

# Investment Policy

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<b>Strategic Pillar</b>	Corporate Services
<b>Responsible Branch</b>	Finance

**1. OUTCOMES**

- 1.1 To provide a framework for investing Council funds at the most favourable rate of return available to it at the time, with due consideration of risk and security for that investment type, whilst ensuring Council's liquidity requirements are met.

**2. POLICY**

- 2.1 While exercising the power to invest, consideration is to be given to the preservation of capital, liquidity, and return on investment.
- 2.2 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 maturity risk within identified thresholds and parameters.
- 2.3 Investments should be allocated to ensure there is sufficient liquidity to meet all reasonably anticipated cashflow requirements, as and when they fall due, without incurring the risk of significant costs due to the unanticipated sale of an investment.
- 2.4 Investments are expected to achieve an average rate of return to exceed the AusBond BBI performance benchmark.
- 2.5 Council's preference is to enter environmentally and socially responsible investments where the rate of return is at least equal to comparable investments on offer.

**3. SCOPE OF THE POLICY**

- 3.1 This policy applies to all of Council's cash and investments, and all Council officers and representatives who have delegated authority to manage cash and investments or make investment decisions.

**4. DEFINITIONS**

Authorised Deposit-Taking Institution (ADI)	An institution that is authorised under the Bank Act 1959 to accept term deposits and conduct banking activities in accordance with that Act and under the prudential supervision of the Australian Prudential Regulation Authority (APRA).
Bank Bill Swap reference rate (BBSW)	The average of mid-rate bank bill quotes from brokers on the BBSW Panel. The BBSW is calculated daily. Floating rate securities are commonly reset quarterly to the 90-day BBSW.
Bill of Exchange	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 certain sum of money to, or to the order of, a specified person or to the bearer.
Bloomberg AusBond Bank Bill Index (Ausbond BBI)	A widely used performance benchmark constructed to represent the performance of a notional rolling parcel of bills averaging 45 days.
Council Funds	Surplus money that is invested by Council in accordance with section 625 of the Act.
Counterparty Limit	The limit imposed to cap the maximum possible exposure to any one ADI.

Debenture	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.
Floating Rate Note (FRN)	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 – commonly quarterly.
Portfolio Limit	The maximum exposure the investment portfolio can allocate to a credit rating category.
Responsible Accounting Officer (RAO)	Defined by the Local Government (General) Regulation 2005. Responsible for maintaining accurate and up-to-date Council accounting records in an accessible form.
Securities	Financial instruments (i.e. documents) traded in financial markets (except futures contracts) e.g. bills of exchange, transferable certificates of deposit, negotiable certificates of deposit, and floating rate notes.

**5. LEGISLATIVE OBLIGATIONS AND/OR RELEVANT STANDARDS**

- 5.1 Section 625 of the Local Government Act 1993
- 5.2 Clause 16 of the Local Government (General) Regulation 2021
- 5.3 Ministerial Investment Order (See attachment)
- 5.4 The Trustee Amendment (Discretionary Investments) Act (1997) – Section 14
- 5.5 Local Government Code of Accounting Practice and Financial Reporting
- 5.6 Australian Accounting Standards
- 5.7 Office of Local Government Investment Policy Guidelines
- 5.8 Office of Local Government Circulars

**6. CONTENT**

**6.1 Authority for Delegation**

- 6.1.1 Authority for implementation of the Investment Policy is delegated by Council to the General Manager in accordance with the Local Government Act 1993.
- 6.1.2 The General Manager may in turn delegate the day-to-day management of Council’s investments to the RAO and ensure adequate skill, support, and oversight.
- 6.1.3 Delegated authority to manage Council’s investments shall be recorded with relevant officers required to acknowledge they have received a copy of this policy and understand their obligations in this role.

**6.2 Prudent Person Standard**

- 6.2.1 Council has a fiduciary responsibility when investing. Council will use the care, diligence, and skill that a prudent person would exercise in managing the affairs of other persons.
- 6.2.2 As trustees of public monies, officers are to manage and safeguard Council’s investment portfolio in accordance with the spirit of this Investment Policy, and not for speculative purposes.



### 6.3 ***Ethics and Conflicts of Interest***

- 6.3.1 Officers shall refrain from personal activities that would conflict with the proper execution and management of Council's investment portfolio. This policy requires officers to disclose any conflict of interest to the General Manager.
- 6.3.2 Independent advisors are also required to declare that they have no actual or perceived conflicts of interest and receive no inducements in relation to Council's investments.

### 6.4 ***Authorised Investments***

- 6.4.1 Investments are limited to those allowed by the NSW Minister for Local Government's most current Ministerial Investment Order.
- 6.4.2 All investments must be denominated in Australian Dollars. Authorised investments are limited to those allowed by the Ministerial Investment Order, currently:
- (a) Commonwealth / State / Territory Government securities e.g. bonds.
  - (b) Interest bearing deposits / senior securities issued by an eligible ADI.
  - (c) Bills of Exchange (< 200 days duration) guaranteed by an ADI.
  - (d) Debentures issued by a NSW Council under the Local Government Act (1993).
  - (e) Deposits with T-Corp &/or Investments in T-Corp IMFunds.

### 6.5 ***Prohibited Investments***

- 6.5.1 This policy prohibits any investment carried out for speculative purposes including:
- (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, and swaps of any kind.
  - (d) Mortgage of land.
- 6.5.2 This policy prohibits the use of leveraging (borrowing to invest). However, nothing in the policy shall prohibit the short-term investment of loan proceeds where the loan is raised for non-investment purposes and there is a delay prior to the expenditure of loan funds.

### 6.6 ***Risk Management Guidelines***

- 6.6.1 Prior to placing investments, consideration of the following key criteria is required:
- (a) Preservation of Capital - the requirement for preventing losses in an investment portfolio's total value (considering the time value of money).
  - (b) Diversification - the requirement to place investments in a broad range of products so as not to be over exposed to a particular sector of the investment market.
  - (c) Credit Risk - the risk that a party or guarantor to a transaction will fail to fulfil its obligations. In the context of this document, it relates to the risk of loss due to the failure of an institution/entity with which an investment is held, to pay the interest and/or repay the principal of the investment.
  - (d) Market Risk - the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices, or benchmark returns will unexpectedly overtake the investment's return.

- (e) Liquidity Risk - the risk an institution runs out of cash, is unable to redeem investments at a fair price within a timely period, and thereby Council incurs additional costs (or in the worst case is unable to execute its spending plans).
- (f) Maturity Risk - the risk relating to the length of term to maturity of the investment. The larger the term, the greater the length of exposure and risk to market volatilities.
- (g) Rollover Risk - the risk that income will not meet expectations or budgeted requirement because future interest rates are lower than expected.

## 6.7 **Sustainable Investing**

- 6.7.1 This policy supports delivery of Council's Community Strategic Plan to achieve a sustainable local region. Council preferences investment securities and financial institutions that take responsibility for their economic, environmental, social, and governance impacts. These four factors are referred to as the quadruple bottom line.
- 6.7.2 There is a clear duty of care to invest public funds responsibly, and in a way that protects, nurtures, and grows the environment and the economy while guarding against unethical practices.
- 6.7.3 Council's response to the Modern Slavery Amendment Act 2021 and commitment to investments that provide for the ethical treatment of both shareholders and stakeholders, support development of co-operative ownership and control of the workplace, high quality products and services, local ventures, appropriate technology, ecologically sustainable practices, social and economic justice, peace and non-violence, and the use of renewable resources.
- 6.7.4 Council aims to avoid investments that create pollution (such as fossil fuel industries), that are speculative, that exploit workers, customers and/or the environment, that are engaged in alcohol, tobacco, and arms manufacture, that inhibit human rights, and that damage non-renewable resources.
- 6.7.5 Sustainable investment choices are considered in respect of the individual investment product, the issuer of the investment, or both, and should be endorsed by an accredited environmentally and socially responsible industry body or institution where possible.
- 6.7.6 When placing funds in new investments, Council will seek out sustainable investments that meet this investment policy objectives and preference sustainable investments where:
  - a) The investment is compliant with legislation and investment policy parameters; and
  - b) The rate of return is at least equal to comparable investments on offer to Council at the time of investment.
- 6.7.7 Monthly investment performance will be measured against the *Market Forces fossil fuel lending report* and the *Climate Bonds Standard and Certification Scheme*. Additional sustainable investment performance reporting will be added when it becomes available.

## 6.8 **Investment Advisor**

- 6.8.1 Council's investment advisor must be approved by Council resolution and licensed by the Australian Securities and Investment Commission. The advisor must be an independent person who has no actual or potential conflict of interest in relation to investment products being recommended and is free to choose the most appropriate product within the terms and conditions of the Council's investment policy.

6.8.2 The independent 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, except as fully rebated to Council promptly.

6.8.3 Council should secure the provision of an independent advisory service through the appropriate procurement process, adhering to council policy and OLG guidelines.

**6.9 Safe Custody Arrangements**

6.9.1 Where necessary, investments may be held in safe custody on Council’s behalf, ensuring 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) The custodian nominated by T-Corp;
  - (ii) Austraclear;
  - (iii) An institution with an investment grade Standard and Poor’s or Moody’s rating; or
  - (iv) An institution with adequate insurance, including professional indemnity insurance and other insurances considered prudent and appropriate to cover its liabilities under any agreement.

**6.10 Credit Quality Limits**

6.10.1 Council will observe the following limitations for investment funds. The combined investments having a Long-Term Debt Rating outlined in Column A of the following table will comply with:

- (a) Portfolio Limit (Column B);
- (b) Counterparty Limit (Column C); and
- (c) Maximum Tenor (Column D).

Column A		Column B	Column C	Column D
Long-Term Debt Rating		Portfolio Limit	Counterparty Limit	Maximum Tenor
S & P	Moody’s			
AAA	Aaa	100%	100%	Not applicable
AA+ to AA-	Aa1 to Aa3	100%	40%	5 years
A+ to A-	A1 to A3	60%	35%	5 years
BBB+ to BBB-	Baa1 to BAA3	35%	15%	5 years
Unrated		10%	5%	12 monthss
TCorp		20%	20%	Not applicable

6.10.2 The Column A long-term rating category AA+ to AA- S&P and Aa1 to Aa3 Moody’s, is to include the four major Australian banks.

- 6.10.3 The long-term debt rating of Council's investments will be determined as follows:
- (a) If only one rating agency provides a long-term debt rating, that rate shall apply.
  - (b) If a long-term debt rating has been assigned by both rating agencies and such ratings are not equivalent, the lower of such rating shall apply.
- 6.10.4 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.

## 6.11 **Reporting**

- 6.11.1 Documentary evidence must be held for each investment and details thereof maintained in an investment register. The documentary evidence must provide Council legal title to the investment.
- 6.11.2 For audit purposes, certificates must be obtained from the ADI/fund manager/custodian confirming the amounts of investment held on Council's behalf on 30 June each year.
- 6.11.3 All investments are to be appropriately recorded in Council's financial records and reconciled at least monthly.
- 6.11.4 A monthly report will be provided to Council in accordance with legislative requirements. This report will detail the investment portfolio in terms of holdings and impact of changes in market value since the previous report. The monthly report will also detail the investment performance against the AusBond BBI benchmark, investment income earned versus budget year to date, confirm compliance of Council's investments within legislative and policy limits, and categorise Council's investment portfolio by environmental impact.

## 6.12 **Term to Maturity**

- 6.12.1 Council's investment portfolio shall be structured around the time horizon of the investment to ensure that liquidity and income requirements are met.
- 6.12.2 "Horizon" represents the intended minimum term of the investment; it is open for an Investment Strategy to define a target date for sale of a liquid investment (e.g. FRN or fixed bond).
- 6.12.3 Once the primary aim of liquidity is met, Council will diversify its maturity profile to reduce the volatility of Council's investment income. However, Council always retains the flexibility to invest funds short-term as determined by internal or economic outlook sensitivities.
- 6.12.4 The factors and/or information used by Council to determine minimum allocations to the shorter durations include:
- (a) Council's liquidity requirements to cover both regular payments as well as sufficient buffer to cover reasonably foreseeable contingencies.
  - (b) Medium term financial plans and major capex forecasts.
  - (c) Known grants, asset sales or similar one-off inflows.
  - (d) Seasonal patterns to Council's investment balances.

## 7 **REVIEW**

- 7.1 In accordance with the Office of Local Government Investment Policy Guidelines, this policy will be reviewed annually or earlier as necessary should:
- (a) legislation require it.
  - (b) Council's functions, structure or activities change.

## Attachment

**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 12<sup>th</sup> day of January 2011

  
Hon BARBARA PERRY MP  
Minister for Local Government