

# INVESTMENT POLICY

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PREPARED BY:

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SUTHERLAND SHIRE

## 1. PURPOSE

The purpose of this policy is to establish the framework that Sutherland Shire Council adopts in investing its surplus funds.

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

Other objectives include:

- to maximise the return to Council in line with all requirements of the policy;
- to comply with the legislative requirements and regulations relevant to the management of Council's investments;
- to ensure sufficient liquidity to meet all cash flow requirements;
- to establish a framework for monitoring investments. Investments are expected to achieve a market average rate of return in line with Council's risk tolerance;
- to confirm delegations and other relevant governance matters in relation to Council's investments.

## 2. APPLICATION

This policy applies to all investing activities undertaken by Council and is binding upon all staff who undertake these activities.

## 3. PRINCIPLES

### 3.1 Prudent Person Standard

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

### 3.2 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 Chief Executive Officer. Independent advisors are also required to declare that they have no actual or perceived conflicts of interest.

### 3.3 Authorised Investments

All investments must be denominated in Australian Dollars. Authorised Investments are limited to those allowed by the current active Ministerial Investment order that has been issued by the NSW Minister for Local Government and is attached to the end of this Policy.

### 3.4 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; and
- Standalone securities issued that have underlying futures, options, forwards contracts and swaps of any kind.

### 3.5 Authority

Authority for implementation of the Investment Policy is delegated by Council to the Chief Executive Officer in accordance with the *Local Government Act 1993*. The Chief Executive Officer has in turn delegated the day-to-day management of Council's investment portfolio to those currently recorded in the Delegated Authority register.

Delegated officers are required to acknowledge they have received a copy of this policy and understand their obligations in this role when investing funds on behalf of Council in accordance with this policy.

Adequate controls are in place to safeguard Council's assets, such as the separation of duties in relation to authorising and executing transactions through the requirement of two authorised signatories for each transaction.

Delegation Register	
Delegation Number	05.08
Delegation Category	FINANCE
Delegation Name	Investment of Funds
Delegation Detail	Invest funds for Council in accordance with Councils' policy titled "Investment Policy" or other relevant policy as determined by the Council.

### 3.6 Risk Management

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);
- Interest Rate Risk – the sensitivity of the value of assets, liabilities and future cash flows to a change in interest rates;
- Diversification – setting limits to the amounts invested with a particular financial institution or government authority to reduce institutional risk;
- Credit risk – the risk that an institution (counterparty) that 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; and
- 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.

### 3.7 Credit Quality Limits

Credit guidelines to be adopted reference the Standard & Poors (S&P) ratings system criteria and format – however, references to the Minister’s Order also recognise Moody’s and Fitch Ratings and any of the three may be used where available.

Ratings in no way guarantee the investment or protect Council against investment losses. The prescribed ratings should not be misinterpreted as an implicit guarantee of investments or entities that have such ratings. Even given this challenge, ratings provide the best independent information available.

Since credit ratings cannot be considered a consistent indicator of risk across different investment types, to provide a more effective risk management framework, this policy sets different exposure and duration terms for different categories of investments.

The following table provides a comparison of the rating equivalents between the different rating agencies

	S&P	Moody’s	Fitch
Prime	AAA	Aaa	AAA
High Grade	AA+	Aa1	AA+
	AA	Aa2	AA
	AA-	Aa3	AA-
Upper Medium Grade	A+	A1	A+
	A	A2	A
	A-	A3	A-
Lower Medium Grade	BBB+	Baa1	BBB+
	BBB	Baa2	BBB
	BBB-	Baa3	BBB-
Non-Investment Grade Speculative	BB+	Ba1	BB+
	BB	Ba2	BB
	BB-	Ba3	BB-
Highly Speculative	B+	B1	B+
	B	B2	B
	B-	B3	B-

The “Unrated” category is included to allow for investments in APRA regulated Authorised Deposit taking Institutions (ADIs) such as Credit Unions or Building Societies that may not have a credit rating from a ratings agency. This provision will only apply to those APRA regulated ADIs. The Minister’s Investment Order (included in Schedule 1) under section (c) allows for these investments.

### Total Portfolio Credit Limits

The maximum holding limit in each rating category of Council's portfolio shall be:

<b>S&amp;P Long Term Rating Range</b> <i>(or Moody's/Finch equivalent)</i>	<b>Maximum Holding</b>
AAA Range	100%
AA Range	100%
A Range	60%
BBB Range	40%
Unrated	10%

Credit ratings are based upon the Standard & Poor's Investment Rating, or equivalent, where a Standard & Poor's Investment Rating does not exist.

If any of Council's investments are downgraded such that they no longer fall within these policy guidelines, they will be divested as soon as practicable.

### 3.8 Investment Maturity Term

The term to maturity framework is structured around the cash requirements of the Council and the management of liquidity risk. The investment portfolio will diversify its maturity profile within the following term to maturity constraints.

The investment portfolio is to be invested within the following maturity constraints:

<b>Investment Horizon</b>	<b>Maturity Date</b>	<b>Minimum Allocation</b>	<b>Maximum Allocation</b>
Working Capital Funds	0-3 months	10%	100%
Short Term	3-12 months	20%	80%
Short to Medium Term	1-2 years	0%	70%
Medium Term	2-5 years	0%	35%
Long Term	5-10 years	0%	10%

### 3.9 Diversification

#### Individual Institution Limits

Exposure to an individual institution will be restricted by their credit rating so that single entity exposure is limited, as detailed in the table below:

S&P Long Term Rating Range (or Moody's/Finch equivalent)	Maximum Holding
AAA to AA-	45%
A+ to A-	40%
BBB+ to BBB-	20%
Unrated	5%

Credit ratings are based upon the Standard & Poor's Investment Rating, or equivalent, where a Standard & Poor's Investment Rating does not exist.

If any of the Council's investments are downgraded such that they no longer fall within the investment policy limits, they will be divested as soon as practicable having regard to potential losses resulting from early redemption and subject to minimising any loss of capital that may arise from compliance with this provision.

#### 3.10 Authority to Terminate Investments Early

If any of Council's investments are under market or liquidity stress and conditions warrant early termination then this should be actioned as soon as practicable by the responsible officer stated in this policy. Early termination should consider any penalties imposed relevant to the risk of retaining the investment.

#### 3.11 Performance Benchmarks

The performance of the investment portfolio shall be measured against the industry standard Bloomberg AusBond Bank Bill Index.

#### 3.12 Investment Register and Documentation

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.

#### 3.13 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. Any commissions paid to the advisor by banks/product providers will be rebated, or otherwise on forwarded, to Council as per ASIC requirements for an independent investment advisor.

Similar to the auditor rotation requirements under the *Corporations Act 2001 (Cth)* the Council's investment advisors must be rotated after a providing services for five (5) consecutive financial years.

## **4. RESPONSIBILITIES**

### **4.1 Council**

Council is responsible for undertaking all investment activities in accordance with the *Local Government Act 1993*.

### **4.2 Chief Executive Officer**

The Authority for implementation of this Investment Policy is delegated to the Chief Executive Officer in accordance with the *Local Government Act 1993*.

### **4.3 Responsible Officer**

The Chief Financial Officer is the Responsible Officer for this policy and is responsible for managing and reporting Council's investment portfolio.

### **4.4 Team Leader – Revenue**

The Team Leader – Revenue is responsible for carrying out the day to day activities under the direction of the Chief Financial Officer.

### **4.5 Finance Staff**

Staff must adhere to the requirements of this policy and operate within the authorities of financial delegations granted to them by the Chief Executive Officer.

## **5. MONITORING**

A monthly report will be provided to Council, detailing the investment portfolio in terms of performance and counterparty percentage exposure of total portfolio.

The report will detail investment income earned versus budget year to date and outline maturity dates, face value and market values where applicable.

For each investment that is placed, a written confirmation must be received from the deposit taking institution detailing Council's ownership of the investment.

For audit purposes, certificates must be obtained from the banks/fund managers confirming the amounts of investment held on Council's behalf at 30 June each year.

## **6. RECORD KEEPING, CONFIDENTIALITY AND PRIVACY**

Council adheres to and complies with the NSW *State Records Act 1998* and *Privacy and Personal Information Protection Act 1998* through its Enterprise Content Management Policy and Privacy Policy.

## **7. BREACHES OF POLICY**

Breaches of this policy will be dealt with in accordance with normal disciplinary procedures and will be advised to the Chief Executive Officer and /or Director Corporate Support, via the Chief Financial Officer.

## 8. RELATED DOCUMENTS

- Investment of Cash Balances Guidelines
- Enterprise Content Management Policy
- Privacy Policy
- Access to Information Policy

## 9. RELEVANT LEGISLATION, REGULATIONS AND GUIDELINES

- Local Government Act 1993 (NSW).
- Local Government (General) Regulations.
- Ministerial Investment Order, dated 12 January 2011.
- The Trustee Act 1925 - Section 14, 14A(2), 14C(1) & 14C(2).
- State Records Act 1998 (NSW).
- Privacy and Personal Information Protection Act 1998 (NSW).
- Government Information (Public Access) Act 2009 (NSW).
- Corporations Act 2001 (Cth).
- Local Government Code of Accounting Practice and Financial Reporting.
- Australian Accounting Standards.

## 10. DEFINITION OF TERMS

Term	Meaning
AusBond Bank Bill Index	<p>In 2014, Bloomberg acquired the UBS Australia Bond Indices. The benchmark index formerly referred to as UBSA BBI was rebranded as Ausbond Bank Bill Index.</p> <p>Bloomberg calculates a daily Bank Bill Index representing the performance of a notional rolling parcel of bills averaging 45 days.</p>
APRA	<p>Australian Prudential Regulation Authority - APRA</p> <p>APRA is the prudential regulator of the Australian financial services industry. APRA enforces prudential standards and practices (e.g. capital adequacy and other risk management issues) of banks, credit unions, building societies, insurance companies and friendly societies.</p>
ADI	<p>Authorised Deposit-Taking Institutions - ADI</p> <p>Authorised Deposit-Taking Institutions (ADIs) are corporations that are authorised under the Banking Act 1959 (Cwth) to take deposits from customers.</p>
Credit Rating	<p>Credit Rating refers to a short or long term summary assessment of the credit worthiness of a debt issuer or of a specific issue.</p>
Ministerial Investment Order	<p>Refers to the Order of the NSW Minister for Local Government relating to Investments made by NSW Councils. Last Minister's Order was dated 12 January 2011.</p>

End of Document

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