



Investment Policy

Policy Statement

This document outlines Coffs Harbour City Council's policy for the investment of funds.

Related Legislation, Circulars or Guidelines (as amended)

All investments are to comply with the following:

- Local Government Act 1993 - Section 625;
- Local Government Act 1993 - Order (of the Minister) dated 31 July 2008;
- The Trustee Amendment (Discretionary Investments) Act 1997 – Sections 14A(2), 14C(1) & (2);
- Local Government General Regulation 2005;
- Division of Local Government Circulars;
- Local Government Code of Accounting Practice and Financial Reporting; and
- Australian Accounting Standards.

Does this Document Replace an Existing Policy, Procedure or Plan? **Yes**

Financial Services – Associated Policies: Investment Policy and Strategy, Adopted 26/4/2001 & 15/12/2005, Reviewed 15/12/2005

Related Council Policy or Procedure

Coffs Harbour City Council Investment Strategy (draft)

Application and Distribution

This policy statement will be provided to the General Manager, Directors, Executive Manager of Finance, Management Accountant - Expenditure, Councillors and Council's Investment Advisors by email or post, and a copy will be posted on both Council's website and staff intranet

Approved by:

Council: 22/4/2010.....
Resolution No: CB 52

Signature:

.....
General Manager

Effective: 23/4/2010

Review Date: October 2010 or earlier if necessary

Distribution :

Record Number:

Responsible Council Department/Officer: Executive Manager Finance and Management Accountant - Expenditure

Version History Table:

Key Responsibilities

Position	Directorate	Responsibility
Mayor	Council	To lead Councillors in their understanding of, and compliance with, this Policy and related Strategy
General Manager	Executive	To lead staff (either directly or through delegated authority) in their understanding of, and compliance with, this Policy and related Strategy. To approve resources to develop, implement and review this Policy and related Strategy
Executive Manager - Finance	Corporate Business	To implement Council's Investment Policy and related Strategy
Management Accountant - Expenditure	Corporate Business	To implement Council's Investment Policy and related Strategy
Directors	All Directorates	To communicate, implement and comply with this Policy and related Strategy.
Director of Corporate Business	Corporate Business	To ensure (directly or through delegation) the distribution and communication of the Policy and related Strategy to specified persons. To ensure (directly or through delegation) the approved Policy is available in hard copy and electronically on Council's website.
Information Technology Manager	Corporate Business	To assist with the development of systems to support public access to this Policy and related documents.
All Council officials	Council	To comply with this Policy, Related Strategy and related procedures.

INVESTMENT POLICY

Policy Guidelines

1. Background

The purpose of this document is to establish the framework within which investment principles are to apply to the investment of Council funds. It details

- Council's funds covered by this Investment Policy;
- Council's objectives for its investment portfolio/s;
- How investments are to be undertaken;
- The applicable risks to be managed;
- Any constraints and other prudential requirements to apply to the investments of Funds having regard to the applicable legislation and regulations governing Council investments;
- The manner in which compliance with the Policy and related Strategy will be monitored and reported;
- Appropriate benchmarks for each category of investments.

2. Definitions

ADI: Authorised Deposit-Taking Institutions (ADI) are corporations that are authorised under the Banking Act 1959 (Cwth) to take deposits from customers.

BBSW: The Bank Bill Swap reference rate (BBSW) is the average of mid-rate bank-bill quote from brokers on the BBSW Panel. The BBSW is calculated daily. Floating rate securities are most commonly reset quarterly to the 90-day BBSW.

Grandfathered: A provision in the Ministerial Order dated 31 July 2008 that exempts Council's from the new regulations for those funds invested before the date of the 31 July 2008 Ministerial Order.

IPS: The Investment Policy Statement provides the general investment goals and objectives of Council and describes the strategies that must be employed to meet these objectives. Specific information on matters such as asset allocation, risk tolerance, and liquidity requirements are also included in the IPS.

T-Corp: New South Wales Treasury Corporation.

NCD: Is a short term investment in an underlying security being a negotiable certificate of deposit (NCD) where the term of the security is usually for a period of 185 days or less (sometimes up to 2 years). NCD's are discount securities meaning they are issued and on-sold to investors at a discount to their face value.

UBSA: UBS Australia calculates a daily index representing the performance of a notional parcel of bills averaging 45 days.

3. Objectives

The purpose of this Policy is to provide a framework for the investment of Coffs Harbour City Council's funds at the most favourable rate of interest available to it at the time and maximising capital gains, 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. Council therefore has five primary objectives for its investment portfolio:

- The preservation of the amount invested
- To ensure there is sufficient liquid funds to meet all reasonably anticipated cash flow requirements
- To generate income from the investment that exceeds the performance benchmarks mentioned later in this document
- To preserve Council's financial assets
- Compliance with legislation, regulations and best practice guidelines

Council's Investment Strategy will run in conjunction with its Investment Policy and will outline:

- Council's cash flow expectations;
- Target allocation of investment type, credit quality, counterparty exposure and term to maturity profile; and
- Appropriateness of overall investment types for Council's portfolio.

4. Policy Statement / Key Principles

Council's Investment Policy and Related Strategy is underpinned by the following principles:

Access

- Public access to information about the Investment Policy will be through Council's website.
- Reasonable access assistance will be available to persons with special needs

Responsiveness and Accountability

- This statement has been prepared to recognise the legislative requirements and obligations for the investment of Council's funds. It is Council's intention to comply with investment regulations and nothing in this statement is to override these obligations.
- This document replaces any previous Investment Policy and/or Strategy document approved by Council.
- This policy will be reviewed at regular six monthly intervals going forward, or when either change's in regulation or market conditions necessitate a review. The Investment Policy may also be changed as a result of other amendments that are to the advantage of Council and in the spirit of this policy. Any amendment to the investment Policy must be by way of Council resolution.
- Authority for implementation of this 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 the day-to-day management of Council's investment to the Executive Manager – Finance and the Management Accountant – Expenditure, subject to regular reviews.
- The officers delegated with the authority to manage Council's investments shall be recorded and required to acknowledge they have received a copy of this policy and understand their obligations in this role.

Prudent Person Standard

The 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 Investment Policy, and not for speculative purposes.

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 are also to declare that they have no actual or perceived conflicts of interest.

Authorised Investments

All investments must be denominated in Australian Dollars. Authorised Investments are limited to those allowed by the Ministerial Investment Order and include:

- Commonwealth / State / Territory Government securities e.g. bonds;
- Interest bearing deposits / senior securities issued by an eligible ADI;
- Bills of exchange, (< 200 days duration) guaranteed by an ADI;
- Debentures issued by a NSW Council (under Local Government Act 1993);
- Land mortgages which are first mortgages (< 60% of land value);
- Deposits with Local Government Financial Services Pty Ltd ("LGFS");
- Deposits with T-Corp &/or Investments in T-Corps Hour Glass Facility; and
- Investments grandfathered under the Ministerial Investment Order.

Prohibited Investments

This investment policy prohibits the following types of investments, but are not limited to the list below and extends to any investment carried out for speculative purposes:

- Derivative based instruments;
- Principal only investments or securities that provide potentially nil or negative cash flow; and
- 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

Risk Management Related Strategy

Investments obtained are to have the following key criteria considered:

- **Counterparty:** The risk that a party to a transaction will fail to fulfil its obligations. In the context of this document it relates to Council's Policy of limiting its exposure to any one ADI based on its credit rating
- **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
- **Liquidity Risk:** the risk an investor is unable to redeem the investment at a fair price within a timely period

- **Market Risk:** the risk that fair value or future cash flows of an investment will fluctuate due to changes in market prices
- **Maturity Risk:** the risk relating to the length of term to maturity of the investment. The longer the term, the greater the length of exposure and risk to market volatilities
- **Preservation of Capital:** the requirement for preventing losses in an investment portfolio's total value

5. Investment Advisor

- Council's Investment Advisor must be approved by Council or Council senior staff and licensed by the Australian Securities and Investment Commission. The provision of investment advisory services from 1 December 2010 will be subject to a three (3) year tender process. Advisors must be independent persons who have 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 Investment policy.
- Independent advisors are required to provide written confirmation that they do not have any actual or potential conflicts of interest in relation to 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.
- Provided that they are ASIC licensed and meet independence requirements, Council officers may seek advice from a source other than the Council approved advisor.

6. Accounting

- Council will comply with appropriate accounting standards in valuing its investments and quantifying its investment returns.
- In addition to recording investment income according to accounting standards, published reports may show a break-down of its duly calculated investment returns into capital gains and losses, and interest.
- From time to time financial assets may be acquired at a discount or premium to their face value. Discount or premium is to be taken into account in line with relevant Australian Accounting Standards.

7. 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; and
- The Institution or Custodian recording and holding the assets will be:
 - Austraclear;
 - An institution with an investment grade Standard and Poor's or Moody's rating; or
 - An institution with adequate insurance, including professional indemnity insurance and other insurances considered prudent and appropriate to cover its liabilities under any agreement.

8. Reporting

- Documentary evidence must be held for each investment and details thereof maintained in an investment register. The documentary evidence must provide Council's legal title to the investment.
- For audit purposes, certificates must be obtained from the banks/fund managers/custodian confirming the amounts of investment held on Council's behalf at 30th June each year.
- 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 holdings and impact of changes in market value since the previous report. The monthly report will also detail the investment performance against the applicable benchmark, investment income earned versus budget year to date and confirm compliance of Council's investments within legislative and policy limits.

9. Performance Benchmarks

The performance of each investment will be assessed against the benchmarks listed in the table below. It is Council's expectation that the performance of each investment will be greater than or equal to the applicable benchmark.

Investment	Performance Benchmark	Time Horizon
11 am Account, short dated bills, NCD's issued by financial institutions, term deposits with a maturity date 90 days or less.	Official (wholesale) Cash Rate	3 months or less
Term Deposits with a maturity date between 90 days and 1 Year, Corporate FRN's bought on the secondary market.	USBA Bank Bill Index (BBI) + 0.30%	3 months to 12 months
Term Deposits with a maturity date between 1 and 2 Years, Corporate FRN's bought on the secondary market.	AAA BBI + 0.30% AA BBI + 0.40% A BBI + 0.50% BBB BBI + 0.60%	1 to 2 years
Corporate FRN's, Bonds, Mortgage and asset backed securities (senior ADI Debt instruments), Term deposits with a maturity date between 2 and 5 Years.	AAA BBI + 0.45% AA BBI + 0.60% A BBI + 0.75% BBB BBI + 0.90%	2 to 5 Years
T-Corp Hour Glass Managed Funds	CPI + appropriate margin over rolling 3 year periods (depending upon composite of fund)	5 to 10 Years

Grandfathered investments (i.e. managed funds and structured) are expected to outperform the USBA Bank Bill Index by a margin of 0.50% per annum.