



GLAMORGAN
SPRING BAY
COUNCIL

Glamorgan Spring Bay Council

Investment Policy

Version 1

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1 Introduction

1.1 Objectives

To provide guidance for management and staff in the investment of Glamorgan Spring Bay Council's funds with the objective of maximising return on investments, whilst having due consideration for risk and ensuring that Council's liquidity requirements are being met as follows:

- 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 of the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters.
- Investments should be allocated to ensure that 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 Council's risk tolerance.

1.2 Scope

This Policy applies to all and any activities undertaken by Council involving the investment of funds surplus to immediate operational requirements. It is not intended to cover interests in associated entities such as joint authorities.

1.3 Definitions

1.4 Related Policies and Legislation

This policy relates to and depends on other Council policies, as well as legislation, including:

- Local Government Act 1993
- Trustee Act 1898
- Australian Accounting Standards
- Any determination made by the Treasurer in accordance with the Local Government Act.
- Any interpretation of the Policy is to be in accordance with the above legislation and related documents.

1.5 Policy Review and Update Cycle

This policy is to be reviewed as required but no later than 2018.

2 Policy

2.1 Delegation of Authority

Authority for the 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 the day-to-day management of Council's investments. An officer delegated authority to manage Council's investments shall be required to acknowledge that they have received a copy of this policy and understand their obligations in relation to it.

2.2 Prudent Person Standard

The investments of Council will be managed with the care, diligence and skill that a prudent person would exercise. Officers are to manage the investment portfolio to safeguard it in accordance with the spirit of this policy and not for speculative purposes.

2.3 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.

An independent advisor, where appointed, is also required to declare that they have no actual or perceived conflicts of interest.

2.4 Approved Investments

Without approval from Council, investments are limited to:

- a) State/Commonwealth Government Bonds;
- b) Interest bearing deposits with an Authorised Deposit-taking Institution (ADI);
- c) Bank accepted/endorsed bank bills;
- d) Deposits with TASCORP (Tasmanian Public Finance Corporation);
- e) Bank negotiable Certificates of Deposits; and
- f) Managed Funds with a minimum long term Standard and Poor (S&P) rating of "A" and short term rating of "A2".

2.5 Prohibited Investments

This policy prohibits any investment carried out for speculative purposes, including but not limited to:

- a) Derivative based instruments;
- b) Principal only investments or securities that provide potentially nil or negative cash flow; and
- c) Stand alone securities issued that have underlying futures, options, forward contracts and swaps of any kind.

This policy also prohibits the use of leveraging (borrowing to invest) of an investment.

2.6 Risk Management Guidelines

Decisions to invest in potential investments are to comply with the following key criteria:

- a) **Portfolio Credit Framework** – limit overall credit exposure of the portfolio
- b) **Counterparty Credit Framework** – limit exposure to individual counterparties/institutions
- c) **Term to Maturity Framework** – limits based upon maturity of securities

Portfolio Credit Framework

To control the credit quality on the entire portfolio, the limits on the percentage of the portfolio exposed to any particular credit rating category must be complied with as outlined in the following credit framework table.

Overall Portfolio Credit Limits

| Long Term Credit Ratings | Short Term Credit Ratings | Direct Investment Maximum | Managed Funds Maximum |
|--------------------------|---------------------------|---------------------------|-----------------------|
| AAA | A-1+ | 100% | 100% |
| AA | A-1 | 100% | 100% |
| A | A-2 * | 60% | 80% |
| BBB * | A-3 * | 20% | Nil |
| Unrated * | Unrated * | 10% | Nil |

* Direct investments with counterparties rated below A (Long Term) and below A-1 (Short Term) are to be restricted to Authorised Deposit Taking Institutions (such as banks, building societies and credit unions) regulated by, and subject to prudential standards of, the Australian Prudential Regulation Authority (APRA).

Counterparty Credit Framework - Exposure to an individual counterparty/institution will be restricted by its credit rating so that single entity exposure is limited, as detailed in the table below.

Counterparty/Individual Institution Limits

| Long Term Credit Ratings | Short Term Credit Ratings | Direct Investment Maximum | Managed Funds Maximum |
|--------------------------|---------------------------|---------------------------|-----------------------|
| AAA | A-1+ | 80% | 50% |
| AA | A-1 | 60% | 45% |
| A | A-2 * | 40% | 40% |
| BBB * | A-3 * | 20% | Nil |
| Unrated * | Unrated * | 10% | Nil |

* Direct investments with counterparties rated below A (Long Term) and below A-1 (Short Term) are to be restricted to Authorised Deposit Taking Institutions.

Term to Maturity Framework - The investment portfolio is to be invested within the maturity constraints identified in the table below.

Term to Maturity Framework

| Overall Portfolio Term to Maturity Limits | | |
|---|---------|-----------|
| Duration | Minimum | Maximum |
| Portfolio % < 1 year | 50% | 100% |
| Portfolio % > 1 year < 3 years | 0% | 60% |
| Portfolio % > 3 years < 5 years | 0% | 35% |
| Portfolio % > 5 years | 0% | 10% |
| Individual Investment Maturity Limits | | |
| Non Authorised Deposit Taking Institutions (non-ADI) issues | n/a | 7 years * |
| ADI Issues | n/a | 10 years |

* This will be the maximum investment term or WAL (weighted average life) for mortgage and asset backed securities.

If any of Council’s investments are downgraded such that they no longer fall within the investment policy requirements, they will be divested as soon as practicable but in a manner that does not give rise to an unnecessary loss to Council.

Investments for greater than 12 months are to be approved by Council and reviewed on a regular term and invested for no longer than 5 years.

2.7 Measurement

The investment return for the portfolio is to be regularly reviewed by an appropriately qualified person, either of an independent standing or based on reference to independent sources.

If the complexity or nature of the investments held mean that there is not a person suitably qualified within Council staff to undertake that assessment, an assessment of the market value of the portfolio is to be obtained from an independent financial advisor.

The market value is to be assessed at least once a month to coincide with monthly reporting.

2.8 Investment advisor

Where Council obtains the services of 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 is free to choose the most appropriate product within the terms and conditions of this policy.

The advisor will be required to provide written confirmation that they do not have any actual or potential conflicts of interest in relation to the products that they may be reviewing or recommending, including that they are not receiving any commissions or other benefits pertaining to the related investments.

2.9 Benchmarking

Performance benchmarks must be established for all investments held or intended to be held. The benchmarks included in the following table are to be complied with for the related investments.

Performance benchmarks

| Investment Type | Benchmark |
|--|---|
| Cash & Cash Managed Funds | 11am Cash Rate |
| Income producing direct securities and Cash Enhanced Managed Funds | UBSWA * Bank Bill Index |
| Diversified funds | CPI + appropriate margin over rolling 3 year periods (depending upon composition of fund) |
| * Union Bank of Switzerland Weighted Average | |

2.10 Reporting and review

Certificates must be obtained from the relevant financial institutions confirming the amounts of the investments held on Council’s behalf as at 30 June each financial year.

All investments and related movements are to be appropriately measured and recorded in Council’s financial records and reconciled at least on a monthly basis.

This policy will be reviewed at least once every three years or earlier in the event of changes to governing legislation or other requirements. The policy may also be brought to Council for change in relation to any other amendments to the advantage of Council that are within the spirit of this policy.

3 Implementation

Implementation of this Policy rests with the General Manager and Finance Officer.