

Investment Policy

Purpose

To provide a framework for the investment of Council funds that seeks to maximise earnings whilst having due consideration of the risk and security for that investment; and to ensure that Council's liquidity requirements are being met.

Preservation of capital is the principal purpose of the investment portfolio. Investments are to be placed in a manner that seeks to ensure the security and safeguarding of the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters

Scope

This policy applies to all Council Officers who have authority delegated to them to invest surplus funds on Council's behalf and is in accordance with legislation and guidelines. This policy relates to the investment of surplus funds and not other assets of Council. Land and property, with the exception of any grandfathered investment property, are considered to be outside the scope of this policy.

Definitions

| Term | Meaning |
|------------------|---|
| Act | <i>Local Government Act 1993</i> |
| ADI | An Authorised Deposit-taking Institution (ADI) is a corporation that is authorised under the <i>Banking Act 1959</i> (C'wlth) to take deposits from customers |
| Bill of exchange | A bill of exchange is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a sum certain in money to or to the order of a specified person, or to bearer. |
| BBSW | The Bank Bill Swap Reference Rate (BBSW) is the midpoint of the nationally observed best bid and offer for AFMA Prime Bank eligible securities. The BBSW is calculated daily. Floating rate securities are most commonly reset quarterly to the 90-day BBSW. |
| Council funds | Surplus monies that are invested by Council in accordance with s625 <i>LG Act 1993</i> . |
| Debenture | A debenture is a document evidencing an acknowledgement of a debt, which a company has created for the purposes of raising capital. Debentures are issued by companies in return for medium and long-term investment of funds by lenders. |
| FRN | A Floating Rate Note (FRN) is a medium to long term fixed interest investment where the coupon is a fixed margin ("coupon margin") over a benchmark, also described as a "floating rate". The benchmark is usually the BBSW and is reset at regular intervals – most commonly quarterly. |

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|---------------|--|
| Grandfathered | Investments held by Council that were previously allowed under the Minister's Order but were grandfathered when the NSW State Government issued the Ministerial Order dated 12 January 2011. |
| LGGR | <i>Local Government (General) Regulation 2005</i> |
| OLG | NSW Office of Local Government |
| RAO | Responsible Accounting Officer of a Council means a member of the staff of the Council designated by the General Manager, or if no such member has been designated, the General Manager (i.e. clause 196 <i>Local Government (General) Regulation 2005</i>) |
| TCorp | New South Wales Treasury Corporation |

Policy Principles

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 risks of significant costs due to the unanticipated sale of an investment.

While exercising the power to invest, consideration is to be given to the preservation of capital, liquidity and the return on investment.

Council's sensitivity to the risk of losing principal and of fluctuating interest returns is high. Council expects reasonable rates of return that are similar to the Reserve Bank's cash rate.

1. Delegation of Authority

The General Manager is given delegated authority under s377 *Local Government Act 1993* to invest temporary surplus funds in accordance with Council policy. The General Manager may in turn delegate the day-to-day management of Council's investments to one or more of the following officers - the Director of Corporate and Community Services, the Chief Financial Officer or the Manager Governance.

The General Manager must approve delegations in writing and record them in the Delegations Register. Delegated officers are required to acknowledge that they have received a copy of this policy and understand their obligations in this role.

1.1 Prudent Person Standard

The delegated officers will ensure that Council investments are managed with the care, diligence and skill that a prudent person would exercise. As trustees of public monies, officers are to safeguard the portfolio in accordance with the spirit of this Investment Policy and not for speculative purposes.

1.2 Ethics and Conflicts of Interest

Officers shall refrain from personal activities that would conflict with proper execution and management of Council's investment portfolio. Council's Code of Conduct provides guidance for recognising and disclosing any conflicts of interest.

1.3 Approved Instruments

Council approves the following investments included in the Ministerial Investment Order:

- Any public funds or securities issued by, or guaranteed by, the Commonwealth, any State of the Commonwealth, or a Territory
- Any debentures or securities issued by a Council (within the meaning of the *Local Government Act 1993*)
- Interest bearing deposits with, or any debentures or bonds issued by, an authorised deposit taking institution (ADI) (as defined in the *Banking Act 1959* (C'with)), but excluding subordinated debt obligations.
- 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 ADI by the Australian Prudential Regulation Authority

- A deposit with the NSW Treasury Corporation or investments in a TCorp IM fund of the NSW Treasury Corporation.

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

Council officers making decisions on investments should take all reasonable care to ensure that such investments are not made with companies whose activities would bring Council into disrepute or would conflict with its proclaimed policies on health, sustainability and ethical governance.

1.4 Prohibited Investments

In accordance with the Ministerial Investment Order, this investment policy prohibits any investment carried out for speculative purposes including, but not limited to:

- Derivative based instruments
- Principal only investments or securities that provide potentially nil or negative cash flow
- Stand-alone securities issued that have underlying futures, options, forward contracts or swaps of any kind
- The use of leveraging (borrowing to invest) for an investment.

1.5 Risk Management Guidelines

All investments entail some risk. Generally, the higher the anticipated rate of return of an investment, the higher the risk and variability of investment returns. Investing should produce a diversified portfolio that reflects reasonable market rates of return.

This Investment Policy states a conservative, risk averse investment profile and recognises that Council has a low tolerance to investment risks which would result in a loss of investment capital. The nature of a conservative approach to investments recognises that the expectations of returns on investments would also need to be conservative. A risk averse investment policy acts to preserve capital, but also affects the contribution of earnings from investments and the growth in value of the investment portfolio. This approach accepts that Council's return on investment could be lower than average market expectations, particularly where average market expectations are based on rates of return for risk diversified portfolios.

One of the central roles of the Investment Policy is to provide guidance on risk minimisation. The following points provide a background (but not an exhaustive list), of risk exposures to be considered when managing Council's investment portfolio:

- **Market Risk** – One of the most prominent exposures recognised by local government is the exposure to market risk. The risk exposure results from a change in market prices which includes changes in interest rates, currency and other prices. This risk is mitigated by fixed rate instruments.
- **Liquidity Risk** – Liquidity risk usually arises if there is a lack of market depth, or the number of potential willing buyers and sellers that can influence the price of the investment. The mitigation of this risk is to only deal with standard investments in a well traded market.
- **Leveraging Risk** – Leverage, or borrowings, increases the potential returns of an investment, but also increases the potential loss. Leverage risk usually arises through investment in structured products or derivatives which can potentially be used to create leveraged positions where the exposures obtained are greater than the value of the assets required to support them. Councils are prohibited from investing in structured products or derivatives, other than those grandfathered by Order of the Minister.
- **Credit Risk** – Credit risk is the risk of loss to an investor due to the failure of the institution/entity to pay the interest and/or repay the principal of an investment. This risk is mitigated by Council complying with the Order of the Minister on investments. Circulars, regulatory and statutory requirements.

- **Interest Rate Risk** – Interest rate risk is a subset of market risk and is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market interest rates. This risk is mitigated by investing in fixed rate instruments.

1.6 Credit and Maturity Guidelines

Investments are to comply with three key criteria relating to:

1.6.1 Overall Portfolio Credit Framework

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

| S&P Long Term Credit Rating* | S&P Short Term Credit Rating* | Portfolio Maximum |
|---|-------------------------------|-------------------|
| AAA Category | A 1 + | 100% |
| AA Category | A – 1 | 100% |
| A Category | A – 2 | 60% |
| BBB Category | A – 3 | 30% |
| Unrated Authorised Deposit Taking Institution | Unrated | 20% |
| Unrated NSW Treasury Corp IM Fund | Unrated | 30% |

* Moody's/Fitch equivalent

1.6.2 Institutional Credit 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:

| S&P Long Term Credit Rating* | S&P Short Term Credit Rating* | Portfolio Maximum |
|---|-------------------------------|-------------------|
| AAA Category | A 1 + | 50% |
| AA Category | A – 1 | 50% |
| A Category | A – 2 | 30% |
| BBB Category | A – 3 | 30% |
| Unrated Authorised Deposit Taking Institution | Unrated | 10% |
| Unrated NSW Treasury Corp IM Fund | Unrated | 30% |

* Moody's/Fitch equivalent

1.6.3 Term to Maturity Framework

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

| | Overall Portfolio Term to Maturity Limits | |
|----------------------|---|--------------|
| Short term | Portfolio % ≤ 1 year | 100% Maximum |
| Short to medium term | Portfolio % > 1 year ≤ 3 years | 60% Maximum |
| Medium term | Portfolio % > 3 years < 5 years | 30% Maximum |
| Long term | Portfolio % > 5 years | 30 % Maximum |

1.7 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:
 - The custodian nominated by TCorp for investment in the TCorp IM Funds
 - Austraclear, or
 - An institution with an investment grade issued by Standards and Poor's or Moody's rating, or
 - An institution with adequate insurance, including professional indemnity insurance and other insurance considered prudent and appropriate to cover its liabilities under any agreement

2. Benchmarking

As Council traditionally invests in short term deposits, the performance benchmark to be used is the BBSW 90 day Bank Bill Index.

3. Investment Advisor

Should it be deemed necessary to consult an investment advisor, any such advisor must be approved by Council and licensed by the Australian Securities and Investment Commission with the exception of NSW TCorp. The advisor must be an independent person who has no actual or potential conflict of interest in relation to the investment products being recommended and is free to choose the most appropriate product within the terms and conditions of the investment policy.

4. Reporting and Reviewing of Investments

Documentary evidence must be held for each investment and details thereof maintained in the investment register. Details to be included are:

- The amount of money invested
- Particulars of the security or form of investment in which the money is invested
- The term of the investment, and
- The rate of interest to be paid, and the amount of money that Council has earned, in respect of the investment.

The documentary evidence must provide Council legal title to the investment. Certificates must be obtained from the financial institutions confirming the amounts of the investments held on the Council's behalf as at 30 June each year and be reconciled to Council records. All investments are to be appropriately recorded in Council's financial records and reconciled at least monthly. Council will be provided with a written report each month setting out the details of the entire investment portfolio. The report will confirm compliance of Council's investments with legislative and policy requirements.

The General Manager shall establish a system of internal controls governing the administration and management of Council's investment portfolio, which shall be reviewed annually by the Independent External Auditor to Council. The controls shall be designed to prevent and control losses of Council's assets arising from fraud, error, misrepresentation, unanticipated market changes, conflicts of interest or imprudent actions.

5. Responsibilities & Review

The following Council officers are responsible for the implementation of, and adherence to, this policy:

- General Manager

- Director Corporate & Community Services
- Chief Financial Officer
- Manager Governance

They will also:

- Provide all necessary administrative support for the operation of this policy
- Develop and document any procedures for the effective implementation of this policy
- Keep sufficient records to enable monitoring of compliance with this policy
- Review this policy incorporating relevant legislation, documentation released from relevant state agencies and best practice guidelines.
- The standard review period will be annually or as required in the event of legislative changes, accounting standards changes, or as a result of other amendments that are to the advantage of the Council and in the spirit of this policy.

The next review date will be June 2023.

6. References

This policy is to be read in conjunction with the following:

| | |
|--|---|
| Legislation Policies and procedures | • <i>s625 Local Government Act 1993</i> |
| | • <i>clause 16 Local Government (General) Regulation 2005</i> |
| | • <i>Ministerial Investment Order 2011</i> |
| | • <i>S14 The Trustee Amendment (Discretionary Investments) Act (1997)</i> |
| | • <i>Local Government Code of Accounting Practice and Financial Reporting</i> |
| | • <i>Australian Accounting Standards</i> |
| | • <i>NSW Office of Local Government Investment Policy Guidelines 2010</i> |
| | • <i>NSW Office of Local Government Circulars</i> |
| | • <i>Council Code of Conduct</i> |
| | |

7. Document Control

| Stage | Date | Comment | MagiQ Reference |
|--------|-------------------|-------------------------|-------------------|
| Review | June 2021 | | |
| Review | 27 September 2017 | Adopted Council Meeting | Min 259 |
| Review | 28 October 2015 | Adopted Council Meeting | Min 280 |
| Review | 22 October 2014 | Adopted Council Meeting | Min 256 |
| Review | 23 October 2013 | Adopted Council Meeting | Min 338 |
| Review | 14 November, 2012 | Adopted Council Meeting | Min 478 |
| Review | 25 October 2012 | Approved by EMT | |
| Review | 11 May 2011 | Adopted at PP&R | Min 156 |
| Review | 13 April 2011 | Approved by EMT | |
| Review | 23 June 2021 | Adopted Council Meeting | Min 121 Doc 32967 |
| Review | 14 September 2022 | Minor update | Doc ID 448956 |

8. Ownership and Approval

| Responsibility | Role |
|----------------|---|
| Author | Chief Financial Officer |
| Owner | Director Corporate & Community Services |
| Endorser | EMT |
| Approver | Council |

Attachment 1: Local Government Act 1993 – Investment Order dated 12 January 2011

LOCAL GOVERNMENT ACT 1993 – INVESTMENT ORDER
(Relating to investments by councils)

I, the Hon. Barbara Perry MP, 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 in 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.
- (ii) Paragraph (i) only applies to those investments made before the date of this Order and does not apply to any restructuring or switching of investments or any re-investment 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 a form of investment notified by this order unless it also complies with an investment policy of council adopted by a 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


Hon BARBARA PERRY MP
Minister for Local Government