

Investment Policy

MINUTE NUMBER	421/2021
DATE APPROVED	21 October 2021
EFFECTIVE	21 October 2021
AUTHORITY	Chief Financial Officer
CONTACT OFFICER	General Manager

1 PURPOSE

1.1 This policy established the framework which provides how the treasury function of Council will be operated, monitored and reported upon. This framework will set guidelines for Council on its level of exposure to investment limits and credit risk. This policy has been established in compliance with s. 625 of the *Local Government Act 1993* (the Act).

1.2 Council's investment objective is to provide the most favourable rate of interest whilst having due consideration to the risk and security profile of the investment type and ensuring Council's liquidity requirements are being met as provided in cl. 1.3.

1.3 In exercising the power to invest, Council has three (3) primary objectives elements:

i. Preservation of Capital

Preservation of capital is the principal objective of the investment portfolio. Investments are to be placed in a manner that safeguards the investment portfolio. This includes managing credit and interest rate exposure risk within identified thresholds and parameters.

ii. Managing Council's Liquidity

Investments should be allocated to ensure there is sufficient liquidity to meet all reasonably anticipated cash flow requirements, as and when they fall due, without incurring significant costs due to the unanticipated sale of an investment.

iii. Return on Investment

Maximising return on investment in line with Council's risk appetite as outlined in this policy. Investments are expected to achieve a market average rate of return in line with Council's risk tolerance.

2 SCOPE

2.1 This policy applies to any investment of Council.

3 POLICY STATEMENT

3.1 Funds for Investment

3.1.1. Investments are maintained to meet specified business reasons. These reasons can be:

- i. For strategic purposes consistent with Council's Long Term Financial Plan;
- ii. Holding short-term investments for working capital requirements;
- iii. Holding investments that are necessary to carry out Council's operations consistent with the objectives outlined in Council's Integrated, Planning and Reporting plans and programs.

3.1.2. Council recognises that as a responsible public authority, any investment that it holds should be low-risk. It acknowledges that lower risk generally means lower returns.

3.2 Legislative Requirements

3.2.1 Council makes all investments in accordance with:

- i. *Local Government Act 1993* (s. 412, 413 and 625);
- ii. *Local Government (General) Regulation 2005* (cl. 212);
- iii. *Government Information (Public Access) Regulation 2009* (Part 2);
- iv. Ministerial Investment Order (the most recently published order);
- v. *Trustee Act 1925 (NSW)*;
- vi. *The Trustee Amendment (Discretionary Investments) Act 1997* (s. 14A(2), 14C(1) and (2));
- vii. Local Government Code of Accounting Practice and Financial Reporting; and
- viii. Australian Accounting Standards.

3.3 Delegation of Authority

- 3.3.1 Authority for implementation of this policy is delegated by Council to the General Manager in accordance with the Act.
- 3.3.2 The General Manager has authority to invest surplus funds and may delegate this function to the Director Corporate Services, Chief Financial Officer and Finance Staff ("Council Officers"). Council Officers investing funds on behalf of Council must do so in accordance with this policy.
- 3.3.3 Council Officers delegated authority to administer and/or manage Council's investments shall be recorded and required to acknowledge they have received a copy of this policy and understand their obligations in this role. Adequate controls are in place to safeguard Council's assets, such as the separation of duties in relation to authorising and executing transactions through the requirement of two (2) authorised signatories for each transaction.
- 3.3.4 The General Manager or his/her delegated representative is authorised to approve variations to this policy if the investment is to Council's advantage and/or due to revised legislation. All variations must be in accordance with the current Ministerial Order.

3.4 Prudent Person Standard

- 3.4.1 The investments 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 portfolio to safeguard the portfolio in accordance with the spirit of this policy and not for speculative purposes.

3.5 Ethics and Conflict of Interest

- 3.5.1 Council Officers shall refrain from personal activities that would conflict with the proper execution and management of Council's investment portfolio. This policy requires Council Officers to disclose any conflict of interest to the General Manager as soon as they arise.
- 3.5.2 Independent investment advisors engaged on a fee paying basis are also required to declare that they have no actual or perceived conflicts of interest.

3.6 Approved Investments

- 3.6.1 Investments are limited to those approved by the current Ministerial Investment Order (refer to Appendix 1) that has been issued by the NSW Minister for Local Government further to cl. 3.2.1.
- 3.6.2 Council maintains investments in the following assets from time to time:
 - i. Property investments incorporating land, buildings, a portfolio of ground leases and land held for strategic purposes; and
 - ii. Financial instruments incorporating longer term and liquidity investments.

3.7 Prohibited Investments

- 3.7.1 In accordance with any current Ministerial Investment Order, this policy prohibits but is not limited to any investment carried out for speculative purposes, including but not limited to:
- i. Derivative based instruments;
 - ii. Principal only investments or securities that provide potentially nil or negative cash flow; and
 - iii. Standalone securities issued that have underlying futures, options, forward contracts and swaps of any kind.
- 3.7.2 This policy also prohibits the use of leveraging (borrowing to invest) of an investment.

3.8 Risk Management Framework

Investments are to comply with the following three-part Risk Management Framework.

1. Overall Portfolio Credit Framework: limits exposure of the portfolio;
2. Institutional Credit Framework: limits exposure to individual institutions based on their rating; and
3. Term to Maturity Framework: limits exposure based upon maturity of securities and credit ratings of investment.

3.8.1 Overall Portfolio Credit Framework

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

Long Term Credit Ratings	Portfolio (Max %)
AAA	100%
AA+, AA, AA-	100%
A+, A	80%
A-	40%
BBB+	25%
BBB	10%
BBB- and lower and unrated (excluding NSW TCorpIM Funds)	0%
Specific Ministerial Approved Forms of Investment	Portfolio (Max %)
NSW TCorpIM Funds	100%

Credit ratings are based upon Standard and Poor's Investment Rating, or equivalent, where a Standard and Poor's Investment Rating is not available.

3.8.2 Institutional Credit Framework

Council's exposure to an individual institution will be restricted by the institution's credit rating, with the exception of the NSW TCorpIM Funds, which do not have credit ratings.

Long Term Credit Ratings	Institution (Max. %)
AAA	40%
AA+, AA, AA-	35%
A+, A	25%
A-	20%
BBB+	10%
BBB	5%
BBB- and lower and unrated (excluding NSW TCorpIM Funds)	0%

NSW TCorp IM Funds	Max. %
TCorp IM Cash Funds	30%
TCorp IM Short Term Income Fund	10%
TCorp IM Medium Term Growth Fund	20%
TCorp IM Long Term Growth Fund	5%

Credit ratings are based upon Standard and Poor's Investment Rating, or equivalent, where a Standard and Poor's Investment Rating is not available.

If any of Council's investments are downgraded such that they no longer fall within the investment policy limits, they will be divested as soon as practicable having regard to potential losses resulting from early redemption and subject to minimising any loss of capital that may arise from compliance with this provision.

3.8.3 Term to Maturity Framework

Council's investment portfolio shall be structured around the time horizon of investment to ensure that liquidity and income requirements are met.

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

Overall Portfolio Term to Maturity Limits	Max.
Portfolio % <1 year	100%
Portfolio % >1 year <3 years (Min BBB+)	80%
Portfolio % >3 years < 5 years (Min AA-)	50%
Portfolio % >5 years <10 years (Min AAA)	25%

3.9 Performance Benchmarks

3.9.1 Council will use the following performance benchmarks for its investments:

Investment	Performance Benchmark
Cash	11.00am Daily Cash Rate
Cash Enhancement / Direct Investments	90 Day BBSW
Fixed Interest	90 Day BBSW
Diversified Funds	CPI + Appropriate Margin Over Rolling Three (3) Year Periods (depending on composition of fund)

3.10 Ethical and Socially Responsible Investments

3.10.1 Ethical and socially responsible investments (SRI's) are a means for investors to support their principles and take into account considerations other than solely the financial return potential of particular investments. In addition to normal risk assessment, investments can be further evaluated in terms of environment, social and governance issues. A number of independent organisations have been established to evaluate and rate companies according to these criteria. Subject to compliance with government legislation and the outlined investment strategy objectives, Council supports investments in Ethical or Socially Responsible Investments.

3.11 Safe Custody Arrangements

3.11.1 Investments may be held in safe custody on Council's behalf, as long as the following criteria are met:

- i. A Safe Custody Agreement is in place setting out the obligations of the Custodian;
- ii. Council retains beneficial control and ownership of all investments;
- iii. Adequate documentation is provided verifying the existence of the investments;
- iv. The Custodian conducts regular reconciliation of records with relevant registries and/or clearing systems; and
- v. The Custodian has an AFS Licence issued by ASIC that explicitly covers custodial services.

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

- i. Austraclear;
- ii. An institution with an investment grade Standard and Poor's or Moody's credit rating; or;
- iii. An institution with adequate insurance, including professional indemnity insurance and other insurances considered prudent and appropriate to cover its liabilities under any agreement.

3.12 Non-Financial Factors

3.12.1 When assessing an investment opportunity as part of the prudent person rule there will always be a number of factors, which are not easily quantifiable that should be considered. These factors may lead to accepting a lower rate of return on a particular investment. Staff who make such decisions should document the reasons to support their decisions. This will ensure accountability and transparency and enable those reasons to be identified at a later date.

3.12.2 The highest rate should not always be accepted, rather the investment which delivers the best value to Council, should be selected. This allows staff to include other factors when choosing an investment.

3.12.3 Factors which may be considered when choosing investments include:

- i. Transaction costs;
- ii. Ease of making transactions;
- iii. Ability to swap funds;
- iv. Level of service from an institution;
- v. Benefit to Local Government;
- vi. Liquidity terms;
- vii. Reduced costs to other services; and
- viii. Choosing ethical and socially responsible investments.

3.13 Reporting and Reviewing of Investments

- 3.13.1 Documentary evidence must be held for each investment and details thereof maintained in an Investment Register.
- 3.13.2 The documentary evidence must provide Council legal title to the investment.
- 3.13.3 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.
- 3.13.4 All investments are to be appropriately recorded in Council's financial records and reconciled at least on a monthly basis.
- 3.13.5 A monthly report will be provided to Council. The report will detail the investment portfolio in terms of performance (ie investment income earned versus budget year to date and relevant performance benchmarks as outlined in this policy), percentage exposure of total portfolio, maturity date and changes in market value.
- 3.13.6 For audit purposes, certificates must be obtained from the banks/fund managers/custodians confirming the amounts of investment held on Council's behalf at 30 June each year.
- 3.13.7 In accordance with s. 413 of the Act, Council must recognise, measure and disclose investments in accordance with the publications issued by the Australian Accounting Standards Board.

4 VARIATION

- 4.1. This policy will be reviewed at annually or as required in the event of legislative changes.
- 4.2. The policy may also be changed as a result of other amendments that are to the advantage of Council and in the spirit of this policy.
- 4.3. Any amendment to the policy must align with the 'Delegation of Authority' provisions of this policy subject to a report to Council.

5 APPENDICES

- 5.1 This policy is supported by the following appendices:

Appendices

Appendix No.	Description
1	Ministerial Order – Investment (Dated 12 January 2011)

Appendix 1 (Ministerial Order – Investment)

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

Revision History

Version	Adoption Date	Authorised by	Approved by	Revision Date
V1	11/2005	General Manager	Council	12/2006
V2	05/2007	General Manager	Council	05/2008
V3	10/2008	General Manager	Council	20/11/2010
V4	18/12/2008	General Manager	Council	18/12/2010
V5	15/04/2010	General Manager	Council	18/04/2012
V6	16/06/2011	General Manager	Council	16/06/2013
V7	21/11/2013	General Manager	Council	21/11/2014
V8	21/08/2014	General Manager	Council	21/08/2015
V9	17/12/2015	General Manager	Council	17/12/2016
V10	19/10/2017	General Manager	Council	19/10/2018
V11	12/12/2019	General Manager/Manex	Council	12/12/2021
V12	21/10/2021	General Manager	Council	21/10/2023

Change History

Version	Change Details
V1	Initial Policy
V2	Annual Review of Policy
V3	Annual Review of Policy
V4	Minute No: 987/2008
V5	Minute No: 283/2010
V6	Minute No: 553/2011
V7	Minute No: 1119/2013
V8	Minute No: 711/2014 - minor changes to wording of the policy
V9	Minute No: 1087/2015 – annual review no major changes
V10	Annual Review of Policy – Minor changes removing duplicated legislation extracts
V11	Annual Review of Policy – Restructured to reflect Council's Policy Development and Review Policy.
V12	Annual Review of Policy – Portfolio limits revised in line with the institutional market ratings and Council's financial covenants.

Related Documents

Title

Local Government Act 1993

Local Government (General) Regulation 2005

Government Information (Public Access) Regulation 2009

Trustee Act 1925

Ministerial Investment Order (as inforce)

Local Government Code of Accounting Practice and Financial Reporting

Australian Accounting Standards, including but not limited to:

- AASB 7 (Financial Instruments: Disclosures);
- AASB 132 (Financial Instruments: Presentation);
- AASB 136 (Impairment of Assets); and
- AASB 139 (Financial Instruments Recognition and Measurement).

Local Government Act 1993

Local Government (General) Regulation 2005