing the investment portfolio in terms of performance and counterparty exposure of total portfolio.

If a breach in this policy is identified, it will be reported to Council at the next ordinary council meeting.

All investments held will be recorded in Council's financial records and reconciled on at least a monthly basis. Documentary evidence must be held for each investment and an investment register kept.

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

Credit Ratings

Creditworthiness of investments is primarily determined using industry standard credit ratings, but also has regard to the term and seniority of the investments.

The primary creditworthiness of investments will be assessed with reference to the Standard and Poor's (S&P) short and long term credit rating and Moody's and Fitch equivalents if necessary.

If an investment credit rating downgrade leads to an investment becoming non-compliant within this policy, it will be assessed as soon as practicable in relation to risk of default, prevailing market liquidity and cost to Council to break the investment. A report will be provided to Council on the investment and if the recommendation is to retain in the investment, the reasons for this decision will be explained to Council.

The short term credit rating limit will apply in the case of discrepancies between short and long term ratings.

The S&P ratings are defined as follows:

S&P Ratings		
Investment Grade	AAA	Extremely strong capacity to meet financial commitments. Highest Rating.
	AA+, AA & AA-	Very strong capacity to meet financial commitments.
	A+, A & A-	Strong capacity to meet financial commitments but somewhat susceptible to adverse economic conditions and changes in circumstances.
	BBB+, BBB & BBB-	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions.

Direct Investments

Investment of surplus funds are only to be placed with authorised deposit-taking institutions (ADI'S) and investment products that are covered under the Federal Governments Financial Claims Scheme.

The term to maturity of any Council's direct investments may range from "At Call" to three (3) years unless specifically approved by Council.

Credit and Maturity Guidelines

The following credit rating parameters apply to Council's investment portfolio:

1. 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 particular credit rating category:
2. Institutional Framework – Exposure to an individual institution will be restricted by their credit rating so that single entity exposure is limited, as detailed in the following table.

S&P Local Long Term Ratings*	S&P Local Short Term Ratings	Maximum Holdings Overall Portfolio	Maximum Holdings Individual Institutions
AAA Category	A1+	100%	60%
AA+, AA and AA- Category	A1	100%	60%
A+ and A Category	A2	90%	25%
A- Category	A2		20%
BBB+ and BBB Category	A2	50%	35%
BBB- Category	A3		15%
Unrated Authorised Deposit Institution **	Unrated	30%	60%
WAW Credit Union	Membership of Credit Union Financial Support System		

* Only applies to Approved ADI institutions. The Trustee Act provides for investments with building societies and credit unions, however they are not rated. The maximum amount of funds allowed to be invested in total with building societies/credit unions is 30%.

** Only applies to Approved ADI institutions. The Trustee Act provides for investments with building societies and credit unions, however they are not rated. The maximum amount of funds allowed to be invested with individual building societies/credit unions is 60% as it is the only banking facility available in some council locations.

Performance Benchmarks

It is expected that the performance of each investment will be greater than or equal to the applicable benchmark in the table below.

Investment	Performance Benchmark	Time Horizon
11am Account, short dated term deposits bank bills, deposits issued by financial institutions	Official RBA Cash Rate	3 months or less
Term Deposits & Bank Bills.	S&P/ASX Bank Bill Index - 1 year	3 months to 12 months
Term Deposits & Bank Bills	S&P/ASX Bank Bill Index - 3 years	12 months to 3 years

Term to Maturity Framework

Terms of maturity shall be limited to the following maximums:

Investment Type	Maximum Maturity Term
On-call/ Cash Accounts	No Limit if on-call
Term Deposits	See below criteria
Bills of Exchange	Not more than 200 days
Negotiable Certificate of Deposits	Not more than 185 days or six months.

With regards to term deposits, the investment portfolio is to be invested within the following maturity constraints:

Overall Portfolio Term to Maturity Limits		
Portfolio under 1 year	Min. 50%	Max. 100%
Portfolio between 1 to 2 years	Min 0%	Max. 40%
Portfolio between 3 to 5 years	Min 0%	Max. 20%

Quotation Framework

A minimum of three quotations from financial institutions must be received and reviewed prior to placing any new or renewal investment. The success quote may not necessarily be based solely on the highest quote as consideration should also be given to administrative considerations.

5. RESPONSIBILITIES

Position	Responsibility
Mayor	To lead Councillors in their understanding of, and compliance.
Chief Executive Officer	To lead staff (delegated authority) in their understanding of, and compliance with, this policy.
Director Shared Services	To communicate, implement and comply with this policy.
Authorised Officers – Finance Manager, Financial Accountant and Management Accountant	To be aware of and ensure compliance with this Policy.

6. EVALUATION AND REVIEW

The Chief Executive Officer or their delegated representative is authorised to approve variations to this Policy if the investment is to Council's advantage and/or due to revised legislation or statutory guidance.

All changes to this Investment Policy are to be reported as soon as practicable with any amendments to the Investment Policy to ultimately be by way of Council resolution.

It is the responsibility of the Director Shared Services in conjunction with the Manager Finance to monitor the adequacy of this Policy and recommend appropriate changes.

This Policy will be formally reviewed annually or as needed, whichever comes first.

7. LEGISLATION, ASSOCIATED DOCUMENTS AND DEFINITIONS

Legislation:

- ▶ Local Government Act 1993;
- ▶ Local Government (General) Regulation 2005;
- ▶ Trustee Act 1925;
- ▶ The Trustee Amendment (Discretionary Investments) Act 1997 – Section 14;

Associated Documents

- ▶ MRC Policy – Delegations of Authority (CEO to Staff) Policy (POL-107)
- ▶ MRC Policy – Statement of Business Ethics Policy (POL-201)
- ▶ MRC Policy – Code of Conduct Policy (POL-100)
- ▶ MRC Policy – Fraud Policy (POL-212)
- ▶ Ministerial Investment Order (2011);
- ▶ Local Government Code of Accounting Practice and Financial Reporting;
- ▶ Australian Accounting Standards;
- ▶ Office of Local Government Investment Policy Guidelines; and,
- ▶ Office of Local Government Circulars.

Definitions:

Term	Definition
Act	Refers to the Local Government Act 1993
ADI	Authorised Deposit-Taking Institution are a financial institution licensed by the Australian Prudential Regulatory Authority (APRA) to carry on banking business, including accepting deposits from the public. They are authorised under the <i>Banking Act 1959</i> (C'with).
Authorised Officers	As outlined in Council Policy - Delegations of Authority (CEO to Staff) the authorised officers are: <ul style="list-style-type: none"> ▶ Director Shared Services ▶ Manager Finance ▶ Management Accountant ▶ Financial Accountant
Bill of Exchange	Bill of exchange is an unconditional and short-term negotiable financial instrument consisting of an order in writing addressed and signed by one person to another person requiring the person whom it is addressed to pay on demand, or at a fixed or determinable future time, a certain sum of money to a specified person or to the bearer of the bill.
BBSW	The Bank Bill Swap Rate (BBSW) is a short-term money market benchmark interest rate. In general terms, BBSW is the average mid-rate at approximately 10.00am for Prime Bank Eligible Securities with tenors of 1 to 6 months. The BBSW is calculated daily.

Surplus Council Funds	Surplus monies held by Council that are invested by Council in accordance with Section 625 of the Act.
Debenture	This is a debt security usually secured by a fixed or floating charge over an underlying asset.
OLG	Office of Local Government.
Surplus Funds	Money that is not presently required by the Council in a form of investments.
Term Deposit	Non-tradeable investments offered by ADI's with varying maturity dates and at a set interest rate. Interest is normally payable on maturity unless the term deposit is greater than 12 months, which it is then payable annually.

8. DOCUMENT CONTROL

Version No.	Details	Dates	CM9 Reference	Resolution No.
1	Initial Issue	17 Oct 2017 to 27 Oct 2020	VF/17/43 & DOC/20/40154	231017
2	Policy reviewed and amended to reflect changes to the Organisational Structure	27 Oct 2020 to	VF/17/43 & CTL/17/43	211020

Council reserves the right to review, vary or revoke this policy at any time
This Policy is scheduled for review in July 2024

Disclaimer:

This document was formulated to be consistent with Murray River Council's legislative obligations and with the scope of Council's powers. This document should be read in conjunction with relevant legislation, guidelines and codes of practice. In the case of any discrepancies, the most recent legislation should prevail. This document does not constitute legal advice.