


INVESTMENT POLICY

As at September 2020

	<h1>INVESTMENT POLICY</h1>		
RESPONSIBLE OFFICER	Chief Financial Officer		
DATE ADOPTED	20 June 1995	MINUTE	CFS 44/95
REVISED	September 2020	REVIEW	2021
ECM	1352110		
ASSOCIATED LEGISLATION/DOCUMENTS	<ul style="list-style-type: none"> • <i>Local Government Act (NSW) 1993</i> • <i>Trustee Amendment (Discretionary Investments) Act 1997</i> • <i>Local Government (General) Regulation 2005</i> • <i>Local Government Act 1993 – Ministerial Investment Order dated 12 January 2011</i> • <i>Local Government Investment Policy Guidelines (Circular 10-11)</i> • <i>Final Code of Accounting Practice and Financial Reporting (update 28) including Joint Organisations Supplement</i> 		

1.0 Introduction

1.1 Title and Commencement

This policy is titled *Strathfield Council Investment Policy*.

1.2 Commencement

Date of Council Resolution	Minute	Details
20 June 1995	CFS 44/95	Policy adopted by Council
4 August 2009	303/09	Policy revised
5 April 2011	56/11	Policy revised – Revised Ministerial Investment Order
5 May 2015	132/15	Policy revised
7 June 2016	167/16	Policy reviewed
1 July 2017		Policy reviewed
September 2020		Review

1.3 Purpose of the Policy

The purpose of this Policy is to provide guidelines for the management of Council's investment.

1.4 Objectives of the Policy

The objectives are:

- to ensure the security of Council funds by adopting appropriate credit risk and diversification limits
- to ensure that Council's investments comply with legislative guidelines
- to maximise earnings subject to those limits, Council's liquidity requirements and its investment time horizon.

2.0 Council Investment Strategy

Council's strategies in relation to its investments are:

- to meet Council's cash flow expectations
- to maximise the returns of Council's investments within Investment Policy constraints and otherwise acceptable risk tolerances
- to set medium/long term strategic asset allocations for the investment portfolio
- to identify the most appropriate funds/investments for the investment portfolio
- to be able to measure the performance of individual investment relative to appropriate benchmarks
- to improve reporting on Council's investments and their performance.

3.0 Policy Statement

3.1 Authority for Investment

All investments are to be made in accordance with Council's Investment Policy, which references:

- Local Government Act 1993 – Section 625
- Ministerial Investment Order (January 2011) pursuant to Section 625 (2) Local Government Act
- Local Government (General) Regulation 2005 – Clause 212
- Local Government Investment Policy Guidelines (Circular to Councils 10-11)
- Local Government Code of Accounting Practice and Financial Reporting

3.2 Delegation

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 day to day management of Council's investment portfolio to the Responsible Accounting Officer or Senior Staff, subject to regular reviews.

The investment portfolio will be managed with the care, diligence and skill that a prudent person would exercise. As trustees of public money, officers are to manage Council's investment portfolio to safeguard the portfolio in accordance with this Investment Policy.

3.3 Authorised Investments

All investments must be denominated in Australian Dollars. Investments are limited to those allowed by the most current Ministers Investment Order that has been issued by the NSW Minister for Local Government. Authorised investments are limited to:

- 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 debentures or bonds issued by, an authorised deposit-taking institution (as defined in the *Banking Act 1959* (Cwth)), 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 against a bank which has been designated as an authorised deposit-taking institution by the Australian Prudential Regulation Authority
- Investments with NSW Treasury Corporation or investments in an Hour-Glass Investment Facility of NSW Treasury Corporation.

4.0 Investment Guidelines

4.1 Risk Management Guidelines

Investments are expected to achieve a market average rate of return in line with Council's risk tolerance.

- 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 term to maturity of the investment. The larger the term, the greater the length of exposure and risk to market volatilities; and
- Leveraging Risk - the magnification of an investor's risk and return that occurs when the investor takes on financial leverage through an investment product.

4.2 Credit & Maturity Guidelines

(i) Overall Portfolio Credit Framework

The overall portfolio credit guidelines to be adopted will be based on the Standard & Poor's (S&P) ratings system criteria (or Moody's/Fitch equivalent if a S&P rating is not available). The maximum available limits in each rating category are as follows:

Overall Portfolio Credit Limits		
Long Term Credit Ratings	Short Term Credit Ratings	Direct Securities Maximum
AAA to AA-	A-1+	100%
A+ to A	A-1	100%
A-To BBB+	A-2	70%
BBB to BBB- *	A-3 *	30%

* Investments with counterparties below BBB+ Category (Long Term) and below A-2 (Short Term) are to be restricted to licensed banks, building societies and credit unions.

(ii) Institutional Credit Framework

Exposure to individual financial institutions will be restricted by their S&P rating (or Moody's / Fitch equivalent if a S&P rating is not available), to that single entity, as detailed in the table below:

Individual Institution Limits		
Long Term Credit Ratings	Short Term Credit Ratings	Direct Securities Maximum
AAA to AA-	A-1+	50%
A+ to A	A-1	40%
A-To BBB+	A-2	30%
BBB to BBB- *	A-3 *	15%

* Investments with counterparties below A Category (Long Term) and below A-2 (Short Term) are to be restricted to Authorised Deposit-Taking Institutions (ADIs), e.g. licensed banks, building societies and credit unions.

(iii) Term to Maturity Framework

The investment portfolio is to be invested with the following term to maturity constraints.

Overall Portfolio Term to Maturity Limits	
	Maximum
Portfolio % < 1 Year	100%
Portfolio % > 1 Year < 3 Years	70%
Portfolio % > 3 Years < 5 Years	50%
Portfolio % > 5 Years	25%
Individual Investment Maturity Limits	
Authorised Investment as per legislation	5 years

If any of Council's investments are downgraded such that they no longer fall within these investment policy guidelines, they will be divested as soon as is practicable subject to minimising any loss of capital that may result from compliance with this provision.

From time to time financial assets may be acquired at a discount or premium to their face value. Any such discount or premium is to be taken into account in line with relevant Australian Accounting Standards.

5.0 Performance Benchmarks

The performance of the investment portfolio will be reported to Council monthly, in accordance with the requirements of the Local Government Act 1993. The monthly report should contain a comparison of the performance of the portfolio, benchmarked to industry index.

Investment	Performance Benchmark
Cash	11 am Cash Rate
Direct Investments/Fixed Interest	90days Average UBSA Bank Bill Index

6.0 Safe Custody Arrangements

Where necessary, investments may be held in safe custody on Council's behalf, as long as the following criteria are met:

- Council must retain beneficial ownership of all investments
- Adequate documentation is provided, verifying the existence of the investments.
- The Custodian conducts regular reconciliation of records with relevant registries and/or clearing systems.
- The Institution or Custodian recording and holding the assets will be:
 - i. Austraclear; or
 - ii. An institution with an investment grade Standards and Poor's or Moody's rating; or
 - iii. An institution with adequate insurance, including professional indemnity

insurance and other insurances considered prudent and appropriate to cover its liabilities under any agreement.

7.0 Reporting

- i. 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.
- ii. A monthly report will be provided to Council, detailing the investment portfolio in terms of performance, percentage exposure of total portfolio, maturity date and changes in market value.
- iii. The report will also detail investment income earned versus budget year to date and confirm compliance of Council's investments within legislative and policy limits.
- iv. For audit purposes, certificates must be obtained from the banks/fund managers/custodian confirming the amounts of investment held on Council's behalf at 30 June each year.

8.0 General

- i. Except for the purpose of reducing its exposure to investment risks, Strathfield Council will not directly enter into any type of derivative transactions
- ii. Strathfield Council will not make investment decisions outside the bounds of the agreed Investment Strategy or be engaged in overly speculative investments.
- iii. Investment limits as determined in this policy are as at the date of new funds been invested.
- iv. Any investment held at the date of approval of this policy that falls outside the policy constraints may be held to maturity.
- v. This Policy is to be reviewed at least every two (2) years.