

BACKGROUND

Council's investment portfolio is managed by the Financial Services Unit within the Finance Division. The portfolio requires daily management to ensure payroll and creditors' obligations are met and surplus funds are invested appropriately. Strategic management of the portfolio is required to ensure the timing of maturities corresponds with future obligations. Investment data is collated and verified to ensure monthly reporting requirements are met and internal controls are developed to support the investment function. The Investment Policy document is designed to provide the internal controls required to achieve these outcomes whilst ensuring investments are made with regard to the prevailing Ministerial Investment Order and the Investment Guidelines.

OBJECTIVE

This Policy provides a framework for investing Council's funds at the most favourable return available at the time. Consideration is to be given to:

- Authority to invest
- Preservation of capital
- Maintenance of Council's ongoing liquidity
- Levels of identified risks to Council's capital position
- Investment return to Council.

The authority to invest is given by the Local Government Act, Local Government Regulation, Ministerial Order and Council delegations.

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 obtained are to comply with a risk management framework represented by three key criteria:

- 1 Credit Risk: limit overall credit exposure of the portfolio.
- 2 Institutional Diversification: limit exposure to individual institutions.
- 3 Maturity Risk: manage liquidity and exposure to interest rate risk over a period of time.

Investments should be made while ensuring 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 of an unanticipated requirement to sell an investment.

The investment portfolio is generally expected to achieve a market average rate of return in line with the Council's risk tolerance.

POLICY STATEMENT

1 LEGISLATIVE REQUIREMENTS

All investments are to comply with the following:

- Local Government Act 1993 Section 625 and 412;
- Prevailing Ministerial Investment Order;
- Local Government (General) Regulation 2005 – Clause 212;
- The Trustee Amendment (Discretionary Investments) Act 1997 – Sections 14A (2), 14C (1) & (2);
- Local Government Code of Accounting Practice and Financial Reporting;
- Australian Accounting Standards;
- Investment Policy Guidelines 2010; and
- Office of Local Government Circulars.

2 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 sub delegate the day-to-day management of Council's investment portfolio to the Responsible Accounting Officer or other officers through Council's delegated authority process.

Council officers will have the appropriate level of skills and knowledge to undertake the investment functions of Council and not engage in activities that conflict with the proper implementation and management of Council's investments.

3 PRUDENT PERSON STANDARD

The investment portfolio will be managed with the care, diligence and skill that a prudent person would exercise. As trustees of public monies, officers are to manage Council's investment portfolios to safeguard the portfolio in accordance with the spirit of this Investment Policy.

Investments that are placed within this Policy framework will be considered to be compliant with the prudent person standard.

4 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. Disclosure of any conflict of interest should be made in accordance with the Code of Conduct.

Where appointed, independent investment advisors are also required to declare that they have no actual or perceived conflicts of interest.

5 APPROVED INVESTMENTS

Investments are limited to those allowed by the prevailing Ministerial Investment Order provided in the Appendix to this Policy, along with other prescriptive requirements within this Policy.

6 RISK MANAGEMENT FRAMEWORK

Council has developed a risk management framework to assist in managing those risks outlined in the Policy objective. This is achieved within identified thresholds and parameters represented by three key criteria.

i) Credit Risk Framework

To control the credit quality on the entire portfolio, the following credit framework limits the percentage of the portfolio exposed to any particular credit rating category.

PORTFOLIO CREDIT LIMITS		
S&P Long-Term Credit Ratings*	S&P Short-Term *	Maximum %
AAA Category	A-1+	100%
AA Category	A-1	80%
A Category or below	A-2	60%
BBB Category	A-3	20%
Unrated Category	Unrated	10%
Specific Ministerial Approved Forms of Investment		
NSW Treasury Corporation Deposits and Hour Glass Facilities		100%

* or Moody's / Fitch equivalents

Table 1: Credit Risk Limits

¹Australian major banks excepted with maximum exposure of 100% allowed

ii) Institutional Diversification Framework

Exposure to an individual institution will be restricted by their credit rating so that single entity exposure is limited, as detailed in the table below:

INDIVIDUAL INSTITUTION LIMITS		
S&P Long-Term Credit Ratings *	S&P Short-Term *	Maximum %
AAA Category	A-1+	40%
AA Category	A-1	25%
A Category	A-2	15%
BBB Category	A-3	10%
Unrated ADIs	Unrated	10%
NSW Treasury Corporation Deposits and Hour Glass Facilities		
11am; Term Deposits; Bonds		45%
Hour Glass Facilities (managed funds)		
Cash Facility		45%
Strategic Cash Facility		35%
Medium Term Growth Facility		20%
Long Term Growth Facility		10%

Table 2: Individual Institution Limits

iii) Maturity Risk Framework

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

Overall Portfolio Term to Maturity Limits		
	Minimum	Maximum
Portfolio % < 1 year	40%	100%
<i>Cash available w/in 24 hrs</i>	5%	100%
Portfolio % > 1 year	0%	60%
Portfolio % > 3 years	0%	50%
Portfolio % > 5 years	0%	25%
Individual Investment Maturity Limits		
Authorised Deposit Taking Institutions (ADIs)	5 years	
State & Commonwealth Govt deposits/investments	10 years	
NSW T Corp Hour Glass Growth Facilities	time horizon: 7+ years	

Liquidity management: A minimum of 5% of the total portfolio will be available as cash within 24 hours, under normal circumstances, to finance day-to-day requirements.

Table 3: Maturity Risk Limits

Notes to the Risk Framework Tables:

- Investment in unrated Authorised Deposit Taking Institutions (ADIs), may be permitted provided the investment amount does not exceed \$250,000. Investments up to this amount are covered by the Australian government Financial Claims Scheme (FCS) provides financial protection for depositors per account holder per ADI of up to \$250,000. Such investments can provide diversification of entities to the portfolio as well as enhanced yields of return (Table 2).
- The short-term credit rating limit will apply in the case of discrepancies between short- and long-term ratings (Table 1 and Table 2).
- If any of the Council's investments are downgraded such that they no longer fall within the Investment Policy limits, a review will be undertaken in consultation with Council's investment advisors and a recommendation in writing made to the General Manager for approval as to whether the investment will be held until maturity or divested. The decision will be reported to Council in the next monthly report (Table 1 and Table 2).
- Percentage limits are based on Council's investment balance at the time of deposit (Tables 1, 2 and 3).

7 RESPONSIBLE INVESTMENT

Responsible Investment aims to incorporate environmental, social and governance factors into investment decisions, Council's preference is to enter into Responsible Investments where:

- The investment is compliant with legislative requirements and the risk management framework within this Policy; and
- The rate of return is at least equal to comparable investments on offer to Council at the time of investment.

The Socially Responsible Investment status may be in respect of the individual investment, the issuer of the investment or both and should be endorsed by an accredited socially responsible industry body or institution.

8 INVESTMENT STRATEGY

An Investment Strategy will run in conjunction with the Investment Policy. The Investment Strategy will be reviewed with an independent investment advisor twice a year. The Strategy will outline:

- Council's cash flow expectations;
- Optimal target allocation of investment types, credit rating exposure and term to maturity exposure; and
- Appropriateness of overall investment types for Council's portfolio.

The Investment Strategy will be prepared by the Senior Accountant - Financial Operations and approved by the Executive Management Committee and referred to the Audit Risk & Improvement Committee (ARIC).

9 INVESTMENT ADVISORS

Council's investment advisor must be approved by Council and licensed by the Australian Securities and Investment Commission. The advisor/s must be independent with no actual or potential conflict of interest in relation to investment products and strategy being recommended and is free to choose the most appropriate product within the terms and conditions of the Investment Policy.

The independent investment advisor is required to provide written confirmation that they do not have any actual or potential conflicts of interest in relation to the investments they are recommending or reviewing, including that they are not receiving any commissions or other benefits in relation to the investments being recommended or reviewed.

Council's investment advisor will be engaged in line with adopted tender guidelines and procedures.

10 MEASUREMENT

The investment return for the portfolio is to be regularly reviewed by an independent investment advisor by assessing the market value of the portfolio. The market value is to be assessed at least once a month to coincide with monthly reporting.

11 PERFORMANCE BENCHMARKS

The performance of the investment portfolio shall be measured against the industry standard Bloomberg AusBond Bank Bill Index. Bank Bill Index offers short term exposure to Australian denominated bank bills with maturity profiles of up to three months.

12 REPORTING AND REVIEWING OF INVESTMENTS

Documentary evidence must be held for each investment and details thereof maintained in an Investment Register. Council has a registered Austraclear participant proxy account, which enables Council to hold all its securities in its own name and own account. Council will receive a monthly holding statement of all securities held and is to be reconciled to the Investment Register each month. 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.

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. The report will detail the investment portfolio in terms of performance, percentage exposure of total portfolio, maturity date and changes in market value.

This Investment Policy will be reviewed every three years or as required in the event of legislative changes. The Investment Policy may also be changed as a result of other amendments that are to the advantage of the Council and in the spirit of this Policy. Any amendment to the Investment Policy must be by way of Council resolution.

POLICY REVIEW AND VARIATION

- 1 Council is to have opportunity to review and adopt, at least once during its Term, each Council policy.
- 2 A resolution of Council is required to adopt any variations to this Policy, with the exception of minor administrative changes, such as updates to legislative references, which may be endorsed by the Executive Management Committee (EMC). Endorsement of administrative changes made to this policy by EMC does not alter the requirement for it to be reviewed and adopted by each Term of Council.

STATEMENT OF PROCEDURES

STAKEHOLDERS

NAME	RESPONSIBILITIES
General Manager	<ul style="list-style-type: none"> • Implementation of the Investment Policy as delegated by Council in accordance with the Local Government Act 1993 • Sub delegation of the day-to-day management of the portfolio to the Responsible Accounting Officer or other officers through the delegated approval process
Director Corporate Services	<ul style="list-style-type: none"> • Approval of Monthly Investment Report to Council • Approval of Half-Yearly Investment Strategy as a member of EMC • Informal review of Investment Selections

NAME	RESPONSIBILITIES
Chief Financial Officer (CFO)	<ul style="list-style-type: none"> Approval of Monthly Investment Report to Council as the Responsible Accounting Officer Approval of Half-Yearly Investment Strategy to EMC and ARIC Informal Review of Investment Selections
Financial Services Manager	<ul style="list-style-type: none"> Oversee the investment function Review and Approve Investment Selections/ Recommendations Approve investment journals to General Ledger Review Monthly Investment Report and submit to CFO Review the Half-Yearly Investment Strategy
Authorised Bank Signatories (two signatures required)	<ul style="list-style-type: none"> Authorise bank transfers from bank accounts Authorise acquisition of investments Authorise redemption of matured investments (when requested)
Senior Accountant-Financial Operations	<ul style="list-style-type: none"> Oversee daily monitoring of General Fund and At-Call Bank Accounts Cash flow monitoring and reporting Liaise with approved investment advisor regarding investment acquisitions, fair values of investments, monthly reports, strategic reports and general enquiries Generate accrual and actual fair value and interest received investment journals Produce Monthly Investment Report and submit to Financial Services Manager with working papers Preparation of the Half-Yearly Investment Strategy Approve investment journals to General Ledger, created by the Financial Services UDP File all investment documents in council's electronic records management system- Enterprise Content Management (ECM)
Financial Services UDP	<ul style="list-style-type: none"> Daily monitoring of General Fund and At-Call Bank Accounts Transfer of surplus funds between Wollongong Council bank accounts Create investment journals to General Ledger Update daily the Register of Investments Compare Register of Investments to General Ledger and monthly investment advisor report File all investment documents including Settlement Advice and Confirmations in council's electronic records management system - Enterprise Content Management (ECM)
Accounting officer	<ul style="list-style-type: none"> Perform end-of-Month reconciliation between General Ledger and Subsidiary Ledgers for interest received, fair value movements and Balance Sheet Adjustments

Wollongong City Council holds the following bank accounts to hold funds received:

General Fund Bank Account

General working account.

At-Call Account

Cash Investment account – earns a higher interest rate than General Fund Bank Account. Surplus funds from the General Fund Bank Account are transferred to the At-Call Account.

Investments relating to other accounts held such as the Lord Mayor's Relief Fund and the Trust Account are managed separately in the spirit of this policy and prevailing legislation.

The following procedures are to be followed to ensure:

- there is sufficient liquidity to meet all anticipated cash-flow requirements as and when they fall due;
- probity in the investment of Council's surplus Funds;
- financial controls are adhered to; and
- appropriate accounting and reporting is maintained.

Monitoring

A forecasting monitoring tool is used to identify the cash flow requirements a year ahead. Monthly actual and estimated Cash Receipts, Investment Maturities, Government Grants, Payroll, Operational Payments, Large Capital Payments are updated regularly to assist in liquidity requirements and used in estimating the amount of future investments and when they are to be made liquid.

A cash-monitoring tool is used to identify the daily bank balance and forecasting for the following day. It identifies the day's cash at hand and the estimated cash flow outputs for the day. Surplus funds are then invested in line with the Investment Policy.

Selection of Investment

The Senior Accountant- Financial Operations liaises with the approved investment advisor and Australian Authorised Deposit-taking Institutions (ADIs), to investigate available options before selecting the optimum investment ensuring compliance with the Investment Policy.

The Financial Services Manager is notified of the selected investment and provides email approval on all investment purchases (other than the At-Call Account).

Authorisation/Settlement Process

The transfer of funds between Council's bank accounts and any direct investments in an ADI are to be authorised by two bank signatories. Investments into ADI's which hold an Austraclear account, can be settled using the Council's Austraclear account code, where written instructions are provided to the ADI and the investment advisor to settle the transaction on Council's behalf. Appropriate documentation is provided with each transfer to identify sufficient funds in the bank account to make the investment and the details of the acquisition of the new investment. These documents are filed in council's electronic records management system (ECM). The bank account details are verified by the authorising signatories using a Masterfile controlled by the Financial Services Manager.

Register of Investments

A register of all investments is updated daily to reflect acquisition and maturity adjustments to the investment portfolio.

The register includes the purchase date, maturity date, face value, investment type, term of investment, interest rate, interest receivable, investment institution and date of report.

Journal Posting to General Ledger

An investment journal is to be posted to reflect the transfer of funds to and from bank accounts and investment types.

These journals are approved by Financial Services Manager.

Fair value of investment assets

Investment assets other than bank accounts and term deposits require fair valuation to record the value of the investment each month for reporting purposes. This information is provided from the Approved Investment Advisor as per Investment Policy.

Reconciliation

Reconciliation between the General Ledger and Subsidiary Ledgers occurs monthly.

Applicable reconciliations are interest received, fair value adjustments and Balance Sheet.

Monthly Investment Report

The Investment Report including the Statement of Investment and commentary is prepared and submitted to the Financial Services Manager for review. The Chief Financial Officer and Director Corporate Services review and approve the final version before the Monthly Council Meeting.

APPROVAL AND REVIEW	
Responsible Division	Finance
Date adopted by Council	12 December 2022
Date/s of previous adoptions	10/12/2018, 19/10/2015, 13/08/2012, 21/06/2011, 26/02/2007, 14/03/2005
Date of next review	December 2024