



Policies, Procedures and Guidelines

INVESTMENT POLICY

FIN001

INTRODUCTION

The Lachlan Shire Council Investment Policy has been developed to establish investment risk management guidelines to be adopted in investment of surplus funds that are not immediately required for any other purpose.

OBJECTIVE

1. To provide a framework for the investing of surplus Council funds at the most favourable rate of interest available, whilst having due consideration of risk and security for investments ensuring its liquidity requirements are being met.
2. Whilst exercising the power to invest consideration must be given to the preservation of capital, liquidity and the return on investment:
 - a. **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.
 - b. 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.
 - c. Investments are expected to achieve a market average rate of return in line with Council's risk management guidelines.

BACKGROUND

Council has had on average since July 2017 a total of \$32m of surplus funds invested at any one time. Interest on these investments represents a significant contribution to the total income of Council and it is essential that Council has clear policy guidelines as to how funds can be invested. This policy aims to clearly state the institutions with which Council can invest the maximum proportion of funds that may be placed with individual organisations and the types of investments entered into.

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LEGISLATIVE REQUIREMENTS

Il investments are to comply with the following:

- ⌚ Local Government Act 1993;
- ⌚ Local Government (General) Regulation 2005;
- ⌚ Ministerial Investment Order;
- ⌚ Local Government Code of Accounting Practice and Financial Reporting;
- ⌚ Australian Accounting Standards; and
- ⌚ Office of Local Government Circulars.

DELEGATION OF AUTHORITY

Authority for implementation of the Investment Policy is delegated to the General Manager in accordance with the Local Government Act 1993.

- ⌚ The Responsible Accounting Officer in accordance with the General Managers delegation is responsible for the day to day management of Council's Investments.
- ⌚ The Financial Accountant in accordance with the Responsible Accounting Officer's delegation makes investments on Councils behalf.

PRUDENT PERSON STANDARD

Council 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.**

APPROVED INVESTMENTS

Investments are limited to those allowed by the most current Ministerial Investment Order that has been issued by the NSW Minister for Office of Local Government:

- (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 binds issued by, an authorised deposit-taking institution (as defined in the Banking Act 1959 (Cwth), but excluding subordinated debt obligations;

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- 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 managed funds with the New South Wales Treasury Corporation.

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

RISK MANAGEMENT GUIDELINES

Credit Quality, Diversification and Term To Maturity Constraints

Investments are to comply with three key criteria relating to:

- 1) Portfolio Credit Framework – limit the overall credit exposure of the portfolio;
- 2) Institution Credit Framework – limit exposure to individual institutions; and
- 3) Term to Maturity Framework – limits based upon maturity terms of securities.

Portfolio Credit Framework

The portfolio credit guidelines are based upon the Standard & Poor’s ratings system, or equivalent. The maximum available limits in each rating category are as follows

Long Term Credit Rating	Direct Securities Maximum
AAA	100%
AA or Major Bank^	100%
A+	60%
BBB+	40%
Unrated+	20%

^For the purpose of this Policy, “Major Bank” is currently defined as the ADI deposits or senior guaranteed principal and interest ADI securities issued by the major Australian banking groups:

- Australia and New Zealand Banking Group Limited
- Commonwealth Bank of Australia
- National Australia Bank Limited
- Westpac Banking Corporation

including ADI subsidiaries whether or not explicitly guaranteed, and brands (such as St George).

Council may ratify an alternative definition from time to time.

Standard & Poor’s ratings attributed to each individual institution will be used to determine maximum holdings.

In the event of disagreement between agencies as to the rating band (“split ratings”) Council shall use the higher in assessing compliance with portfolio Policy limits, but for conservatism shall apply the lower in assessing new purchases.

Institution Credit Framework

Exposure to individual counterparties/financial institutions will be restricted by their S&P rating or equivalent, as follows:

Long Term Credit Rating		Direct Securities Maximum	
AAA		30%	
AA or Major Bank^		25%	
A+		20%	
BBB+		15%	
Unrated+		5%	

Term to Maturity Framework

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

Overall Portfolio Term to Maturity Limits		
	Minimum	Maximum
Portfolio % < 1 Year	20%	100%
Portfolio % >1 Year < 3 Years	0%	70%
Portfolio % > 3 Years < 5 Years	0%	50%
Portfolio % > 5 Years	0%	25%

INVESTMENT ADVISOR

Should Council engage an investment advisor, the 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, except as fully rebated to Council, promptly.

MEASUREMENT

Should Council invest in Floating Rate Notes (FRN's) the market value is to be assessed at least once a year to coincide with annual reporting.

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BENCHMARKING

The performance of the investment portfolio shall be compared as follows:

- (a) Cash – 11am Cash rate
- (b) Direct Investments – Bloomberg AusBond Bank Bill Index

As more data becomes available to the broader market, over time, we believe a term deposit market curve and/or a peer analysis (comparing Council's returns to other local councils) could become a much more meaningful benchmark going forward

REPORTING AND REVIEW OF INVESTMENTS

1. The Responsible Accounting Officer (RAO) shall be responsible for reconciling the investment register on a monthly basis and ensuring sufficient records are maintained, including;
 - a. The source and amount of money invested;
 - b. Particulars of the security or form of investment in which the money was invested; and
 - c. The term of the investment, and
 - d. The rate of interest to be paid in respect of the money invested.

2. A monthly report shall be provided to Council, detailing the investment portfolio in terms of performance, investment institution and amount of each investment.

REVIEW OF INVESTMENT POLICY

This policy shall be reviewed annually and any amendments, if necessary, shall be approved by a resolution of Council.

Robert Hunt

GENERAL MANAGER

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