attachment 1

to

item 97

Draft Investment Policy May 2021

date of meeting: 26 May 2021
location: council chambers
and by audio-visual link
time: 6:30 p.m.

Hawkesbury City Council

Hawkesbury City Council
Policy

Investment Policy

May 2021

Hawkesbury City Council

Division:	Support Services	**Policy Number:**	PAK00362
Branch:	Financial Services	**Adopted Date:**	10 May 2021
Responsible Officer:	Chief Financial Officer	**Next Review Date:**	May 2022
Director:	Director Support Services	**Version:**	Enter No

Table of Contents

TITLE

Investment Policy

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 the Principles of sound financial management (Chapter 3 – Local Government Act 1993) -*" Councils should have effective financial and asset management."*

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 all risks within identified thresholds and parameters.
d) To ensure the investment portfolio has enough 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;
f) The investment portfolio is expected to match or exceed a passive investment benchmark for conservative investors, in line with prudent person principles; and
g) To confirm delegations and other relevant governance matters in relation to Council's investments.

3.0 ROLES AND RESPONSIBILITY

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
Deputy Chief Financial Officer	As per Delegation from General Manager

4.0 RELATED DOCUMENTS

4.1 LEGISLATION

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) Office of Local Government Circulars, Guidelines and Notices
g) Australian Accounting Standards
h) Council resolutions

4.2 GUIDELINES

The Policy is based on the Investment Policy Guidelines issued by the then Division of Local Government in May 2010. The Guidelines can be accessed at the following link:

https://www.olg.nsw.gov.au/sites/default/files/Investment-Policy-Guidelines-May-2010.pdf

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 potential conflicts of interest.

7.0 APPROVED INVESTMENTS

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

Council many only place Investments in the forms stipulated in the Order (of the Minister).

8.0 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;
- Standalone 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 QUOTATIONS FOR PURCHASES AND SALES OF INVESTMENTS

The investing officer must satisfy themselves that they are obtaining a fair market price for all investments made at all times. This can be accomplished by obtaining multiple independent quotes from reputable market makers where the investment is widely traded or where it is not widely traded by reference to other similar instruments that are traded in the marketplace. Council will take due steps to ensure that any investment is executed at the best pricing reasonably possible.

If this is not possible or impractical, the investing officer can rely on representations made by an Independent Advisor with no conflicts of interest regarding the purchase or sale of the investment.

For the avoidance of doubt the investing officer must not rely on representations made by the buyer, seller or broker or any other person with a potential conflict of interest.

10.0 RISK MANAGEMENT GUIDELINES

Investments obtained are to be considered considering 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;
- Interest Rate Risk - the risk the fair market value of the investment fluctuates significantly due to changes in underlying interest rates;
- Reinvestment Risk - the risk that income will not meet expectations or budgeted requirement because interest rates are lower than expected in future when the investment matures, and monies need to be re-invested.

11.0 INVESTMENT APPROACH

11.1 DIVERSIFICATION

Diversification is used to minimise 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 & Poor's Long Term ratings (or Moody's or Fitch equivalents). In the event an entity has multiple ratings the Standard and Poor's rating will be used or if no Standard and Poor's rating is available the lower of the equivalent rating issued by Fitch or Moody's.
- Major Banks are defined as ANZ, CBA, NAB, Westpac or any of their wholly owned and guaranteed subsidiaries (such as St George, BankWest).

These limits are detailed in the following schedule:

<u>Credit Ratings Category Limits</u>

Credit Rating of Institution (Standard & Poor's)	Maximum Percentage of Total Portfolio
AAA to AA- or Major Bank and below	100%
A+ to A- and below	50%
BBB+ to BBB and below	40%
BBB- and below	10%

Individual Counterparty Limits

Credit Rating of Institution (Standard & Poor's)	Max % With 1 Institution	Max Term
AAA	45%	5 years
AA+, AA, AA- (and Major Banks)	40%	5 years
A+, A, A-	30%	3 years
BBB/BBB+	10%	3 years
BBB-	5%	3 years
Non-rated ADIs	Government Guarantee limit	1 year
NSW TCorpIM Funds	20%	

These limits will apply at the time of purchase and should subsequent events cause limits to be exceeded, Council will manage the situation in the most appropriate manner with the objective of returning the portfolio within policy limits.

11.2 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 $2 million or 3% of the value of its total investments, whichever is the greatest amount.

11.3 INVESTMENT STRATEGY

On an ongoing basis and in conjunction with this Investment Policy an Investment Strategy will be formulated and documented. This strategy may be formulated in conjunction with Council's investment advisor if applicable and be documented in the reports from that advisor to council. The strategy will consider the following:

- Council's cash flow requirements and implications for the portfolio liquidity profile.
- Allocation of investment types, credit quality, counterparty exposure and term to maturity.
- Current and projected market conditions and any likely impacts on relative positioning in terms of the portfolio and any necessary policy implications.
- Relative and absolute return outlook; risk-reward considerations; assessment of the market cycle and hence constraints on risk.
- Appropriateness of overall investment types for Council's portfolio and,
- The projected investment portfolio level for the forthcoming year.

11.4 ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INVESTING

Where financial institutions are offering equivalent investment returns with the same credit rating and assessed financial risk and the investment fits within the provisions of this Investment Policy, preference will be given to placing funds with institutions identified as having the higher ESG standards.

11.5 TRADING POLICY

Council will make every effort and will undertake cash flow forecasting to match investment maturities to cash flow requirements to minimise early liquidation of investments prior to scheduled maturities and any associated penalties either explicit in the form of break costs or implicit in terms of broker fees, market spreads and liquidity risks. Investments will be acquired with the intention of holding them through maturity

Council may sell assets prior to maturity in the following circumstances:

- If the asset is liquid, easily tradeable, can be sold without significant loss and was purchased as part of a "liquidity buffer" against the event of unforeseen and unexpected liquidity requirements.

- If Council judges that the asset has deteriorated in credit quality and there is a material risk of loss on the asset if held to maturity and Council upon seeking external advice from a competent and reputable independent advisor is advised that a sale of the asset is in the best interests of Council for risk management purposes to potentially minimise any future losses.
- If a change of legislation requires the sale of assets (the assets are not grandfathered as discussed below)

For the avoidance of doubt, Council will not adopt an active trading strategy buying and selling assets on broker recommendations for the purposes of enhancing returns through the accumulation of capital profits.

11.6 POLICY BREACHES, RECTIFICATIONS AND GRANDFATHERING

Any investment purchased when compliant with the investment policy may be held to maturity or sold as Council believes best dependent on the individual circumstances, so long as that risk management strategy is accordance with the principles of the Investment Guidelines as above, the prevailing legislation and the prudent person guidelines.

Specifically, Grandfathering will apply to any investment that:

- Was made ineligible by a previous change to the external legislation if that change allows for grandfathering.
- Is made ineligible as a result of a change to this investment policy.
- Is in breach of the investment policy due to a change of circumstance (e.g., because the investment has been downgraded or has had its credit rating withdrawn post purchase).
- Is in breach due to a change of portfolio size or composition (e.g. because the overall portfolio size has decreased and as a result the percentage of total portfolio limit which applies to individual remaining investments increases and therefore causes a breach).

12.0 INVESTMENT ADVISOR

In accordance with the Investment Policy Guidelines issued by the then Division of Local Government in May 2010, 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. Any commissions received by the investment advisor must be rebated in full to Council.

13.0 MEASUREMENT

A monthly report will be provided to Council by the Responsible Accounting Officer. The report will detail the investment portfolio in terms of investment returns, change in value and composition and adherence to the risk limits outlined in this policy.

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.

14.0 BENCHMARKING

The following performance benchmarks will be used: Bloomberg Ausbond Bank Bill Index

15.0 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 monthly by Council's Independent Financial Advisor, with the review to be conducted within two weeks of month end. 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.

<u>Transitional Arrangements</u>

(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.

<u>Key Considerations</u>

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.