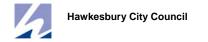


attachment to item 270

Investment Policy

date of meeting: 27 November 2007 location: council chambers time: 5:00 p.m.



POLICY NAME:INVESTMENT POLICYDATE ADOPTED BY
COUNCIL:
REVIEW DATE:30/06/2009DIVISION:SUPPORT SERVICESRESPONSIBLE
OFFICER:CHIEF FINANCIAL
OFFICERBRANCH:FINANCIAL SERVICESCHIEF FINANCIAL
OFFICERCHIEF FINANCIAL
OFFICER

1.0 PURPOSE

The purpose of this policy is to establish the guidelines that Hawkesbury City Council adopts in investing its surplus funds. The objectives of this policy are:

- 1. To confirm the regulations relevant to management of Council's investments and the range of authorised investments;
- To set boundaries for exposure to market risk, credit risk and duration risk within the investment portfolio and the "single party" exposure of the portfolio to individual institutions or products;
- 3. To establish a framework for monitoring the investments; and
- 4. To confirm delegations and other relevant governance matters in relation to Council's investments.

2.0 GOVERNMENT POLICY/DOCUMENTS

All investments are to be made in accordance with:

1.	Local Government Act 1993 - Section 625;	Attachment A
2.	Local Government (General) Regulation 2005 – Clause 212	Attachment B
3.	Local Government Act 1993 - Order (of the Minister) dated 29 July 2005;	Attachment C
4.	Local Government Code of Accounting Practice and Financial Reporting – Section 11.3.4 and 11.3.5 – Requirement for a Prudent Person Approach	Attachment D
5.	The Trustee Amendment (Discretionary Investments) Act 1997 – Sections 14A(2), 14C(1) & (2);	Attachment E

3.0 ROLES AND RESPONSIBILITIES

Authorised Officer	Roles & Responsibilities
General Manager	Authority to invest surplus funds and may
	delegate this function, subject to various
	dollar limits and restrictions as stated in this
	investment policy.
Director of Support Services	Per Delegation
Responsible Accounting Officer	Per Delegation
Chief Financial Officer	Per Delegation
Senior Financial Accountant	Per Delegation

4.0 AMENDMENTS

The General Manager or Director of Support Services are hereby authorised to approve variations to this policy if the investment is to Council's advantage and/or due to revised legislation.

All changes to this policy are to be reported to Council within 28 days.

5.0 RISK PROFILE

The Council's risk profile for the purposes of investing surplus cash funds can generally be described as conservative, risk averse and income defensive and has the following characteristics:

- > A requirement for secure income stream, and
- > A requirement for capital protection.

6.0 INVESTMENT STRATEGY

The Council's investment strategy is to optimise interest income within acceptable risk parameters whilst ensuring the security of these funds. This can be achieved whilst complying with relevant legislation by investing in Australian Cash and Fixed Interest products. To this end, Council has determined to seek services of professional investment advisors.

Council does not propose to directly invest in Australian Property, Australian Shares, or International Fixed Interest or Shares. This will reduce the risk of incurring capital losses due to the fall in property or share market values. Structured credit products such as Collateralised Debt Obligations (CDO) and other similar products are also excluded from authorised investments.

Management of cash flow requirements will also guide Council's investment strategy.

7.1 AUTHORISED INVESTMENTS

All investments must be denominated in Australian Dollars and may include but not necessarily be limited to:

- 1. Local/State/Commonwealth Government Bonds, Debentures or Securities;
- Managed Funds (securities) issued by a Fund Manager (or its ultimate parent company), who has a minimum long term Standard & Poor's credit rating of 'A' or better, or Moody Investor Services or Fitch Rating equivalent;
- Deposits in prescribed securities that either have a minimum long term credit rating of 'A' or short term rating of 'A1' from Standard & Poors or Moody Investor Services or Fitch Rating equivalent;
- 4. Interest bearing deposits/securities issued by a Australian licensed bank, building society or credit union;
- 5. Loan Offset products with a licensed bank;
- 6. Investments with NSW Treasury Corp/Hourglass Investment Facility;
- 7. Deposits with the Local Government Investment Services ("LGIS"); and
- 8. Other Investments Authorised under the "Minister's Order" dated 15 July 2005 and any subsequent revisions to that Order.



7.2 ASSESSMENT CRITERIA

The portfolio credit guidelines (to limit overall credit exposure of the portfolio) to be adopted will be based on the Standard & Poor's (S&P) or Moody's or Fitch's or equivalent ratings system criteria.

7.3 CREDIT RATINGS

The highest Standard and Poors (Australia) rating is AAA and the lowest is D (for Default). The S&P ratings are broadly defined as:

≻	AAA	An extremely strong capacity to pay
\triangleright	AA+, AA, AA-	A very strong capacity to pay
≻	A+. A. A-	A strong Capacity to pay

The Minister for Local Government considers that any security issued by a "body" or "company" rated AAA, AA+, AA, AA-, A+ and A are authorised and may form part of Council's portfolio. Therefore the lowest credit rating Council should purchase is A.

If any of the funds/securities held are downgraded such that they no longer fall within legislative requirements as stated by the Minister's Order, they will in accordance with the Code of Accounting Practice & Financial Reporting, be divested as soon as practicable.

In addition, if any of the funds/securities held are downgraded such that they still comply with legislative requirements but not within additional requirements of Council's Policy and Strategy for investment in surplus funds, they too will be divested as soon as practicable unless retention is subsequently approved by Council.

The Minister for Local Government separately recognises the safety and security of a bank, building society or credit union and therefore allows investments in any bank, building society or credit union via interest bearing deposits, bills of exchange, debentures or securities, regardless of rating.

Credit ratings should be independently reviewed regularly by monitoring press clippings or by reference to the S & P website (<u>http://www2.standardandpoors.com</u>).

7.4 LIQUIDITY

The minimum level of liquid funds available to finance day to day requirements. Cash flow must be monitored daily and Council will ensure that it has access within 7 days to at least 20% of its investments.

7.5 PERFORMANCE BENCHMARKS

Within legislative and policy constraints, Council's performance benchmark from which to measure rates of return will be the 90 day UBSA Bank Bill (Index). This index is the industry standard for measuring the performance of an asset class "cash investment" which comprise mostly short term cash investments, enhanced by taking a slightly longer view.

Officers must calculate and report the performance of the investment portfolio monthly, and results will be measured against the Index.

7.6 DIVERSIFICATION

Diversification is used to spread risk through utilisation of maximum percentage investment limits to the following:

- > Direct investments (in-house) and Indirect investments (managed funds)
- Individual Institutions (varies per credit rating)
- > Council's proportionate share of managed funds and
- Credit Rating Bands (eg AAA v A)

These limits are detailed in the following schedule



Investment Strategy – Investment Portfolio Guidelines

	Maximum %-age limits of <u>Total</u> balance of Investments						
Credit Rating ¹	Direct & Indirect			Institutions			
	Direct ² TD's etc	Indirect Mgd Funds	Total Direct+Ind	Max % With 1 Institution	Bank, Bld. Soc, Cr Un	T-Corp ³ and LGFS ⁴	Max % of a single Managed Fund
Maximum %-age Group Limit	100%	100%	100%	N/A	N/A	N/A	N/A
AAA An extremely strong capacity to pay	100%	100%	100%	40%	Yes	Yes	40%
AA+, AA, AA- A very strong capacity to pay	100%	100%	100%	35%	Yes	Yes	35%
A+, A A strong Capacity to pay	60%	90%	100%	30%	Yes	Yes	30%
Unrated, A- and below issued by Banks, Building Societies, Credit Unions and T-Corp.	10%	NA	10%	10%	Yes	Yes	N/A

 ¹ Credit Ratings utilised are Standard & Poor's Long Term ratings (or Moody's or Fitch equivalents).
² Direct Securities are limited to deposit style products and does not include structured credit products such as CDO, CPDO etc.
³ T-Corp refers to the T-Corp Hour-Glass Cash Facility only.
⁴ Only LGFS deposit style products and does not include LGFS' CPDO.



8.0 PROCEDURE - DIRECT INVESTMENT

8.1 All investments must be held in the Council's name.

Council's policy in regard to all direct investments is that they must be held in Council's name.

8.2 Quotations on Investments

For direct investments made by Council, not less than 3 quotations from authorised institutions must be sought whenever an investment is proposed. The best quote of the day will be allowed after allowing for risk and other costs and after having regard to limits as listed in Council's Investment Portfolio Guidelines.

8.3 Term to Maturity

- 1. Term deposits should have a duration between 3 and 12 months. Note, Clause (j) of the Minister's Order restricts "Bills of Exchange" to 200 days.
- 2. Term investments beyond one year require the approval of the Director of Support Services.
- 3. Other direct deposits should be bought and held to maturity unless an opportunity presents itself to trade the security to Council's advantage.

8.4 Minimum Investments

Face value of individual investments should generally be a minimum of \$500,000.

9.0 Indirect Investments (Managed Funds)

- 9.1 Managed funds must have a minimum credit rating of "A" from Standard and Poor's (or Moody's or Fitch equivalent)
- 9.2 Fund Managers must provide within 7 business days from month end for the fund:
 - > The total value of the fund
 - > Gross month % return
 - Gross year to date % return
 - Gross 12 month % return and
- 9.3 For the Council The total value of the Council's investment
 - Net month % return
 - Net year to date % return
 - > Net 12 month % return and

10.0 Ethical and Socially Responsible Investments

Ethical and socially responsible investments (SRI's) are a means for investors to support their values in terms of socially responsible investments. In addition to normal risk assessment, investments can be further evaluated in terms of environment, social and governance issues. A number of independent organisations have been established to evaluate and rate companies according to these criteria.

Subject to legislative compliance and investment policy objectives, Council supports investments in Ethical or Socially Responsible Investments.



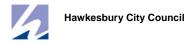
11.0 Responsibility for Implementing this Policy and Reporting

The Trustee Amendment (Discretionary Investments) Act 1997 requires at Clause 4 that: "A trustee must, at least once in each year, review the performance (individually and as a whole) of trust investments." This policy provides far more stringent reporting requirements as detailed below.

The Responsible Accounting Officer is responsible for implementing this investment policy and providing the following reports:

- a) A monthly report to Council showing:
 - Confirmation of compliance with legislation and policy limits⁵;
 - Investment portfolio performance; and
 - Monthly investment income earned versus budget.
- b) Certificates from the banks/fund managers confirming the amounts of investment held on Council's behalf at 30th June each year.

⁵ The RAO should seek confirmation of compliance from investment advisors on a monthly basis.



Attachment A

1. Local Government Act 1993 - Section 625

Section 625: How may councils invest?

- (1) A council may invest money that is not, for the time being, required by the council for any other purpose.
- (2) Money may be invested only in a form of investment notified by order of the Minister published in the Gazette.

Note: See Gazette No 152 of 24.11.2000, p 12041.

- (3) An order of the Minister notifying a form of investment for the purposes of this section must not be made without the approval of the Treasurer.
- (4) The acquisition, in accordance with section 358, of a controlling interest in a corporation is not an investment for the purposes of this section.



Attachment B

Clause 212 of the regulation provides for reporting on council investments by the responsible accounting officer.

Local Government (General) Regulation 2005

212Reports on council investments

- (1) The responsible accounting officer of a council:
 - (a) must provide the council with a written report (setting out details of all money that the council has invested under section 625 of the Act) to be presented:
 - (i) if only one ordinary meeting of the council is held in a month, at that meeting, or

(ii) if more than one such meeting is held in a month, at whichever of those meetings the council by resolution determines, and

- (b) must include in the report a certificate as to whether or not the investment has been made in accordance with the Act, the regulations and the council's investment policies.
- (2) The report must be made up to the last day of the month immediately preceding the meeting.

Note. Section 625 of the Act specifies the way in which a council may invest its surplus funds



Attachment C

2. Local Government Act 1993 - Order (of the Minister) dated 15 July 2005

LOCAL GOVERNMENT ACT 1993 – INVESTMENT ORDER (Relating to investments by councils)

I, DAVID CAMPBELL, MP, Acting Minister for Local Government, in pursuance of section 625 (2) of the Local Government Act 1993 and with the approval of the Treasurer, do, by this my Order, notify for the purposes of section 625 of that Act that a council may only invest money (on the basis that all investments must be denominated in Australian Dollars) in the following forms of investment:

- (a) Any public funds or Government stock or Government securities of the Commonwealth or any State of the Commonwealth;
- (b) Any debentures or securities guaranteed by the Government of New South Wales;
- (c) Any debentures or securities, issued by a public or local authority, or a statutory body representing the Crown, constituted by or under any law of the Commonwealth, of any State of the Commonwealth or of the Northern Territory or of the Australian Capital Territory and guaranteed by the Commonwealth, any State of the Commonwealth or a Territory;
- (d) Any debentures or securities issued by a Territory and guaranteed by the Commonwealth;
- (e) Any debentures or securities issued by a council (within the meaning of the Local Government Act 1993);
- (f) Mortgage of land in any State or Territory of the Commonwealth;
- (g) Purchase of land (including any lot within the meaning of the Strata Schemes Management Act 1996) in any State or Territory of the Commonwealth;
- (h) Interest bearing deposits in a bank authorised to carry on the business of banking under any law of the Commonwealth or of a State or Territory of the Commonwealth;
- (i) Interest bearing deposits with a building society or credit union.
- (j) Any bill of exchange which has a maturity date of not more than 200 days; and if purchased for value confers on the holder in due course a right of recourse against a bank, building society or credit union as the acceptor or endorser of the bill for an amount equal to the face value of the bill;
- (k) Any securities which are issued by a body or company (or controlled parent entity either immediate or ultimate) with a Moody's Investors Service, Inc. credit rating of ``Aaa", ``Aa1", ``Aa2", ``Aa3", "A1" or "A2" or a Standard & Poor's Investors Service, Inc credit rating of ``AAA", ``AA+", ``AA+", ``AA-"; "A+"; or "A" or a Fitch Rating credit rating of "AAA", "AA+", "AA", "A+", or "A";
- (I) Any securities which are given a Moody's Investors Service Inc credit rating of ``Aaa", ``Aa1", ``Aa2", ``Aa3", "A1", "A2" or ``Prime-1" or a Standard and Poor's Investors Service, Inc credit rating of ``AAA", ``AA+", ``AA", "AA-", "A+"; "A"; A1+" or ``A1" or a Fitch Rating credit rating of "AAA", "AA+", "AA*", "A+" or "A";
- (m) Any debentures or securities issued by a bank, building society or credit union;
- (n) A deposit with the Local Government Investment Service Pty Ltd;
- (o) A deposit with the New South Wales Treasury Corporation or investments in an Hour-Glass investment facility of the New South Wales Treasury Corporation.

Dated this day of 15 July 2005

Hon DAVID CAMPBELL MP Acting Minister for Local Government



Attachment D

- 3. The Code of Accounting & Financial Reporting
- 11.3.4 Councils must maintain a separate record of money it has invested under section 625 of the LGA. The record must specify:
 - (a) the source and the amount of money invested; and
 - (b) particulars of the security or form of investment in which the money is invested; and
 - (c) if appropriate, the rate of interest to be paid, and the amount of money that the council has earned, in respect of the money invested.
- 11.3.5 Council must maintain an investment policy that complies with the Act and ensures it or its representatives exercise care, diligence and skill that a prudent person would exercise in investing council funds.
- (c) Council Investments

Councils must maintain an investment policy that complies with the Act and ensures it or its representatives exercise care, diligence and prudence when investing council funds. Managers have a fiduciary obligation to ensure that the resources under their control are efficiently utilised and effectively protected.

In exercising its powers of investment council should be guided by the latest Ministerial Order and consider a range of factors. These include the purpose of the investment; the desirability of investment diversification; the nature and risks associated with those investments; the likely income return and timing of income return; the length of the proposed investment; the costs involved in making the investment and other matters as appropriate.

Councils should establish an investment strategy as part of its overall financial plan and have a process of performance review which should be undertaken regularly, and in any case at least annually. Where necessary, council may seek the services of an investment dealer or adviser. Advice on choosing an investment adviser and those licensed by ASIC can be obtained from the ASIC internet site at <u>http://www.asic.gov.au/</u>.

Where a council invests in banks, building societies and credit unions it should know that these institutions are regulated as authorised deposit taking institutions by the Australian Prudential Regulation Authority (APRA) under the Banking Act 1959. Refer. <u>http://www.apra.gov.au</u> Note however, that whilst APRA has power to require financial institutions to observe prudential standards (such as appropriate capitalisation, liquidity and governance) and to intercede if it believes that depositors', policyholders' or members' interests are at risk, it provides no guarantee of the performance of the financial institution.

Credit ratings are a guide or standard for an investor, which indicate the ability of a debt issuer or debt issue to meet the obligations of repayment of interest and principal. Credit rating agencies such as Moody's and Standard and Poor's make these independent assessments based on a certain set of market and non-market information. Ratings in no way guarantee the investment or protect an investor against loss. Prescribed ratings should not be misinterpreted by councils as an implicit guarantee of investments or entities that have such ratings. Even given this challenge, ratings provide the best independent information available.

In the event that a credit rating of a security or the credit rating of the company or body issuing the security falls below the required minimum, as set out in the Minister's Order, a council must make all the necessary arrangements to withdraw the deposit as soon as practicable.

Note that in choosing a NSW Treasury Corporation hour-glass investment the choice of the facility should be based on the nature of the underlying commitments for which the council is holding *11 Legislative Requirements – Accounting Records* Update No.12 – May 2004 A11012 funds. For example, funds required in the short term must be invested with a short-term profile rather than with exposure to more volatile asset classes such as property and shares.



Attachment E

 The Trustee Amendment (Discretionary Investments) Act 1997 – Sections 14A(2), 14C(1) & (2)

14A Duties of trustee in respect of power of investment

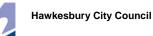
(1) This section has effect subject to the instrument (if any) creating the trust.

(2) A trustee must, in exercising a power of investment:

- (a) If the trustee's profession, business or employment is or includes acting as a trustee or investing money on behalf of other persons, exercise the care, diligence and skill that a prudent person engaged in that profession, business or employment would exercise in managing the affairs of other persons, or
- (b) If the trustee is not engaged in such a profession, business or employment, exercise the care, diligence and skill that a prudent person would exercise in managing the affairs of other persons.
- **Note:** Some Acts deem investments under the Acts to be investments that satisfy the prudent person test. See, for example, section 39 of the *Public Authorities (Financial Arrangements) Act 1987*.
- (3) A trustee must exercise a power of investment in accordance with any provision of the instrument (if any) creating the trust that is binding on the trustee and requires the obtaining of any consent or approval with respect to trust investments.
- (4) A trustee must, at least once in each year, review the performance (individually and as a whole) of trust investments.

14C Matters to which trustee is to have regard when exercising power of investment

- (1) Without limiting the matters that a trustee may take into account when exercising a power of investment, a trustee must, so far as they are appropriate to the circumstances of the trust, if any, have regard to the following matters:
 - (a) The purposes of the trust and the needs and circumstances of the beneficiaries,
 - (b) The desirability of diversifying trust investments,
 - (c) The nature of, and the risk associated with, existing trust investments and other trust property,
 - (d) The need to maintain the real value of the capital or income of the trust,
 - (e) The risk of capital or income loss or depreciation,
 - (f) The potential for capital appreciation,
 - (g) The likely income return and the timing of income return,
 - (h) The length of the term of the proposed investment,
 - (i) The probable duration of the trust,
 - (j) The liquidity and marketability of the proposed investment during, and on the determination of, the term of the proposed investment,
 - (k) The aggregate value of the trust estate,
 - (I) The effect of the proposed investment in relation to the tax liability of the trust,
 - (m) The likelihood of inflation affecting the value of the proposed investment or other trust property,
 - (n) The costs (including commissions, fees, charges and duties payable) of making the proposed investment,



- (o) The results of a review of existing trust investments in accordance with section 14A (4).
- (2) A trustee may, having regard to the size and nature of the trust, do either or both of the following:
 - (a) Obtain and consider independent and impartial advice reasonably required for the investment of trust funds or the management of the investment from a person whom the trustee reasonably believes to be competent to give the advice,
 - (b) Pay out of trust funds the reasonable costs of obtaining the advice.
- (3) A trustee is to comply with this section unless expressly forbidden by the instrument (if any) creating the trust.