



POLICY:	INVESTMENT POLICY
STATUS:	Draft
ADOPTED:	N/A
LATEST VERSION:	6 August 2014
NEXT REVISION:	N/A

OBJECTIVE

To provide a framework for the investing of Council's funds at the most favourable 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.

While exercising the power to invest, consideration is to be given to the preservation of capital, liquidity, and the return on investment.

Preservation of capital is the principal objective of the investment portfolio. Investments are to be placed in a manner that seeks to ensure security and safeguarding the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters.

Investments should be allocated to ensure there is sufficient liquidity to meet all reasonably anticipated cash flow requirements, as and when they fall due, without incurring the risk of significant costs due to the unanticipated sale of an investment.

LEGISLATIVE REQUIREMENTS

All investments are to comply with the following:

Local Government Act 1993;
Local Government (General) Regulation 2005;
Ministerial Investment Order January 2011(attached);
Local Government Code of Accounting Practice and Financial Reporting;
Australian Accounting Standards; and
Department of Local Government Circulars.

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*.

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 portfolios to safeguard the portfolio in accordance with the spirit of this Investment Policy, and not for speculative purposes.

ETHICS AND CONFLICTS OF INTEREST

The General Manager shall refrain from any personal activities that would conflict with the proper execution and management of Council's investment portfolio. This requires the General Manager to disclose any conflict of interest to the Council in accordance with Council's Code of Conduct.

APPROVED INVESTMENTS

Investments are limited to those allowed by the Ministerial Investment Order and include:

- Any public funds or securities issued by or guaranteed by, the Commonwealth, any State of the Commonwealth or a Territory;
- Any debentures or securities issued by a council (within the meaning of the Local Government Act 1993 (NSW));
- Interest bearing deposits with, or any debentures or bonds issued by, and authorised deposit-taking institution (as defined in the Banking Act 1959 (Commonwealth)), but excluding subordinated debt obligations;
- 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;
- A deposit with the New South Wales Treasury Corporation or investments in an Hour-Glass investment facility of the New South Wales Treasury Corporation.

PROHIBITED INVESTMENTS

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, forwards contracts and swaps of any kind;
- This policy also prohibits the use of leveraging (borrowing to invest) of an investment.

PORTFOLIO ALLOCATION

Long Term Rating (S&P or equivalent)	Maximum Holding
AAA	100%
AA	100%
A	80%
BBB	60%
Unrated authorised institution (NR)*	50%

*There is an Australian government guarantee (the Financial Claims Scheme (FCS)) of any investment to an authorised institution up to \$250K per institution. The FCS is administered by Australian Prudential Regulation Authority (APRA).

Maximum exposure to any single issuer is to be 80% of the portfolio at AAA-A-, or up to \$250K with any single NR institution.

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;
- Diversification – the requirement to place investments in a broad range of products so as not to be over exposed to a particular sector of the investment market;
- 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 time to maturity of the investment. The longer the term, the greater the length of exposure and risk to market volatility.
- Reinvestment Risk – the risk an investment will have a lower return when reinvested.

The HRCC portfolio is most likely to be exposed to liquidity and reinvestment risk, as the majority of investments are short (less than 12 months) to maintain liquidity. This will particularly be felt during times of long slow interest rate decline.

INVESTMENT STRATEGY

When investing funds, consideration must be given to Council's known cash requirements, and limits with each issuer, after allowing for administrative and banking costs. Council's investments should be placed in an appropriate mixture of short term (<365 days), medium term (1-3 years) and long term (>3 years) categories, according to Council's funding requirements and risk profile at the time of placing each investment.

INVESTMENT ADVISOR

The Council's investment advisor 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.

LEGAL OWNERSHIP

Council's investments must be held in the name "Hawkesbury River County Council".

BENCHMARKING

The following Performance benchmark is established and based on sound and consistent methodology.

Investment	Performance Benchmark	Info source
Cash	Australian Reserve Bank Cash Rate	http://www.rba.gov.au

REPORTING TO COUNCIL

In accordance with the Local Government Financial Regulations, a report will be provided to council at each Ordinary Meeting, detailing the investment portfolio in terms of products, performance, portfolio balances and benchmarking.

Appendix 1: LOCAL GOVERNMENT INVESTMENT ORDER 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

Appendix 2:

Standard & Poor's Credit Ratings Description

Standard & Poor's (SP) is a professional organisation that provides analytical services. An S&P rating is an opinion of the general creditworthiness of an obligor with respect to particular debt security or other financial obligation – based on relevant risk factors.

Credit ratings are based, in varying degrees, on the following considerations:

- Likelihood of payment.
- Nature and provisions for the obligation.
- Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganisation or other laws affecting creditors' rights.

The issue rating definitions are expressed in terms of default risk.

Short Term Obligation Credit Ratings are:

A-1

This is the highest short-term category used by S&P. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.

A-2

A short-term obligation rated A-2 is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.

A-3

A short-term obligation rated A-3 exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

Long-Term Credit Ratings are:

AAA

An obligation/obligor rated AAA has the highest rating assigned by S&P. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

AA

An obligation/obligor rated AA differs from the highest rated obligations only in a small degree. The obligor's capacity to meet its financial commitment on the obligations is very strong.

A

An obligation/obligor rated A is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations/obligor in higher rated categories. However, the obligors capacity to meet its financial commitment on the obligation is still strong.

BBB

An obligation/obligor rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to the obligor to meet its financial commitment on the obligation.

Plus (+) or Minus (-)

The ratings from “AA” to “CCC” may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

CreditWatch

Highlights an emerging situation, which may materially affect the profile of a rated corporation and can be designed as positive, developing or negative. Following a full review the rating may either be affirmed or changed in the direction indication.

Rating Outlook

Assesses the potential direction of an issuer’s long-term debt rating over the intermediate-to-long term. In determining a Rating Outlook, consideration is given to possible changes in the economic and /or fundamental business conditions. An outlook is not necessarily precursor of a ratings change or future CreditWatch action. A “Rating Outlook – Positive” indicates that rating may be raised. “Negative” means a rating may be lowered. “Stable” indicates that ratings are not likely to change. “Developing” means ratings may be raised or lowered.

S&P Ratings Correlations

The standard correlation of short-term ratings with long-term ratings is shown below.

