

### 1. Purpose

The purpose of this policy is to provide a framework for the investing of Warrumbungle Shire Council's surplus funds at the most favorable 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.

### 2. Objectives of the Policy

Council's Investment Policy is a governing document that guides the investment process and communicates Council's:

- Investment philosophy;
- Overall risk philosophy;
- Investment objectives and expectations;
- Ethical considerations;

Council's Investment Policy also identifies the roles for those involved in the investment process, and details the requirements for compliance with the policy's goals and procedures.

### 3. Policy Scope

This policy applies to all investments and funds managed by Council.

### 4. Background

The OLG's Investment Policy Guidelines which guides Council's investment decisions requires that Councils maintain an Investment Policy that complies with the Local Government Act (LGA), the Local Government (General) Regulation 2005 (LGGR), and the Ministerial Investment Order (MIO) and ensure it or its representatives exercise care, diligence and skill that a prudent person would exercise in investing Council funds.

Council's Investment Policy has been prepared to adhere to these requirements and to provide an overarching document that details Council's investment philosophy, overall risk philosophy, investment objectives and considerations, as well as detailing responsibilities and limits on what Council can and can't invest in.

### 5. Policy Statement

#### Investment Considerations

While exercising the power to invest, consideration is to be given to the preservation of capital, liquidity, diversification of investments, and maximising the return of investment. Council therefore has four primary objectives for its investment portfolio:

- The preservation of the amount invested;
- Ensuring there is sufficient liquidity to meet all reasonably anticipated cash flow requirements;
- Ensuring there is sufficient diversification of investments to reduce risk (i.e. not putting all one's eggs in the one basket); and

- Achieving the maximum rate of return within Council's risk tolerance.

### 5.1. Legislative Authority for Investments

All investments are to be made and recorded in accordance with:

- Australian Accounting Standards;
- Office of Local Government Investment Circulars;
- Office of Local Government Investment Policy Guidelines;
- Local Government (General) Regulation 2005 – Clause 212;
- Local Government Act 1993 (particularly section 625);
- Local Government Code of Accounting Practice & Financial Reporting;
- Minister's Investment Order (gazetted);
- Trustee Act 1925 (NSW) (particularly sections 14A(2), 14C(1) and (2)).

### 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 officers will be required to acknowledge they have received a copy of this policy and understand their obligations in this role.

### Prudent Person Standard

The investment 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.

### Credit Rating

The following credit rating criteria apply to Council investments:

- Non Local Term Investments, ie. no branch in the Council area, must have an investment grade credit rating.
- Locally sourced Term investments, ie. have a branch(es) in the Council area, may be placed under the prudent person standard, notwithstanding that they may be unrated. In the case of an unrated institution then Term deposits will be deemed to be "Below Upper Medium Grade".
- The credit rating structure of the total portfolio must comply with the following table:

### Maximum Thresholds – Portfolio Percentage Limits

Credit Rating / Organisation	Abbreviation	Exposure to a Credit Rating Group (As a % of Total Portfolio)	Exposure to a Single Institution (As a % of Total Portfolio)
Prime	P	100%	33.3%
ADI's within either the ANZ, CBA, NAB, or WBC ("Big Four")	ADI	100%	33.3%
High Grade	HG	100%	25%
Upper medium grade	UMG	60%	20%
Below Upper medium grade	LMG	10%	10%

NB - (**ADI's** being Authorised Deposit-taking Institutions)

Please refer to the next table for Credit Rating definitions.

### Credit Rating Definitions

Moody's <sup>1</sup>		S&P <sup>2</sup>		Fitch <sup>3</sup>		Rating description			
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term				
Aaa	P-1	AAA	A-1+	AAA	F1+	Prime	Investment-grade		
Aa1		AA+		AA+		High grade			
Aa2		AA		AA		High grade			
Aa3		AA-		AA-		High grade			
A1		A+	A-1	F1	Upper medium grade				
A2		A	A-1	F1	Upper medium grade				
A3	P-2	A-	A-2	A-	F2	Lower medium grade	Investment-grade		
Baa1		BBB+		BBB+				Lower medium grade	
Baa2	P-3	BBB	A-3	BBB	F3	Lower medium grade		Investment-grade	
Baa3		BBB-		BBB-					Lower medium grade
Ba1	Not prime	BB+	B	BB+	B	Non-investment grade speculative			Non-investment grade
Ba2		BB		BB		Non-investment grade speculative			
Ba3		BB-		BB-		Non-investment grade speculative			
B1		B+		B+		Highly speculative			
B2		B		B		Highly speculative			
B3		B-		B-		Highly speculative			
Caa1		CCC+	C	CCC	C	Substantial risks			
Caa2		CCC				Extremely speculative			
Caa3		CCC-				Default imminent with little prospect for recovery			
Ca		CC				Default imminent with little prospect for recovery			
	C				In default				
		D	/	DDD					
				DD					
		D	/	D	In default				

<sup>1</sup> Moody's Investors Service 2017, *Rating Symbols and Definitions*, Boston.

<sup>2</sup> Standard & Poor's Financial Services 2016, *S&P Global Ratings Definitions*, New York.

<sup>3</sup> Fitch Ratings 2018, *Rating Definitions*, Austin.

### **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 (if appointed) are also required to declare that they have no actual or perceived conflicts of interest.

### **Approved Investments**

All investments must be denominated in Australian Dollars. Authorised Investments are limited to those allowed by the Ministerial Investment Order and include:

- Commonwealth/State/Territory Government securities eg. bonds;
- Interest bearing deposits/senior securities issued by an eligible Authorised Deposit Taking Institution (ADI);
- Bills of exchange, (< 200 days duration) guaranteed by an ADI;
- Debentures issued by NSW Local Government;
- Deposits with NSW Treasury &/or Investments in T-Corp's Hour Glass Facility; and
- Investments grandfathered under the Ministerial Investment Order.

### **Prohibited Investments**

In accordance with the Ministerial Investment Order, 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
- 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.

### **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 (considering the time value of money);
- Diversification – setting limits to the amounts invested with a particular financial institution or government authority to reduce credit risk;
- Credit risk – the risk that an institution council has invested in fails to pay the interest and or repay the principal of an investment.
- 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; 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 to risk and volatilities.

### **Investment Advisor**

Council may choose to appoint an investment advisor to assist Council in investing available funds.

The Council's investment advisor (if appointed) must be approved by Council and 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.

### **Measurement of Long Term Investments**

Investment returns for any long term portfolio are to be regularly reviewed by an independent financial advisor by assessing the fair market value of the portfolio. The market value is to be assessed at least yearly to coincide with annual reporting requirements and will be recorded at "fair value".

### **Benchmarking**

Performance benchmarks need to be established and should be based on a sound and consistent methodology. Council has chosen the 3 month Bank Bill Swap Reference Rate (BBSW) as the appropriate benchmark to measure its investment performance, and reports on the performance of its investments portfolio on a monthly basis.

### **Reporting and Reviewing of Investments**

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.

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

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 performance, percentage exposure of total portfolio, maturity date and changes in market value (for marketable instrument only).

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

### 6. Responsibilities

Council's Finance Department is responsible for the day to day application of the policy.

### 7. Associated Documents

N/A

### 8. Getting Help

The staff member/s that can assist with enquiries about the policy:

Position: Chief Financial Officer

Department: Finance

### 9. Version Control

Review Date: March 2019

Staff Member Responsible for Review: Chief Financial Officer

Policy Name	Version	Resolution	Date
Investment Policy	1	307	16 April 2009
Investment Policy	2	465	24 June 2010
Investment Policy	3	406	16 June 2011
Investment Policy	4	105/1314	19 September 2013
Investment Policy (Including Ethical)	5	111/1718	21 September 2017
Investment Policy	6	368/1718	19 April 2018