



**muswellbrook
shire council**

Muswellbrook Shire Council

ORDINARY COUNCIL MEETING

SUPPLEMENTARY BUSINESS PAPER

17 DECEMBER 2019



Order of Business

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19.7	DETERMINATION OF AUSTRALIA DAY 2020 AWARDS <i>Item 19.7 is classified CONFIDENTIAL under the provisions of Section10A(2)(a) of the local government act 1993, as it deals with personnel matters concerning particular individuals (other than councillors), and Council considers that discussion of the matter in an open meeting would be, on balance, contrary to the public interest.</i>	

12 CORPORATE AND COMMUNITY SERVICES

12.6 INVESTMENT (FINANCIAL SECURITIES) POLICY REVIEW

Attachments:	A. Policy I20-1 - Investment (Financial Securities) Policy
Responsible Officer:	Fiona Plesman - General Manager
Author:	Natalia Cowley - Executive Manager - Office of the Chief Financial Officer
Community Plan Issue:	<i>A Council that is well managed, efficient and properly resourced and that is responsive to its communities and stakeholders</i>
Community Plan Goal:	<i>Maintain a strong focus on financial discipline to enable Council to properly respond to the needs of the communities it serves.</i>
Community Plan Strategy:	<i>Work towards the achievement of a sustainable Operating Budget result in the General Fund.</i>

PURPOSE

The purpose of this report is to submit to Council the updated Investment (Financial Securities) Policy to be adopted.

OFFICER'S RECOMMENDATION

Council adopts the reviewed Investment (Financial Securities) Policy.

Moved: _____ Seconded: _____

BACKGROUND

The following report is in line with Council's commitment to financial accountability and the considered management of financial risk.**CONSULTATION**

The reviewed Policy has been discussed with MANEX.

REPORT

Records Management Policy

The objectives of the Investment (Financial Securities) Policy ("Policy") is to provide for the investment of Council funds in a manner that addresses the following considerations:-

- Compliance with legislation and regulations, as well as the 'Prudent Person' test
- Independence and transparency of advice and costs
- Ensuring the security of the capital invested including the management of credit risk.
- The management of cash flow, ensuring that Council can meet its financial obligations in a timely manner.
- The allowing for the investment of funds to act as a hedge against changing borrowing costs.
- The generation of a monthly return that exceeds the 90 Day Bank Bill Swap Rate.

The following two changes have been made to the Policy:

- Updated the percentage in the top table on page 4 in the attached Policy, under “Maximum Holding of Securities Up to this Credit Rating” for the BBB category from 30% to 60%.
 - Historically the BBB category has enjoyed a maximum holding of 70%, so the reduction to 30% was an unintended consequence of deleting a row in the same table in the old Policy.
- Updated the Policy review date from “every three years” to “within the term of a new Council”.

OPTIONS

Option 1: Council adopts the Policy.

Option 2: Council does not adopt the Policy. This is not recommended as it would lead to a breach in the trading limits for the BBB group of securities in Council's portfolio.

CONCLUSION

It is recommended that Council adopts the updated Policy.

SOCIAL IMPLICATIONS

Not applicable

FINANCIAL IMPLICATIONS

Not adopting the Policy will lead to unnecessary breaches of trading limits in the BBB security group and lead to financial losses associated with the premature selling of BBB rated investments.

POLICY IMPLICATIONS

Not applicable

STATUTORY IMPLICATIONS

Not applicable

LEGAL IMPLICATIONS

Not applicable

OPERATIONAL PLAN IMPLICATIONS

As per the Financial Implications section

RISK MANAGEMENT IMPLICATIONS

Not applicable



muswellbrook shire council

Investment (Financial Securities) Policy

I20/1

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Policy Objective

To provide for the investment of Council funds in a manner that addresses the following considerations:-

- Compliance with legislation and regulations, as well as the 'Prudent Person' test
- Independence and transparency of advice and costs
- Ensuring the security of the capital invested including the management of credit risk.
- The management of cash flow, ensuring that Council can meet its financial obligations in a timely manner.
- The allowing for the investment of funds to act as a hedge against changing borrowing costs.
- The generation of a monthly return that exceeds the 90 Day Bank Bill Swap Rate.

Policy Statement

Prudent Person Standard

The investment of funds will be managed with the care, diligence and skill that a prudent person would exercise in the investment of public monies. As such, the principle of preservation of capital is to take precedence over the generation of return. The main aim of this policy is to prevent the investment of Council's funds in any speculative manner.

Borrowing to invest (leverage) is considered speculative. However, nothing will limit Council from short-term investment of loan proceeds, where a single loan is raised for a specific purpose but then staged payments made.

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. The policy requires officers to disclose any conflict of interest to the General Manager. Advisors are to certify their compliance with the Office of Local Government's guidelines, as well as certifying that they do not take any conflicted remuneration from sources other than Council.

Allowed Investments

Investments are limited to those allowed by the current Ministerial Investment Order as issued by the New South Wales Minister for Local Government. (Copy attached). Council may invest in the full range of securities allowed under the Order. No security or instrument that is not allowed under the Order will be acquired by Council. In addition council can make internal investments, lending funds to meet council borrowing requirements, providing the appropriate guidelines are followed.

Investment Security

It is accepted that if the twin principles of capital security and the generation of a worthwhile return are to be achieved, Council will need to invest in securities with a range of credit ratings. Council may only invest in financial organisations that are authorised deposit taking organisations in Australia. These are regulated by the Australian Prudential Regulation Authority and subject to Australian banking legislation, and this, of itself provides a high level of security for Council's capital. However, Council will take further steps to ensure a level of capital security that is also commensurate with an acceptable rate of return. As such, Council will invest in a range of securities that comply with order and in accordance with a range of credit ratings (as assessed by Standard and Poor's) as outlined below:-

Credit Rating	Minimum Holding of Securities with this Credit Rating	Maximum Holding of Securities Up to This Credit Rating
AA category or higher; and / or Australian major banks*	10%	100%
A category	0%	70%
BBB category	0%	60%
Unrated**	0%	10%

In the acquisition of each security, Council will ensure that the counter party, or the group that is ultimately responsible for the payment of revenue and the security of capital amounts is clearly identified. In order to minimise the risk of the failure of a counter party to pay, causing a major capital loss, Council will limit its exposure to counter parties as outlined below:

Counter Party's Credit Rating	Maximum Holding of Securities Issued by single Counter Parties with this Credit Rating
AA category or higher; and / or Australian major banks*	30%
A category	20%
BBB category	10%
Unrated**	5%

* Regardless of any future downgrades, during the term of this Policy, major banks will be eligible for inclusion in the highest category. These are defined as ANZ, Commonwealth, National Australia and Westpac banks, as well as any subsidiaries or brands (such as St George, UBank etc).

** Unrated securities must still comply with all the other requirements outlined in the Order.

Where a downgrade by S&P would take Council's investments outside the range of the current Policy, but this is not supported by other agencies Moody's and Fitch Ratings ("split ratings"), then it will be sufficient for Council to be advised of the affected holdings. Council can continue to invest in the affected institutions on the basis of the other agencies' ratings.

Investment Advisor

The Council's investment advisor must be licensed by the Australian Securities and Investment Commission. The advisor must be independent and have no actual or potential conflict of interest in relation to investment securities being recommended, either for sale or acquisition.

The advisor's role will remain to advise and recommend. The advisor may not transact on Council's behalf. Council retains the obligation to make decisions in regard to the sale or acquisition of securities.

Valuation

Council has periodically sold securities where prudent and beneficial to do that. In such a case, "amortised cost" treatment is no longer available.

Council will value securities on the basis of "Fair Value" accounting at year end, but can for convenience report amortised cost basis for unaudited monthly reporting.

All valuations will be conducted in accordance with the relevant and applicable Australian Accounting Standards.

Security Trading

As outlined above, Council's general intention is to hold a security until maturity; however, in order to meet liquidity requirements or to take advantage of a significant opportunity for profit, Council may choose to sell an investment. However, Council will not acquire securities with aim of generating a short term capital return.

Return Benchmarking

Council is aiming to generate an annual return from its assets that exceeds the 90 Day Bank Bill Swap Rate.

Reporting and Reviewing of Investments

Documentary evidence must be held for each investment and a listing of currently held securities maintained in the investment register. Documentary evidence must provide Council with evidence of Council's legal title to the investment.

Certificates must be obtained from the financial institutions confirming the face value and holding of investments on Council's behalf as at 30 June each year and reconciled to the Investment Register.

All investments are to be appropriately recorded in Council's financial records and reconciled on a monthly basis.

A monthly report will be provided to Council. The report will list the current holdings and performance of the portfolio.

Policy Review

The policy will be reviewed upon the issue of a new or amended Ministerial Investment Order, or in any case at least within the term of a new Council.

Delegations

Authority for implementation of the Investment Policy is delegated to the General Manager in accordance with the Local Government Act 1993. In turn, this authority has been delegated to the Responsible Accounting Officer.

Legislation

Local Government Act 1993

Local Government (General) Regulation 2005

Ministerial Investment Order 2011

Local Government Code of Accounting Practice and Financial Reporting.

Australian Accounting Standards

Office of Local Government Circulars

Associated Council Documentation

Ministerial Investment Order as at 11 February 2011

Authorisation Details

Authorised by:	Council
Minute No:	334
Date:	4 December 2019
Review timeframe:	Earliest of Alteration of relevant Ministerial Investment Order, or within the term of a new Council
Department:	Finance
Document Owner:	Chief Finance Officer

Details History

Version No.	Date changed	Policy type	Modified by	Amendments made
V1	04/12/19		Chief Finance Officer	

Text of Ministerial Investment Order as at 11 February 2011

LOCAL GOVERNMENT ACT 1993

Investment Order

(Relating to Investments by Councils)

I, the Hon. BARBARA PERRY, M.P., Minister for Local Government, in pursuance of section 625 (2) of the Local Government Act 1993 and with the approval of the Treasurer, do, by this my order, notify for the purposes of section 625 of that Act that a council or county council may only invest money (on the basis that all investments must be denominated in Australian Dollars) in the following forms of investment:

- 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 bonds issued by, an authorised deposit-taking institution (as defined by the Banking Act 1959 (Cwth)), but excluding subordinated debt obligations;
- 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 an Hour Glass Investment facility of the New South Wales Treasury Corporation.

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

Transitional Arrangements

- i. Subject to paragraph (ii) nothing in this order affects any investment made before the date of this Order which was made in compliance with the previous Ministerial Orders, and such investments are taken to be in compliance with this Order.

Paragraph (i) only applies to these investments made before the date of this order and does not apply to any restructuring or switching of investments or any reinvestment of proceeds received on disposal or maturity of such investments, which for the avoidance of doubt must comply with this Order.

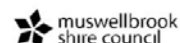
Key Considerations

An investment is not in the form of an investment notified by this order unless it also complies with an investment policy of council adopted by resolution of council.

All councils should by resolution adopt an investment policy that is consistent with this order and any guidelines issued by the Chief Executive (Local Government), Department of Premier and Cabinet, from time to time.

The General Manager, or any other staff member, with delegated authority by a council to invest funds on behalf of a council must do so in accordance with the council's adopted investment policy.

Councils have a fiduciary responsibility when investing. Councils should exercise the care, diligence and skill that a prudent person would exercise in managing the affairs of other persons.



When exercising the power of investment councils should consider, but not be limited by, the risk of capital or income loss or depreciation, the likely income return and the timing of income return, the length of the term of the proposed investment, the liquidity and marketability of the proposed investment, the likelihood of inflation affecting the value of the proposed investment and the costs (including commissions, fees, charges and duties payable) of making the proposed investment.

Dated this 12th Day of January 2011

The Hon. BARBARA PERRY, M.P.

Minster for Local Government

18 ADJOURNMENT INTO CLOSED COUNCIL

In accordance with the Local Government Act 1993, and the Local Government (General) Regulation 2005, in the opinion of the General manager, the following business is of a kind as referred to in Section 10A(2) of the Act, and should be dealt with in a Confidential Session of the Council meeting closed to the press and public.

RECOMMENDATION

That Council adjourn into Closed Session and members of the press and public be excluded from the meeting of the Closed Session, and access to the correspondence and reports relating to the items considered during the course of the Closed Session be withheld unless declassified by separate resolution. This action is taken in accordance with Section 10A(2) of the Local Government Act, 1993 as the items listed come within the following provisions:

19.6 QUESTIONS WITH NOTICE

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19.7 DETERMINATION OF AUSTRALIA DAY 2020 AWARDS

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Moved: _____ **Seconded:** _____