



Muswellbrook Shire Council

Investments Policy No. I20/1



**Assembled by
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Finance Manager**

**Adopted By Council
July 2007
Minute No. 12**

Investments

I20/1

POLICY OBJECTIVES

To undertake the authorised investment of surplus funds after assessing credit risk, diversification limits and Council's long, medium and short term cashflow requirements.

To ensure the security of Council Funds while maximising the return on their investment.

POLICY STATEMENT

In accordance with the Code of Accounting Practice and Financial Reporting (Update 13, April 2005), Council must maintain an investment policy that complies with the Local Government Act 1993 and ensures that Council, or its representatives exercise the care, diligence and skill that a prudent person would exercise in investing Council funds.

The Policy will ensure that the resources under the control of Council are efficiently utilised and effectively protected. In exercising its powers of investment Council will act in accordance with the latest Ministerial Order while considering other relevant factors. These other factors will include the purpose of the investment; the desirability of investment diversification; the nature and risks associated with those investments; the likely income return and its timing; the term of the proposed investment; the costs involved in making the investment and other matters as appropriate.

1. Delegation of Authority

The General Manager, the Responsible Accounting Officer and the Director of Corporate and Community Services have authority to invest surplus funds.

1.2 Authorised Investments

All investments made in accordance with this policy must comply with the Minister for Local Government's most recent Investment Order. A copy of that order (dated 15 July 2005) is attached to the policy. When investing funds, staff shall also refer to the "Investment of Council Funds Procedure Manual" and "Risk Management Plan – Council's Invested Funds" documents.

1.3 Guidelines

(a) Investments with Funds Managers

Council may deposit funds with an approved funds manager, provided that the funds manager reinvests (so that Council retains beneficial ownership) in a security authorised by the Trustee Amendment (Discretionary Investments) Act 1997. This will include only managed funds rated either at least A1 short term or A long term. Products in this category will only include cash funds or enhanced cash/income funds measured against the bill performance benchmark (11am and UBSWA Bank Bill Index).

(b) **General Policy Guidelines**

Diversification/Credit risk

The asset structure and features of the investment portfolio are to be consistent with the time horizon, risk parameters, and liquidity requirements of Council. These are set out in the investment strategy below

In order to maximise the return on investments while ensuring that Council is investing in an appropriately wide range of asset classes the following percentages of funds should be invested in the following asset classes.

Asset Class	Percentage Range	Notes and Comments
Liquid Cash Funds	Up to 20%	Depending on Short Term Cash Flow needs, no more than \$7M should be invested in this asset class at any one time.
Enhanced Cash/Income Funds	Up to 20%	Allocation to enhanced cash/income funds will be dependant on Council's liquidity needs and fund performance relative to alternative direct investments.
Structured Credit Products	Up to 40%	Analysis by Staff will ensure a low level of correlation between individual securities in this class. Structured credit products will be analysed with regard to their relative value against competing products, stress testing the stability and performance of the product using the rating agencies own software, detailed examination of the quality (as opposed to ratings) of the underlying portfolio and other features such as options, structural enhancements, name correlation etc.
Floating Rate Notes	Up to 30%	Only bonds issued by Australian Prudential Regulatory Authority (APRA) regulated financial institutions and other corporations rated in accordance with the Minister's Order shall be considered.
Capital Growth Products with suitable Capital protection	Up to 20%	Staff will ensure a low correlation between the backing assets of these products. Diversification between security and sector types should act as a further risk mitigation exercise.
Other Products	Up to 10%	

Credit Ratings

All securities/funds/products must have a rating that complies with the Minister's Order before they may be purchased. While the guidelines allow investment in products with a wide range of credit ratings, the following guidelines should be followed when considering longer term products (i.e. those with a maturity greater than 12 months).

Security Credit Rating (S&P)	Investment Range	Comment
AA- to AAA	45% to 70%	This is aimed at ensuring Council's Capital Security
A- to A+	25% to 40%	
BBB- to BBB+	10% to 20%	Products with these ratings should be limited to bonds issued by Australian Prudential Regulatory Authority (APRA) regulated bodies.
Unrated	No more than 10%	Products with these ratings must be limited to bonds issued by Australian Prudential Regulatory Authority (APRA) regulated bodies.

The equivalent Moody's or Fitch rating may also be used when evaluating products.

Term to Maturity

Staff will take into account Council's short, medium and longer term cash flow needs when investing funds. The following guidelines will apply:-

Term to Maturity	Proportion of Funds	Comment
On Call – Daily Liquidity	Up to 20%	Depending on Short Term Cash Flow needs, no more than \$7M should be on call at one time.
Up to 1 year	Between 10% and 30%	This should be used as a buffer against short term cash flow inadequacies
Up to 5 years	Between 20% and 80%	Depending on Councils short and medium term needs
Greater than 5 years	No more than 20%	

Securities may be traded in the secondary market in order to meet these guidelines.

(c) Reporting

In accordance with the Local Government (General) Regulation 2005, a monthly report will be provided to Council, detailing the investment portfolio in terms of performance, rating, term to maturity and amount invested.

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.

(d) Variation to Policy

The General Manager, or delegated representative is authorised to approve variations to this policy if the investment is to Council's advantage and/or due to revised legislation.

(e) Benchmark Rate

Council sets as its benchmark rate for overall return the 90 Day (Bank Bill Swap Reference Rate) BBSW.

(f) 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.

The Institution or Custodian recording and holding the assets will be:

- Austraclear or;
- An institution with an investment grade Standards and Poors 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.

(g) General

(i) Muswellbrook Shire Council will not make unpredictable investment decisions or be engaged in overly speculative investments. Instead investment decisions will only be made with regard to the appropriate documents including the investment policy, investment procedure, the investment risk management strategy and other appropriate guidelines that may be issued.

(ii) Muswellbrook Shire Council may use the services of a suitably qualified and experienced investment advisor for the purposes of achieving the aim of this policy.

LEGISLATION

- Local Government Act 1993 - Section 625
- Local Government Act 1993 - Order (of the Minister) dated 15 July 2005
- The Trustee Amendment (Discretionary Investments) Act, 1997 – Sections 14A(2), 14C(1) & (2)
- Local Government (General) Regulation 2005 – Section 212
- Local Government Code of Accounting Practice and Financial Reporting

REVIEW HISTORY:

	<i>Current</i>	<i>Previous</i>	<i>Prior</i>	<i>Prior</i>
<i>Minute No:</i>	124	220	43	35
<i>Meeting Date:</i>	9/07/2007	9/10/2006	12/03/2001	12/01/1998
<i>Review Date:</i>	September 2008			
<i>Rescind Date:</i>				