



Hawkesbury City Council

attachment 1
to
item 94

DRAFT Investment Policy

date of meeting: 27 May 2014

location: council chambers

time: 6:30 p.m.



Hawkesbury City Council

Hawkesbury City Council
Policy

DRAFT
Investment Policy
May 2014



1.0 PURPOSE

The purpose of this policy is to establish the framework that Hawkesbury City Council adopts in investing its surplus funds having due consideration of all legislative requirements. All investment decisions must recognise the overall responsibility of Council under its Charter *“to bear in mind that it is the custodian and trustee of public assets and to effectively plan for, account for and manage these assets for which it is responsible.”* (Chapter 3 – Local Government Act 1993)

2.0 OBJECTIVES

The objectives of this policy are:

- a) To comply with the legislative requirements and regulations relevant to the management of Council’s investments;
- b) To maximise returns to Council consistent with all requirements of the policy;
- c) To preserve the capital of the investment portfolio. Investments are to be placed in a manner that seeks to ensure the security and safeguarding of the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters.
- d) To ensure the investment portfolio has sufficient liquidity to meet all reasonably anticipated cash flow requirements, as and when they fall due, without incurring significant costs due to the unanticipated sale of an investment;
- e) To establish a framework for monitoring the investments. The investment portfolio is expected to achieve a predetermined market average rate of return that takes into account Council’s risk tolerance. Any additional return target set by Council will also consider the risk limitation and prudent investment principles; and
- f) To confirm delegations and other relevant governance matters in relation to Council’s investments.

3.0 LEGISLATIVE REQUIREMENTS

All investments are to be made in accordance with:

- a) The Local Government Act 1993 – Section 625 (Attachment A)
- b) The Local Government (General) Regulation 2005 – Clause 212 (Attachment B)
- c) The Local Government Act 1993 - Order (of the Minister) dated 12 January 2011 and gazetted 11 February 2011 (Attachment C)
- d) The Trustee Amendment (Discretionary Investments) Act 1997 – Sections 14A(2), 14C(1) & (2) (Attachment D)
- e) The Local Government Code of Accounting Practice and Financial Reporting
- f) Division of Local Government Circulars
- g) Australian Accounting Standards
- h) Council resolutions

4.0 DELEGATION OF AUTHORITY

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



5.0 PRUDENT PERSON STANDARD

The Council's 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.

6.0 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 engaged by Council are also required to declare that they have no actual or perceived conflicts of interest.

7.0 APPROVED INVESTMENTS

All investments must be denominated in Australian Dollars and must be in accordance with the most current Local Government Act 1993 - Order (of the Minister), and relevant Council resolutions.

Investments, only in the forms stipulated in the Order (of the Minister), may be placed with the following:

- a) Tier one major Australian trading banks – ANZ, Commonwealth Bank, National Australia Bank and Westpac.
- b) Wholly owned subsidiaries of the tier one major Australian trading banks provided the institution is authorised under the current Order, and the subsidiary's rating from Standard & Poors, Moody's or Fitch, is at least equivalent to its parent tier one institution rating.
- c) Authorised deposit-taking institutions not included in (a) and (b) above and permitted under the current Order (of the Minister), limited to the amount of the Federal Government's "Guarantee Scheme" if applicable.
- d) Other investment instruments issuing bodies, as referred to in the current Order (of the Minister).

8.0 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;
- Stand alone securities issued that have underlying futures, options, forward contracts and swaps of any kind; and
- The use of leveraging (borrowing to invest) of an investment.

9.0 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 the 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;
- 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;

10.0 INVESTMENT APPROACH

10.1 DIVERSIFICATION

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

- Individual Institutions (varies per credit rating)
- Credit Rating Bands (e.g. AAA v A) – these are Standard & Poors Long Term ratings (or Moody's or Fitch equivalents)

These limits are detailed in the following schedule:

Credit Rating of Institution (Standard & Poors)	Direct Investments	Max % With 1 Institution	Max Term
AAA An extremely strong capacity to pay	100%	45%	5 yrs
AA+, AA, AA- A very strong capacity to pay	100%	40%	5 yrs
A+, A, A- A strong capacity to pay	60%	30%	1 yr
Below A- For example – non-rated Credit Unions and Building Societies that are Approved Deposit taking Institutions and which have a Government Guarantee of deposits.	20%	10% or the Government Guarantee limit, whichever is the lesser	1 yr

The maximum percentage per institution allowable in line with the table above is applicable at the time of placing investments.

The above limits on direct investments and permissible relative amount per individual institution do not apply to issuing bodies listed in the Order (of the Minister) not subject to the credit rating bands above.



10.2 TERM

Council may investment funds for a maximum term of five years. Investments exceeding a term of 12 months will only be placed with tier one institutions, or wholly owned subsidiaries thereof, provided the institution is authorised under the current Ministerial Investment Order, and the subsidiary's rating from Standard & Poors, Moody's or Fitch, is at least equivalent to its parent tier one institution ratings.

10.3 LIQUIDITY

Liquidity refers to 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 seven days to at least \$3 million or 5% of the value of its total investments, whichever is the greatest amount.

11.0 INVESTMENT ADVISOR

The Council's investment advisor must be approved by Council and 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.

12.0 MEASUREMENT

A monthly report will be provided to Council by the Responsible Accounting Officer. The report will detail the investment portfolio in terms of performance, percentage exposure of the total portfolio, maturity date and any changes in market value.

The value of Council's investment portfolio is measured and reported annually in line with the Local Government Code of Accounting Practice and Financial Reporting and Australian Accounting Standards.

13.0 BENCHMARKING

The following performance benchmarks will be used:

- Cash – Reserve Bank Cash Reference Rate
- Direct Investments – UBS 90 Day Bank Bill Index

14.0 REPORTING AND REVIEWING OF INVESTMENTS

Documentary evidence must be held for each investment and details thereof are 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.

The investment return for the portfolio is to be reviewed quarterly by Council's Independent Financial Advisor by assessing the market value of the portfolio. Within one month of the end of each calendar quarter, Council's Independent Financial Advisor is to certify Council's investments are compliant with Council's Investment Policy.

The 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.



Attachment A

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.
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

Local Government (General) Regulation 2005 - Clause 212

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

212 Reports 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

**Local Government Act 1993 - Order (of the Minister)
Dated 12 January 2011 and Gazetted 11 February 2011**

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

I, the Hon. Barbara Perry MP, 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 or county 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 securities issued by or guaranteed by, the Commonwealth, any State of the Commonwealth or a Territory;
- (b) any debentures or securities issued by a council (within the meaning of the *Local Government Act 1993* (NSW));
- (c) interest bearing deposits with, or any debentures or bonds issued by, an authorised deposit-taking institution (as defined in the *Banking Act 1959* (Cwth)), but excluding subordinated debt obligations;
- (d) 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 which has been designated as an authorised deposit-taking institution by the Australian Prudential Regulation Authority;
- (e) a deposit with the New South Wales Treasury Corporation or investments in an Hour-Glass investment facility of the New South Wales Treasury Corporation;

All investment instruments (excluding short term discount instruments) referred to above include both principal and investment income.

Transitional Arrangements

- (i) Subject to paragraph (ii) nothing in this Order affects any investment made before the date of this Order which was made in compliance with the previous Ministerial Orders, and such investments are taken to be in compliance with this Order.
- (ii) Paragraph (i) only applies to those investments made before the date of this Order and does not apply to any restructuring or switching of investments or any re-investment of proceeds received on disposal or maturity of such investments, which for the avoidance of doubt must comply with this Order.

Key Considerations

An investment is not in a form of investment notified by this order unless it also complies with an investment policy of council adopted by a resolution of council.

All councils should by resolution adopt an investment policy that is consistent with this Order and any guidelines issued by the Chief Executive (Local Government), Department of Premier and Cabinet, from time to time.

The General Manager, or any other staff member, with delegated authority by a council to invest funds on behalf of a council must do so in accordance with the council's adopted investment policy.

Councils have a fiduciary responsibility when investing. Councils should exercise the care, diligence and skill that a prudent person would exercise in managing the affairs of other persons.

When exercising the power of investment councils should consider, but not be limited by, the risk of capital or income loss or depreciation, the likely income return and the timing of income return, the length of the term of the proposed investment, the liquidity and marketability of the proposed investment, the likelihood of inflation affecting the value of the proposed investment and the costs (including commissions, fees, charges and duties payable) of making the proposed investment.

Dated this 12th day of January 2011


Hon BARBARA PERRY MP
Minister for Local Government



Attachment D

The Trustee Amendment (Discretionary Investments) Act 1997
- Sections 14A (2), 14C (1) and (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,
 - (l) 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.