

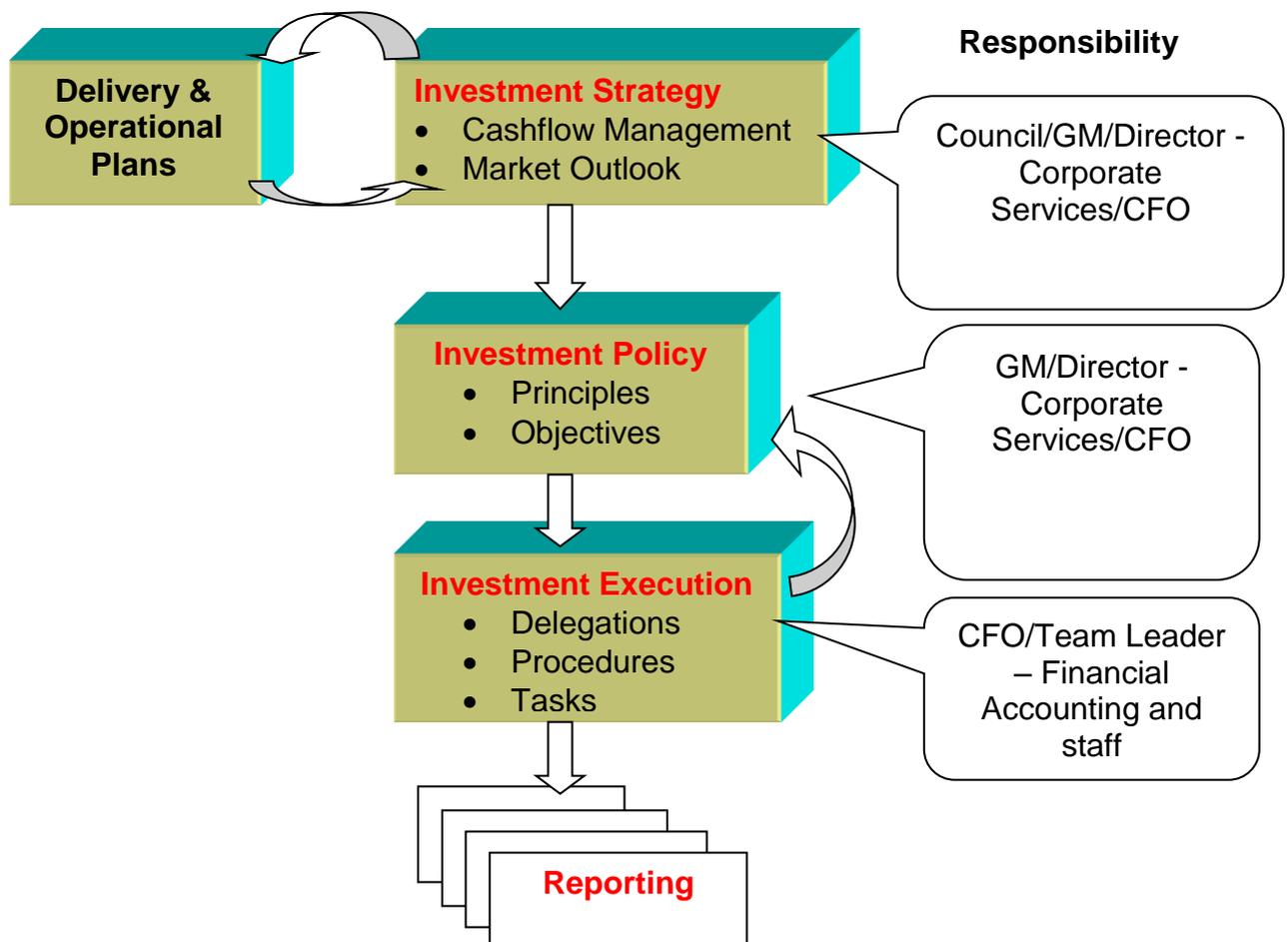
## Related Policy

These guidelines relate to the Investment Policy, as adopted by Council.

## Guideline

### 1 Relation of Investment Policy within Council

The following diagram shows how the Investment Policy relates to other policies, plans and strategy within Council.



| Title of Policy                |  |                                   |
|--------------------------------|--|-----------------------------------|
| Owner: Chief Financial Officer | Accountability: Investments management | Policy Number: CSF003             |
| Trim Reference: D19/101983     | Review date: June 2020                 | Endorsed: Council<br>27 June 2019 |

## 2 Objectives

To provide a framework for the investing of Council's funds at the most favourable rate of interest available to it at the time to maximise returns, whilst having due consideration of risk and security for that investment type and ensuring that its liquidity requirements are being met.

While exercising the power to invest, consideration needs to be given to preservation of capital, liquidity and the return of investment, with a preference for investing in non-fossil fuel aligned financial institutions where the return on investment is equal to or greater than the return on investment offered by fossil fuel aligned financial institutions, within the following framework:

- (a) 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 the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters.
- (b) 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.
- (c) Investments are to generate income that exceeds the performance benchmarks while taking into account Council's risk tolerance.
- (d) Compliance with legislation, regulations, the prudent person tests of the *Trustee Act* and best practice guidelines.

## 3 Legislative Requirements

All investments are to comply with the following:

- *Local Government Act 1993* - Section 412 & 625;
- *Local Government Act 1993* – Order (of the Minister) Circular No: 11/01 gazetted on 17 February 2011, or most current.
- The *Trustee Amendment (Discretionary Investments) Act 1997* – Sections 14A(2), 14C(1) & (2);
- *Local Government (General) Regulation 2005* – Clause 212;
- Australian Accounting Standards;
- Office of Local Government Investment Policy Guidelines; and
- Office of Local Government Circulars.

Extracts are included in Schedule 1.

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## 4 Delegation of Authority to Invest

Authority for implementation of the Investment Policy is delegated by Council to the General Manager in accordance with Section 377 of the *Local Government Act 1993*.

The General Manager may in turn delegate the day-to-day management of Council's investments to the Responsible Accounting Officer or senior staff, subject to regular reviews.

Officers' delegated authority to 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. They must ensure that adequate skill, support and oversight are exercised in the investment of Council's funds.

The General Manager has delegated to the Chief Financial Officer, Council's Responsible Accounting Officer, the authority to authorise investments up to the value of \$2 million in accordance with Council's Investment Policy - subject to prior consultation with the Director – Corporate and Organisational Support Services.

The General Manager has delegated to the Director – Corporate and Organisational Support Services the authority to authorise investments up to the value of \$4 million in accordance with Council's Investment Policy - subject to prior consultation with the General Manager.

Any proposed investments over \$4 million are reviewed by the Chief Financial Officer for recommendation to the Director – Corporate and Organisational Support Services for recommendation and referral to the General Manager for approval, if the General Manager deems it appropriate.

## 5 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 portfolio to safeguard the portfolio in accordance with the spirit of this Investment Policy and not for speculative purposes.

A prudent person is entrusted to act with a duty of care, not as an average person would act but as a wise, cautious and judicious person. Such a person will:

- Have a full understanding of Council's Investment Policy
- Understand the legislative constraints regarding Council's investments

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- Actively manage investments by regular market monitoring. Performance of investments is to be reviewed (individually and as a whole portfolio) on a monthly basis. Where necessary, advice and assistance should be sought from professional people with experience in investment markets. Any professional advice obtained must contain a statement by the advisor as to their financial interest in the advice given.
- Review Council's investment strategy, at least annually
- Balance the investment risk/return trade off by not taking an overtly conservative (low risk, low return) stance or overtly risky stance.
- Have a full understanding of Council's investment strategy and its specific requirements for cashflow to meet its obligations and consider this in selecting duration of investments.

## 6 Ethics and Conflict of Interest

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.

Independent advisors are also required to declare that they have no actual or perceived conflicts of interest in fulfilling their role to Council, as outlined more in the Investment Advisor section.

## 7 Approved Investments

Investments are limited to those allowed by the most current Ministerial Investment Order that has been issued by the NSW Minister for Local Government (refer Schedule 1)

All investments must be denominated in Australian Dollars.

Authorised Investments include

- Debentures or securities issued by, or guaranteed by, Local, State and Commonwealth governments.
- Interest bearing deposits with, or any debentures or senior bonds issued by an authorised deposit-taking institution (as defined by the *Banking Act 1959* (Cwth)), 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 authorised deposit-taking institution by the Australian Prudential Regulation Authority.

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- Investments with the NSW Treasury Corporation or investments in a Core Fund of the New South Wales Treasury Corporation.
- Investments grandfathered under the previous Ministerial Order.

## 8 Prohibited Investments

In accordance with the Ministerial Investment Order, this investment policy prohibits any investment carried out for speculative purposes, and other investments including;

- 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 and swaps of any kind;
- Investment trusts other than those of TCorpIM Funds, even where the trusts' assets are limited to assets complying with the Minister's Order; and
- Any other investment excluded by the Minister's Order.

Where permitted, Council may fully utilise any "grandfathering" provisions for assets that do not comply with a later Policy or Minister's Order.

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

## 9 Risk Management Guidelines

Investments are expected to achieve a market average rate of return in line with the Council's risk tolerance and are to be considered in light of the following key criteria:

- **Preservation of Capital** – the requirement for preventing losses in an investment portfolio's total value (considering the time value of money);
- **Diversification** – setting limits to the amounts invested with a particular financial institution or government authority to reduce credit risk. Diversification also includes the requirement to place investments in a range of products so as not to be overly exposed to a particular sector of the investment market;

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- **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 an investment, or failure by a counterparty to a transaction in an investment;
- **Market risk** – the risk that the fair value of future cash flows of an investment will fluctuate due to changes in market prices, or benchmark returns will unexpectedly overtake the investment's return;
- **Liquidity risk** – the risk that Council runs out of cash, is unable to redeem investments at a fair price within a timely period, and thereby incurs additional costs (or in the worst case is unable to execute its spending plans);
- **Maturity risk** – the risk relating to the length of term to maturity of the investment. The longer the term, the greater the length of exposure and risk to market volatilities; and
- **Rollover Risk** - the risk that income will not meet expectations or budgeted requirement because interest rates are lower than expected in future.

## 10 Risk Management Framework

Investments obtained are to comply with the following criteria relating to:

- Institutional Limitations
- Portfolio Credit Framework: limit overall credit exposure of the portfolio
- Counterparty/Institution Credit Framework: limit exposure to individual counterparties/institutions
- Term to Maturity Framework: limits based upon maturity of securities.

### (a) Institutional Limitations

Notwithstanding the further limitations set under the Counterparty/Institution Framework below, the following limitations will also apply.

- For unrated ADIs, Council will limit deposits with these institutions to 1% of Council's total investment portfolio.
- Council will not invest with any ADI that is an Australian branch of a foreign owned bank.
- All ADIs which are utilised by Council are to comply with prevailing Total Capital Adequacy Ratio requirements as defined by the Basel Committee and monitored by APRA.

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## (b) Overall Portfolio Limits

These guidelines reference the Standard & Poor's (S&P) ratings system criteria and format. However, it is recognised Moody's and Fitch Ratings also exist and any of the 3 ratings may be used where necessary.

In the event there is a difference between these 3 Rating Agencies as to the rating band ("split ratings"), Council shall use the higher in assessing compliance with portfolio policy limits, but for conservatism shall apply the lower in assessing new investments.

However, it should be noted that the primary control of credit quality is the prudential supervision and government support through APRA and explicit guarantees of the ADI sector, not ratings.

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.

| S&P Long Term Rating * | Maximum % |
|------------------------|-----------|
| AAA/AA major banks^    | 100%      |
| A                      | 60%       |
| BBB                    | 40%       |
| Unrated ADIs           | 15%       |

\* or Moody's / Fitch equivalents

^ For the purpose of this Policy, "major banks" are currently defined as the ADI deposits or senior guaranteed principal and interest ADI securities issued by the major Australian banking groups:

- Australia and New Zealand Banking Group Limited;
- Commonwealth Bank of Australia;
- National Australia Bank Limited; and
- Westpac Banking Corporation

Where other ADI groups own multiple banking licences, rating categories are based on the parent bank even if the subsidiary is not explicitly rated.

Council may ratify an alternative definition from time to time.

TCorpIM Cash and Strategic Cash Funds are regarded as AAA and AA credit quality respectively, for the purpose of the Policy.

Amounts placed with institutions that are covered by the government guarantee of \$250K will be considered to have the sovereign credit rating of the Australian Government. This applies only to the first \$250K of the total amount invested with each financial institution.

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## (c) Counterparty/Institution Credit Framework

Exposure to an individual counterparty/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 Rating Band          | Maximum %        |
|------------------------------------|------------------|
| AAA/AA or major banks <sup>^</sup> | 45% <sup>*</sup> |
| A                                  | 20%              |
| BBB                                | 5%               |
| Unrated ADIs <sup>**</sup>         | 1%               |

or Moody's / Fitch equivalents

\*To the extent that assets are guaranteed by the State or Federal government, no counterparty limit applies – however, this does not include TCorpIM funds.

If any of the Council's investments are downgraded such that they no longer fall within the investment policy, they should be divested as soon as practicable.

## (d) Term to Maturity Framework

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

| Overall Portfolio Return to Maturity |         |          |
|--------------------------------------|---------|----------|
| Portfolio % <1 year                  | Min 35% | Max 100% |
| Portfolio % >1 year and < 3years     | Min 0%  | Max 60%  |
| Portfolio % >3 year                  | Min 0%  | Max 30%  |

## 11 Fossil Fuel Investments

It is preferred that term investments be invested with non-fossil fuel aligned financial institutions subject to the following conditions:

- (i) the investment is compliant with Council's investment policy,
- (ii) the investment rate of interest is equal to or better than those offered by fossil fuel aligned financial institutions.

## 12 Divestment

If the characteristics of any of Council's investments change with market conditions such that they no-longer fall within these investment policy guidelines (either individually, or such that the portfolio breaches aggregate

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limits), liquid assets should be divested as soon as is practical without detriment to Council, to bring the portfolio into compliance.

To the extent that assets are not tradeable (such as unbreakable deposits), the Council should be informed of the breach and a remediation plan presented.

## 13 Investment Advisor

Council's investment advisor must be 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 recommend the most appropriate product within the terms and conditions of the investment policy.

The independent advisor is required to provide written confirmation that they do not have any actual or potential conflicts in relation to the investments they are recommending or reviewing. This includes receiving no commissions or other benefits in relation to the investments being recommended or reviewed, unless such remuneration is rebated 100% to Council.

## 14 Measurement

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

The investment advisor should meet with the responsible staff and review Council's investment portfolio no less than every six months.

## 15 Benchmarking

The performance of the investment portfolio shall be measured against the Bloomberg AusBond Bank Bill Index, or where no longer published such successor or substitute index as is nominated under delegated authority.

## 16 Reporting and Review

Documentary evidence must be held for each investment and details thereof maintained in an Investment Register.

The documentary evidence must provide Council beneficial ownership of 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.

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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 in support of the monthly statement of activity. The report will detail the investment portfolio in terms of performance, percentage exposure of total portfolio, maturity date, changes in market value where applicable and investment income versus budget year to date.

If a breach of this Investment Policy occurs, Council will be notified at its next ordinary meeting.

## 17 Accounting

Council will comply with appropriate accounting standards in valuing its investments and quantifying its investment returns.

In addition to recording investment income according to accounting standards, published reports may show a break-down of its duly calculated investment returns into realised and unrealised capital gains and losses, and interest.

Other relevant issues will be considered in line with relevant Australian Accounting Standards, such as discount or premium, designation as held-to-maturity or on a fair value basis and impairment.

## 18 Third Party Suppliers and Dealers

Council will structure its affairs in order to be economical in its investment management costs, favouring dealing direct in its fixed interest (or, where intermediated, arrangements that result in a rebate of brokerage) where possible.

At times, it will be advantageous to deal with third parties that are remunerated on a transaction rather than retainer basis. Council will use such suppliers where to its advantage, and have regard to the "best execution" test in its Investment Policy. Specifically, Council will have regard to:

- Administrative cost savings;
- Ability to access higher (retail) rates, where these exceed the direct transaction costs;
- Access to ADIs that would not normally have an institutional direct channel;
- Limited access or initial public offering (IPO) deals, or other secondary market opportunities that are only available from specific sources; and
- The costs of other distribution channels that do not involve transaction remuneration.

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Council will take steps to ensure that:

- Any suppliers used are appropriately licensed, reputable and capable;
- Funds and identification data are sufficiently secured;
- Third party arrangements do not materially worsen Council’s credit risks by creating exposure to the dealer as counterparty; and
- Remuneration arrangements are reasonable and transparent, whether paid by Council or by the issuer directly.

## 19 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 at inception, in regular statements and for audit;
- The Custodian conducts regular reconciliation of records with relevant registries and/or clearing systems; and
- The Institution or Custodian recording and holding the assets will be:
  - The Custodian nominated by T-Corp for its funds;
  - Austraclear;
  - An institution with an investment grade Standard and Poor’s, Moody’s or Fitch rating; or

An institution with adequate insurance, including professional indemnity insurance and other insurances considered prudent and appropriate to cover its liabilities under any agreement.

## 20 Review and Variation to Policy

The Investment Policy will be reviewed at least once a year 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.

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## SCHEDULE 1: Extracts of Legislative Requirements

LOCAL GOVERNMENT ACT 1993 - SECT 412 & 625

### Section 412 Accounting Records

- (2) A council must keep such accounting records as are necessary to correctly record and explain its financial transactions and its financial position.
- (3) In particular, a council must keep its accounting records in a manner and form that facilitate:
  - (a) the preparation of financial reports that present fairly its financial position and the results of its operations, and
  - (b) the convenient and proper auditing of those reports.

### Section 625 How May Councils Invest?

- (1) A council may invest money that is not, for the time being, required by the council for any other purpose.
- (2) Money may be invested only in a form of investment notified by order of the Minister published in the Gazette.
- (3) An order of the Minister notifying a form of investment for the purposes of this section must not be made without the approval of the Treasurer.
- (4) The acquisition, in accordance with section 358, of a controlling interest in a corporation is not an investment for the purposes of this section.

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Circular No. 11-01  
Date 17 February 2011  
Doc ID. A232163

Contact Finance Policy Section  
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## REVISED MINISTERIAL INVESTMENT ORDER

A revised Investment Order pursuant to section 625 of the *Local Government Act 1993* has been issued. The Minister for Local Government signed the revised Order on 12 January 2011 and it was published in the NSW Government Gazette on 11 February 2011. It replaces the Order dated 31 July 2008. The revised Order is attached to this circular.

Changes to the Investment Order include:

- the removal of the ability to invest in the mortgage of land (part (c) of the Investment Order dated 31 July 2008)
- the removal of the ability to make a deposit with the Local Government Financial Services Pty Ltd (part (f) of the order dated 31 July 2008)
- the addition of "Key Considerations" in the revised Investment Order, which includes a comment that a council's General Manager, or any other staff, with delegated authority by a council to invest in funds on behalf of the council must do so in accordance with the council's adopted investment policy.

Councils are reminded that on 25 May 2010 the Division of Local Government issued Investment Policy Guidelines (Circular to Councils 10-11 refers). It is expected that all councils will by now have adopted an Investment Policy in accordance with the Guidelines.



**Ross Woodward**  
Chief Executive, Local Government  
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## 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

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## **THE TRUSTEE AMENDMENT (DISCRETIONARY INVESTMENTS) ACT 1997 – SECTIONS 14A (2), 14C (1) & (2)**

### **14A (2) Duties of trustee in respect of power of investment**

A trustee must, in exercising a power of investment:

- (a) if the trustee’s profession, business or employment is or includes acting as a trustee or investing money on behalf of other persons, exercise the care, diligence and skill that a prudent person engaged in that profession, business or employment would exercise in managing the affairs of other persons, or
- (b) if the trustee is not engaged in such a profession, business or employment, exercise the care, diligence and skill that a prudent person would exercise in managing the affairs of other persons.

### **14C Matters to which trustee is to have regard when exercising power of investment**

- (1) Without limiting the matters that a trustee may take into account when exercising a power of investment, a trustee must, so far as they are appropriate to the circumstances of the trust, if any, have regard to the following matters:
  - (a) the purposes of the trust and the needs and circumstances of the beneficiaries,
  - (b) the desirability of diversifying trust investments,
  - (c) the nature of, and the risk associated with, existing trust investments and other trust property,
  - (d) the need to maintain the real value of the capital or income of the trust,
  - (e) the risk of capital or income loss or depreciation,
  - (f) the potential for capital appreciation,
  - (g) the likely income return and the timing of income return,
  - (h) the length of the term of the proposed investment,
  - (i) the probable duration of the trust,
  - (j) the liquidity and marketability of the proposed investment during, and on the determination of, the term of the proposed investment,
  - (k) the aggregate value of the trust estate,

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- (l) the effect of the proposed investment in relation to the tax liability of the trust,
  - (m) the likelihood of inflation affecting the value of the proposed investment or other trust property,
  - (n) the costs (including commissions, fees, charges and duties payable) of making the proposed investment,
  - (o) the results of a review of existing trust investments in accordance with section 14A (4).
- (2) A trustee may, having regard to the size and nature of the trust, do either or both of the following:
- (a) obtain and consider independent and impartial advice reasonably required for the investment of trust funds or the management of the investment from a person whom the trustee reasonably believes to be competent to give the advice,
  - (b) pay out of trust funds the reasonable costs of obtaining the advice.

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## LOCAL GOVERNMENT (GENERAL) REGULATION 2005 - CLAUSE 212

### 212 Reports on council investments

- (1) The responsible accounting officer of a council:
  - (a) must provide the council with a written report (setting out details of all money that the council has invested under section 625 of the Act) to be presented:
    - i) if only one ordinary meeting of the council is held in a month, at that meeting, or
    - ii) if more than one such meeting is held in a month, at whichever of those meetings the council by resolution determines, and
  - (b) must include in the report a certificate as to whether or not the investment has been made in accordance with the Act, the regulations and the council's investment policies.
- (2) The report must be made up to the last day of the month immediately preceding the meeting.

Note. Section 625 of the Act says how a council may invest its surplus funds.

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