

3.04 – INVESTMENT POLICY

1 POLICY PURPOSE

The purpose of this policy is to provide a framework for the investment 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.

2 POLICY OBJECTIVE

The policy seeks to ensure that Council investments are made to ensure sufficient liquidity to meet all reasonably anticipated cash-flow requirements, as and when they fall due, taking into account the need to achieve optimal investment returns through management of credit and interest risks within agreed investment frameworks.

Preservation of capital is the principal objective of the investment portfolio. Investments are to be placed in a manner that seeks to ensure the security and safeguard of 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.

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

3 POLICY SCOPE

This policy applies to all Council staff who have authority delegated to them to invest surplus funds on Council’s behalf in accordance with application legislation.

4 DEFINITIONS

TERM	DEFINITION
Council	Norfolk Island Regional Council.
Credit Rating	A risk rating provided by an internationally recognised provider of Credit Risk Ratings such as Standard & Poor’s, Moody’s or Fitch. This rating in turn seeks to provide comparative information on the likelihood of a default on the promised payments of interest and principal of an investment with a particular institution when due.
General Manager	A person who holds an appointment under section 334 of the <i>Local Government Act 1993</i> (NSW) (NI). This includes a person acting in this position.
<i>Local Government Act 1993</i> (NSW)(NI)	<i>Local Government Act 1993</i> (NSW)(NI) defines the governing body (section 222) and its role (section 223), together with

TERM	DEFINITION
	defining the responsibilities of Councillors (including the Mayor) as members of a governing body (section 232) but also as an individual and an elected representative of the community (section 232). The additional duties of the Mayor's role are also defined (section 226).
Staff	For the purposes of this policy includes employees and delegates such as agency staff and contractors.

5 LEGAL AND POLICY FRAMEWORK

Legislation, Policies and Documents:

Legislation:

- *S625 Local Government Act 1993* (NSW) (NI)
- *S212 Local Government (General) Regulation 2005* (NSW)(NI)
- *S14 Trustee Act 1925* (NSW)

Documents:

- Ministerial Investment Order 2011
- NSW Local Government Code of Accounting Practice and Financial Reporting
- Australian Accounting Standards
- NSW Division of Local Government Investment Policy Guidelines 2010
- NSW Division of Local Government Circulars

6 IMPLEMENTATION

Communication

This policy is to be communicated to all staff and the community via Council's website.

7 POLICY STATEMENT

7.1 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, staff 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

Council's Model Code of Conduct provides guidance for recognising and disclosing any conflicts of interest in the execution and management of Council's investments.

7.2 Approved Instruments

Council approves the following investments included in the current Ministerial Investment Order issued by the NSW Minister for Local Government 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) (NI));

- Interest-bearing deposits with, or any debentures or bonds issued by, an authorised deposit-taking institution (as defined in the *Banking Act 1959* (Cth)), but excluding subordinated debt obligations;
- A deposit with the New South Wales Treasury Corporation or investments in an Hour-Glass investment facility of the New South Wales Treasury Corporation, or both; and
- Debt securities issued by Authorised Deposit-taking Institutions.

All investment instruments (excluding short-term discount instruments) referred to above include both principal and investment income and must be denominated in Australian dollars.

7.3 Prohibited Investments

In accordance with the Ministerial Investment Order, this Investment Policy prohibits any high-risk investment including:

- Derivative based instruments including subordinated debt obligations;
- Principal only investments or securities that provide potentially nil or negative cash flow;
- Stand-alone securities issued that have underlying futures, options, forward contracts or swaps of any kind; and
- The use of leveraging (borrowing to invest) for an investment.

7.4 Risk Management

All investments entail some risk. Generally, the higher the anticipated rate of return of an investment, the higher the risk and variability of investment returns. Investing should produce a diversified portfolio that reflects reasonable market rates of return.

This Investment Policy states a conservative, risk-averse investment profile and recognises that Council has a low-risk tolerance for investments that would result in loss of funds, capital or returns. The nature of a conservative approach to investments recognises that the expectation of returns on investments would also need to be conservative. A risk-averse investment policy acts to preserve capital, but also affects the contribution of earnings from investments and the growth in value of the investment portfolio. This approach accepts that Council's return on investment could potentially be lower than average market expectations, particularly where average market expectations are based on rates of returns of risk-diversified portfolios.

One of the key objectives of this Investment Policy is to provide guidance on risk minimisation.

The following discussion provides a background, but not an exhaustive list, of risk exposures to be considered when managing Council's investment portfolio:

- Credit Risk – the risk that an institution Council has invested in fails to pay the interest and or repay the principal of an investment;
- Diversification Risk– the risk that limits are not set with regards to the amounts invested with a particular financial institution or government authority to reduce credit risk;
- Interest Rate Risk – Interest rate risk is a sub-set of Market Risk and is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market interest rates. This risk is mitigated by investing in fixed rate instruments;
- Leveraging Risk – Leverage, or borrowings, increases the potential returns of an investment, but also increases the potential loss. Leverage risk usually arises through investment in structured products or derivatives, which can potentially be used to create leveraged positions where the exposures obtained are greater than the value of the assets required to support them. Councils are prohibited from investing in structured products or derivatives, other than those grandfathered by an Order of the Minister;

- Liquidity Risk – the risk an investor is unable to redeem the investment at a fair price within a timely period. The mitigation of this risk is to only deal with standard investments in a well-traded market;
- Market Risk – the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices. As hedging market risk is not available to councils, this risk is mitigated by fixed-rate instruments;
- 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.. This risk is mitigated by consideration of the term to maturity on the risk exposure to an investment;
- Preservation of Capital – the requirement for preventing losses in an investment portfolio’s total value (considering the time value of money);

7.5 Credit and Maturity Guidelines

Investments are to comply with three key criteria relating to:

- Overall Portfolio Credit Framework: limit overall credit exposure of the portfolio;
- Counterparty Credit Framework: limit exposure to individual institutions based on their credit ratings; and
- Term-to-Maturity Framework: limits based upon maturity of securities.

7.6 Overall Portfolio Credit Framework

The portfolio credit guidelines to be adopted will be based on the Standard and Poor’s (S&P) long-term ratings system criteria (or Moody’s/Fitch equivalent if an S&P rating is not available). S&P ratings will be used in the first instance for the purposes of minimum portfolio requirements and maximum individual limits. In the event an investment is not rated by S&P, then the lower of its alternative ratings from Moody’s and Fitch (in the event it has more than one alternative rating) will be used for the purposes of this policy. Even if the investment has a term of less than 12 months, the long-term rating will apply.

The maximum holding limit in each rating category for Council’s portfolio shall be:

Long Term Rating Category	Portfolio Maximum %	Institution Maximum %
AAA	100%	65%
AA	100%	60%
A	60%	15%
BBB	30%	10%

Where the investment is with a 100 per cent Commonwealth government or government guarantee deposit then no upper limit shall apply to the counterparty.

In the event that a financial institution is a 100 per cent subsidiary of another, their combined investments will be totalled to confirm that the individual institution limit of the parent is not exceeded.

7.7 Term to Maturity Framework

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

Overall Portfolio Term to Maturity Limits		
Portfolio % ≤ 1 Year	40% Min	100% Max
Portfolio % >1 Year ≤ 3 Year	0% Min	60% Max
Portfolio % >3 Year ≤ 5 Year	0% Min	25% Max

In this event, or in the event of changes in policy, or any other event that impacts policy limits such as ownership changes, grandfathering of investments is allowable subject to assessment and decision. (Grandfathering refers to existing investments being retained until maturity.)

7.8 Credit Ratings

A credit rating is an opinion made by a financial intelligence agency regarding the general credit worthiness of a financial institution or other organisation with respect to a particular debt security or other financial obligation – based on relevant risk factors.

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

- The likelihood of payment and risk of default;
- The nature and provision of the obligation; and
- The protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganisation or other laws affecting creditors' rights.

Long-Term Rating Category definitions include:

AAA: An obligation/obligor rated AAA has the highest rating assigned by a financial intelligence agency. 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 to 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 obligor's 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.

Unrated: Most Credit Unions and Building Societies fall into this category and do not necessarily require a credit rating from agencies such as S&P. They must still adhere to capital maintenance requirements of the Australian Prudential Regulatory Authority (APRA) in line with all Authorised Deposit Taking Institutions (Banks, Building Societies and Credit Unions).

Plus (+) or Minus (-): The ratings from 'AA' to 'BBB' may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

Ratings will be reviewed at least annually. Where Council becomes aware of changes outside this annual review these changes will also be included.

In the event of a rating agency regrade event, which results in investments outside policy limits, an assessment will be made by Council staff, with a recommendation made to Council as soon as practicable.

7.9 Benchmarking

As Council traditionally invests in short-term deposits, the performance benchmark to be used is the annualised Bloomberg AusBond Bank Bill Index.

7.10 Legal Title

All investments made by Council must clearly demonstrate that the investment has been made in the name of Norfolk Island Regional Council. Where tradeable securities such as floating rate notes or fixed-rate bonds are purchased, these should be held directly in the name of the Council via the Austraclear system or via a single reputable custodian.

7.11 Investment Advisor

Should Council deem it necessary to consult an investment advisor, the investment advisor must be approved by Council and be 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 the investment products being recommended and is free to recommend the most appropriate product within the terms and conditions of the investment policy.

7.12 Responsibilities and Authorities

Authority for implementation of the Investment Policy is delegated by Council to the General Manager in accordance with the *Local Government Act 1993* (NSW) (NI).

The General Manager has delegated the day-to-day management of Council's investment to the Manager Corporate and Finance and senior Finance staff.

The Manager Corporate and Finance is responsible for:

- The maintenance of Council's investment accounting records;
- Ensuring that the monthly reporting to Council on investments and investment performance has been made in accordance with the Act, the Regulation and this policy;
- Monitoring compliance of this policy;
- Ensuring this policy is reviewed and updated in accordance with Council's policy review cycle; and
- Implementing and communicating this policy.

The placing of investments will be coordinated by Finance with each investment to be authorised by a minimum of two Council officers, with at least one authorising officer being either the General Manager or Manager Corporate and Finance.

8 MONITORING AND REPORTING

Documentary evidence must be held for each investment and details maintained in an investment Register. The maintenance of the Investment Register is the responsibility of Finance.

The documentary evidence must provide Council legal title to the investment. Certificates must be obtained from the financial institutions confirming the amounts of investments held on the Council's behalf as at 30 June each year and reconciled to the Investment Register.

Confirmation of all investments is obtained each year end to as part of the annual Audit and Assurance processes. 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 as required by legislation. The report will detail the investment portfolio in terms of performance, percentage exposure of total portfolio, maturity date and changes in market value.

9 REVIEW AND VERSION CONTROL

Policy Number:	3.04	Responsible Officer:	Manager Corporate and Finance
Next Review Date:	June 2024		
Version:	Resolution Number:	Effective Date:	Description:
1.0	2016/133	21 December 2016	Developed and adopted
2.0	2018/17	21 February 2018	Reviewed and adopted
3.0	2019/19	20 February 2019	Reviewed and adopted
4.0	2023/56	07 June 2023	Reviewed and adopted