

FILE NO: PSC2009-02488

TITLE: CASH INVESTMENT POLICY

OWNER: FINANCIAL SERVICES SECTION MANAGER

1. PURPOSE:

- 1.1 The purpose of this policy is to guide Council's cash investment process and specifically:
- a) Establish Council's investment philosophy.
 - b) Establish investment risk management guidelines.
 - c) Prescribe requirements to be followed in investing surplus funds that are not immediately required for any other purpose.
 - d) Identify the duties of those involved in the investment process.
 - e) Prescribe internal control, investment monitoring and reporting procedures.

2. CONTEXT/BACKGROUND:

- 2.1 The policy has been subject to periodic review in accordance with Council policy.

3. SCOPE:

- 3.1 Council has an obligation under its charter as the custodian and trustee of public assets to effectively account for and manage the assets for which it is responsible.
- 3.2 All Council investments are to be made in accordance with the following process:
- a) Determine surplus funds for investment from daily cash flow analysis.
 - b) Determine cash requirements and the required term of the investment.
 - c) Seek quotations from financial institutions, having regard for:
 - i. Section 625 of the Local Government Act 1993 which details how Council's may invest.
 - ii. The Ministerial Order made under section 625(2) of the Local Government Act 1993.
 - iii. Section 14 of the Trustee Act which details the powers of investment to which a trustee is to have regard when exercising the power of investment.
 - iv. Clause 212 of the Local Government (General) Regulation 2021.

- v. Investment Policy Guidelines - issued in 2010 by the then Chief Executive of the Department of Local Government (now Office of Local Government) under s23A Local Government Act 1993.
- vi. Local Government Code of Accounting Practice and Financial Reporting.

4. DEFINITIONS:

- 4.1 An outline of the key definitions of terms included in the policy.

Cash Investment	Money placed with an approved entity that provides a return in the form of interest payments.
Surplus Funds	Money remaining after foreseeable cash flows are calculated.
BBSW	Bank Bill Swap Rate.
ADI	Authorised Deposit Taking Institutions (ADIs) are corporations that are authorised under the Banking Act 1959 (Commonwealth) to take deposits from customers.
Bloomberg AusBond Bank	This is the industry standard benchmark for short term, conservative cash and fixed income portfolios which allows benchmarking of performance.

5. STATEMENT:

- 5.1 Investment Philosophy and Objectives:
 - 5.1.1 Investments are to be allocated to ensure there is sufficient liquidity to meet 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.
 - 5.1.2 Preservation of capital and the real value of surplus funds is the principal objective of the investment portfolio.
 - 5.1.3 Investments are expected to achieve a market average rate of return consistent with Council's risk tolerance. One dollar invested today is expected to earn interest so that it will increase in value to more than one dollar in the future, 'the time value of money'.
- 5.2 Cash Flow:
 - 5.2.1 Council is to plan for future cash flow requirements in its Long Term Financial Plan and annual budget.

- 5.2.2 Cash flow is to be monitored daily.
- 5.2.3 Council is to have an overdraft facility to be used to meet unforeseen commitments, with the aim of avoiding use of this facility as the interest rate is likely to exceed the interest rate Council receives on its investments.
- 5.2.4 When appropriate to do so, daily surplus funds are to be automatically swept into an interest bearing bank account to maximise interest earnings.
- 5.2.5 Surplus funds that are forecast not to be required for in excess of 30 days are to be identified and invested.

5.3 Risk Management Criteria:

- 5.3.1 Placement and retention of investments are to be assessed according to the following criteria:
 - a) Preservation of capital - the requirement for preventing losses in Council's investment portfolio's total value (considering the time value of money).
 - b) Diversification - setting limits to the amounts invested with individual financial institutions or government authorities to reduce credit risk.
 - c) Credit risk - the risk that a financial institution or government authority fails to pay the interest or repay the principal invested.
 - d) Market risk - the risk that the fair value or future cash flows of an investment will fluctuate due to market prices.
 - e) Liquidity risk - the risk Council is unable to redeem the investment at a fair price within a timely period.
 - f) Maturity risk - the risk relating to the length of term to maturity. The larger the term the greater the length of exposure and risk of market volatility and interest rate changes.
 - g) Financial instruments detailing investments must clearly show they are held in Council's name.

5.4 Authorised Investments:

- 5.4.1 All investments must be denominated in Australian Dollars (AUD). Authorised investments are limited to those forms included in the Ministerial Investment Order, presently:
 - a) Local, State or Commonwealth Government bonds, debentures or securities.
 - b) Interest bearing deposits, debentures or bonds issued by an authorised deposit taking institution (ADI) regulated by Australian Prudential Regulation Authority, (i.e. a bank, building society or credit union granted authority by APRA to carry on a banking business in Australia - a full list of ADIs is available on the APRA website www.apra.gov.au).
 - c) Investments with NSW Treasury Corporation or Hourglass Investment facility.

5.5 Prohibited Investments:

5.5.1 This investment 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.
- c) Stand-alone securities issued that have underlying futures, options forward contracts or swaps of any kind.

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

5.6 Quotations on Investments:

5.6.1 Not less than 3 quotations shall be obtained from authorised institutions whenever an investment is proposed. The best quote for the day shall be accepted after allowing for administrative costs and also allowing for the diversification limits of this policy.

5.7 Term to Maturity:

5.7.1 The term to maturity of any of Council's direct investments must not exceed 10 years.

5.7.2 When the term to maturity exceeds 1 year, Council must ensure that a secondary market exists for the investment to enable the disposal of the investment prior to maturity if necessary.

5.7.3 To control liquidity risk Council's investment portfolio should be limited to the following term to maturity thresholds.

Term	Minimum %	Maximum %
< 1 year	30	100
> 1 year	0	50
> 3 years	0	40
> 5 years	0	30

5.7.4 The maturity thresholds above are to be assessed at the time of making a new investment.

5.8 Diversification:

5.8.1 Council shall diversify its investments by referencing Standard and Poors long term ratings (or equivalent) and limiting investments with any single financial institution as follows.

S & P Long Term Rating	Portfolio Maximum %	Single Financial Institution Maximum %
AAA (+ or -)	100	40
AA (+ or-)	100	40
A (+ or -)	80	20
BBB (+ or -)	30	10
Unrated (not including TCorp IM Funds)	20	10
Specific Ministerial Approved Forms of Investment		
TCorpIM Cash Funds		30%
TCorpIM Short Term Income Fund		30%
TCorpIM Medium Term Income Fund		10%
TCorpIM Long Term Income Fund		10%

5.8.2 The diversification limit above shall be assessed at the time of making a new investment.

5.8.3 Any subsequent reduction in portfolio size shall be disregarded in relation to assessing diversification limits of existing investments where there is likely to be significant costs or losses for terminating or disposing of an investment.

5.9 Reporting:

5.9.1 A monthly report shall be provided to Council, detailing the investment portfolio including type of investment, individual amounts invested, financial institution name, maturity date and interest rate. The report is to include a certificate as to whether or not the investments have been made in accordance with the Act, regulations and Council's Investment Policy.

5.9.2 For audit purposes certificates must be obtained from banks and investment brokers confirming the amounts of investments held on Council's behalf as at 30 June each year.

5.10 Performance Benchmarks:

5.10.1 Council seeks to gain a return on investment at least equal to the following measures.

Investment	Performance Benchmark
Cash	RBA Cash Rate
Term Deposits	Bloomberg AusBond Bank Bill index.
Enhanced Investments	Bloomberg AusBond Bank Bill index.

5.11 Duties and Responsibilities of Council Officers:

5.11.1 The General Manager is responsible for ensuring that Council's decisions with respect to this investment policy are implemented. The General Manager has delegations to staff in place to make investments in accordance with this policy.

5.11.2 CI 212 of the Local Government (General) Regulation 2021 requires the Responsible Accounting Officer to provide a monthly written report to Council on its investments. The Responsible Accounting Officer is responsible for keeping Council's accounting records, ensuring they are kept up to date and in an accessible form. The Financial Services Section Manager is the Responsible Accounting Officer in Port Stephens Council and delegations to staff are in place to keep accounting records and report as required.

5.11.3 Council officers involved in investing funds are required to have appropriate skills to undertake the investment function, have delegations in place and read and comply with this investment policy.

5.11.4 Council officers involved in investing funds should act with the duty of care, skill, prudence and diligence that a prudent person would exercise when investing and managing their own funds and have regard to the requirements under the Trustee Act 1925.

5.11.5 Council officers involved in investing funds must not engage in activities that would conflict with the proper implementation and management of Council's investments.

5.11.6 The Treasury & Assets Accountant or other delegated Council officer is required to:

- a) Monitor cash flow on a daily basis and estimate cash requirements.
- b) Ensure proposed investment products comply with this investment policy.

- c) Recommend investment of funds in accordance with the requirements of this policy.
- d) Reconcile principal invested on at least a monthly basis.
- e) Estimate and account for receipt of all interest due on investments.
- f) Ensure financial instruments, investment certificates and related documents are kept in safe custody.
- g) Prepare a monthly report for Council to the satisfaction of the Responsible Accounting Officer.
- h) Cause the investment register to be updated on Council's website monthly.
- i) Store all relevant documents, interest advices, market valuations in EDRMS.

5.11.7 To ensure adequate internal controls and separation of duties 2 of the 4 following listed Officers - Finance Revenue Coordinator, Financial Reporting Coordinator, Management Accountant or Financial Accountant are to authorise investment transactions. If the Finance Revenue Coordinator, Financial Reporting Coordinator, Management Accountant and/or Financial Accountant are absent, investment transactions are to be authorised by either the Financial Services Section Manager or General Manager.

5.12 Investment Advisor:

5.12.1 When ensuring a proposed investment product complies with this investment policy it may be necessary to obtain independent financial advice. Before considering independent financial advice Council must ensure the financial advisor is licensed by the Australian Securities and Investment Commission. The advisor must confirm that they do not have any conflicts of interest in relation to the investment products being considered. When recommending or reviewing investments any independent financial advisor must provide written confirmation that they are not receiving any commissions or other benefits in relation to the investments being recommended or reviewed. Council is to undertake separate reference checks before relying on information provided by an advisor.

5.13 Safe Custody Arrangements:

5.13.1 Where necessary, investments may be held in safe custody on Council's behalf, providing the following criteria are met:

- a) Council must retain beneficial ownership of all investments.
- b) Adequate documentation is provided, verifying the existence of the investments.
- c) The custodian conducts regular reconciliation of records with relevant registries and/or clearing systems.
- d) The institution or custodian recording and holding the assets will be:
 - i. Austraclear.

- ii. The custodian nominated by TCorpIM Funds.
- iii. An institution with an investment grade Standard and Poor's, Moody's or Fitch rating.

- e) Council's assets must be entirely separate, and not be mingled with the assets of the advisor or any other counterparty in a sub-account.
- f) Council will have regard to costs and other consequences of any arrangements.

6. RESPONSIBILITIES:

- 6.1 Treasury & Assets Accountant, Financial Reporting Coordinator, Finance Revenue Coordinator, Management Accountant, Financial Accountant are responsible for complying with, monitoring, evaluating, reviewing and providing advice on this policy.

- 6.2 Financial Services Section Manager is responsible for implementing and complying with this policy.

7. RELATED DOCUMENTS:

- 7.1 Local Government Act 1993.
- 7.2 Local Government Act 1993 - s625 Investment Order (of the Minister) as made from time to time.
- 7.3 Local Government Act 1993 s23A Investment Policy Guidelines issued in 2010 by the then Chief Executive of the Department of Local Government (now Office of Local Government).
- 7.4 Local Government (General) Regulation 2021.
- 7.5 The Trustee Act 1925 - s14 - Powers of Investment.
- 7.6 Banking Act 1959 - Division 2AA Financial Claims Scheme.

CONTROLLED DOCUMENT INFORMATION:

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RM8 container No	PSC2009-02488	EDRMS record No	24/114115
Audience	Council staff and community		
Process owner	Financial Services Section Manager		
Author	Financial Services Section Manager		
Review timeframe	3 years	Next review date	9 April 2027
Adoption date	20 December 2005		

VERSION HISTORY:

Version	Date	Author	Details	Minute No.
1.0	20/12/05	Financial Services Section Manager	Provide brief detail of changes to document.	
2.0	27/03/12	Financial Services Section Manager	Policy adopted.	382
3.0	24/06/14	Financial Services Section Manager	Amended policy adopted.	048
4.0	12/04/16	Financial Services Section Manager	Amended policy adopted.	156
			<p>This policy has been reviewed and formatted into the new template.</p> <p>Removed all references to Grandfathered Investments as Council no longer holds any investments that do not comply with the most recent Ministerial Investment Order.</p>	084

			<p>Removed all references to CDO's as Council no longer holds any of these.</p> <p>Updated the Responsible Accounting Officer from the General Manager to the Financial Services Section Manager.</p> <p>Updated position titles to reflect current organisational chart.</p> <p>Updated the 'related documents' section to reflect current policies and legislation adopted by Council.</p>	
5.0	09/08/17	Financial Services Section Manager	<p>Added Financial Reporting Coordinator to authorise investment transactions in 11g.</p> <p>Updated position titles to reflect change in duties.</p> <p>RM8 record number updated from 16/316014 to 17/156898.</p> <p>Updated policy responsibilities to include the responsibilities of each position.</p> <p>Updated percentages in table 8a.</p>	
6.0	24/10/17	Financial Services Section Manager	Adopted by Council.	256
7.0	12/12/18	Financial Services Section Manager	Updated policy to be in new format.	180

			<p>4.1 - Removed 'management directive' and replaced with 'policy'.</p> <p>5.8.1 - Separated BBB portfolio parameters from unrated ADI's and inserted BBB Portfolio max % to 30% and unrated at 20%. This is due to recent institutional market changes.</p> <p>Added Specific Ministerial Approved Forms of Investments.</p>	
8.0	13 April 2021	Financial Services Section Manager	<p>Updated policy into new format.</p> <p>5.7.3 – Updated maximum from 70% to 50%.</p> <p>5.8.1 – Added '(not including TCorp IM Funds)'.</p> <p>5.8.1 – Removed 'NSW Treasury Corp Deposits and TCorpIM Funds 100%', added new Specific Ministerial Approved Forms of Investment.</p> <p>5.11.7 – Added additional authorising officer Finance Officer – Accountant.</p> <p>6.1 – Added additional authorising officer Finance Officer – Accountant.</p>	077
9.0	9 April 2024	Financial Services Section Manager	<p>Updated policy to new format.</p> <p>4.1 - Additional definitions added for ADI and Bloomberg AusBond Bank.</p>	061

			<p>5.8.1 Adjusted investment diversification percentages for:</p> <ul style="list-style-type: none"> • Single Financial Institution Maximum AAA from 30 to 40%, • Single Financial Institution Maximum AA from 30 to 40%, <p>5.8.1 Adjusted Specific Ministerial Approved Forms of Investment:</p> <ul style="list-style-type: none"> • TCorp IM Medium Term Income Fund from 20 to 10%. <p>5.11.6 - Position title updates replacing “Finance Officer – Organisational Support” with “Treasury & Assets Accountant”.</p> <p>5.11.7 - Addition of listed officer from 3 to 4 and replaced “Finance Officer – Accountant” with “Management Accountant” and “Financial Accountant”.</p> <p>5.11.7 - Replaced requirement for investment transaction authorisation by “Group Manager Corporate Services” with “Financial Services Section Manager”.</p> <p>5.13 New clause added - Safe Custody Arrangements.</p>	
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