

# POLICY

## Financial Management - Investments

Date adopted by Council	27 June 2022
Minute number	H.06.2.1.f
Endorsed by	Senior Management Group
CM Ref	CD-158/21
Due for review	30 June 2025
Related documents	Nil
Responsible officer	Manager Finance
Department/Section	Corporate Services
Category	Financial & Asset Management
Community Strategic Plan goal	<b>Goal 8</b> Provide Community leadership
	<b>CS 35</b> Ensure long-term financial sustainability through short, medium and long term financial planning



## Policy Statement

Council will invest its surplus funds in approved institutions with all investments made in accordance with relevant legislation.

## Objective

To provide a framework for the investing of Council's funds at the most favourable rate of interest available to it at the time 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 is to be given to the preservation of capital, liquidity, and the return of investment.

- 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.
- 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 the risk of significant costs due to the unanticipated sale of investment
- Investments are expected to achieve a benchmark average rate of return in line with the Council's risk tolerance.

## Scope

This policy applies to the investment of funds that are surplus to those of Council's operational activities as determined by the General Manager and/or their authorised delegate.

## Definitions

Act	Local Government Act 1993 (NSW)
BBSW	Bank Bill Swap Rate
Credit Risk	Is the risk of loss to an investor due to the failure of the institution with which an investment is held to pay the interest and/or repayment of investment principal.
Interest Rate Risk	Is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market interest rates.
Investment Portfolio	Council's total pool of all investments held.
Preservation of Capital	Refers to an investment strategy with the primary goal of preventing losses in an investment portfolio's total value.
Prudent person standard	Is the legal standard restricting the investing and managing of a client's account to what a prudent person seeking reasonable income and preservation of capital might exercise in their own investment.
Responsible Accounting Officer	Identified member of Council staff as designated by the General Manager



## Policy Details

1. Delegation of Authority  
The General Manager has authority to invest surplus funds, but may delegate this function to the Director Corporate Services and Manager Finance.
2. Prudent Person Standard  
The investment will be managed with the care, diligence and skill that a prudent person would exercise. As trustees of public monies, officers are to manage Council's investment portfolios to safeguard the portfolio in accordance with the spirit of this investment policy, and not for speculative purposes.
3. Ethics and Conflicts of Interest  
Officers shall refrain from personal activities that would conflict with the proper execution and management of Council's investment portfolio. This policy requires officers to disclose any conflicts of interest.
4. Variation to Policy  
The General Manager or his delegated representative is authorised to approve investments at variance to this policy, if the investment is to Council's advantage, in compliance with other investment criteria above and/or due to revised legislation. All new investments at variance to this policy are to be reported to Council within 28 days.
5. Authorised Investments and Investment Guidelines  
Investments are limited to those allowed by the most current Ministerial Investment Order that has been issued by the NSW Minister for Local Government.

All investments must be denominated in Australian dollars. Authorised investments include and are limited to:

	Authorised Investment	Maximum Investment	Comment
(a)	Any public funds or securities issued by or guaranteed by, the Commonwealth or any State of the Commonwealth or a Territory	25%	In total
(b)	Any debentures or securities issued by a council (within the meaning of the Local Government Act 1993 (NSW))	5%	In total
(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.	15% 25%	Per investment, per building society or credit union Per investment, per bank



(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 to recourse against a bank which has been designated as an authorised deposit-taking institution by the Australian Prudential Regulation Authority	10%	Per bill of exchange
(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	20%	In total

(A) Term-to-Maturity Framework for the Portfolio

The investment portfolio is to be invested with the following term to maturity constraints.

Overall Portfolio Term to Maturity Limits	
	Maximum
Portfolio % < 1 Year	100%
Portfolio % > 1 Year < 3 Years	50%
Portfolio % >3 Years < 5 Years	0%
Portfolio % > 5 Years	0%

Council will reconsider this framework when the 10 year budget is finalised.

(B) Prohibited Investments

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

- derivative based instruments;
- principal only investments or securities that provide potentially nil or negative cash flow; and
- stand-alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind.



(C) General

(i) *Accounting for Premiums and Discounts*

From time to time financial assets may be acquired at a discount or premium to their face value. Any such discount or premium is to be taken into account in line with relevant Australian Accounting Standards.

(ii) *Advisory Services*

Council may use the services of a suitably qualified and experienced Investment advisor for the purposes of achieving the objectives of this policy, subject to the Ministerial Order in regard to fees and commissions.

(D) Risk Management Guidelines

Investments obtained 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;
- Credit Risk – the risk that a Council has invested in fails to pay the interest and/or replay the principal of an investment;
- Market Risk – the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices;
- Liquidity Risk – the risk an investor is unable to redeem the investment at a fair price within a timely period; and
- 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.

(E) Debt Borrowing Covenants

In addition to Council's investment guidelines, there is also a range of debt covenants that have been placed on Council's investment criteria by one of its financiers, Treasury Corporation (TCorp). These covenants relate to the credit rating and category of the proposed investment providers.



These covenants are as follows:

Council is required to observe, throughout the Term of the borrowing facilities held with TCorp, investments that have the long term debt rating as outlined in Column A of the following Table that complies with:

- i. Portfolio Limit (Column B)
- ii. Counterparty Limit (Column C)
- iii. Maximum Tenor (Column D)

Column A Long Term Debt Rating		Column B Portfolio Limit	Column C Counterparty Limit	Column D Maximum Tenor
S & P	Moody's			
AAA	Aaa	100%	100%	Not Applicable
AA+ to AA-	Aa1 to Aa3	100%	100%	5 years
A+ to A	A1 to A2	100%	100%	3 years
A	A3	40%	20%	3 years
BBB+	Baa1	35%	10%	3 years
BBB	Baa2		5%	12 months
BBB- and below: Local ADIs	BBB- and below: Local ADIs	0%	0%	Not Applicable
BBB- and below: Other	Baa3 and below: Other	0%	0%	Not Applicable
TCorp Investments		100%	100%	Not Applicable

*Note: for avoidance of doubt, the BBB Rate sub limit of 15% shall apply at all times when calculating the Portfolio limit for BBB+ and BBB investments*

6. Performance Benchmarks

<i>Investment</i>	<i>Performance Benchmark</i>
(c), (d), (e)	90 Day BBSW Rate
(a), (b)	UBSA Bank Bill Index



7. Safe Custody Arrangements

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

- A Safe Custody agreement is in place setting out the obligations of the custodian.
- Council retains 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 Custodian has an Australian Financial Services (AFS) Licence issued and regulated by the Australian Security & Investment Commission (ASIC) that explicitly covers custodial services.
- The Institution or Custodian recording and holding the assets will be:
  - A participant of the Austraclear regulations; or
  - An institution with an investment grade Standards and Poor's or Moody's credit 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.

8. Reporting

- (i) A monthly report will be provided to Council via the Corporate Services Committee, detailing the investment portfolio in terms of:
- Investment institution, principal invested, interest rate percentage, term of investment and maturity date of investment.
  - Summary of the percentage exposure to each investment institution relative to the total portfolio.
  - Confirmation by the responsible officer of Council's compliance to its investment policy criteria and legislative requirements.

Also shown in the body of the monthly report will be investment income earned versus budget year to date.

- (ii) For audit purposes, certificates must be obtained from the banks/fund managers/custodian confirming the amounts of investment held on Council's behalf at 30 June each year.

9. Internal Audit Advisory Committee

The Internal Audit Advisory Committee is to review Council's investments at least on an annual basis to verify that:

- new investment types/products comply with Council's investment policy;
- the value of investments is benchmarked against set benchmarks at least monthly; and
- investments have been placed in accordance with Council's investment policy



10. Review of Investment Policy

The policy is to be reviewed on an annual basis and be amended as required. Any amendments to the policy should be approved by a resolution of the Council.

## Responsibilities

### Council Standing Committee

The Corporate Services Committee will review and endorse the Policy.

### Particular/relevant Director

The Director Corporate Services will act as per Delegations of Authority.

### Particular/relevant Manager

The Manager Finance will adhere to the Policy.

## References and Related Legislation

- Local Government Act 1993 - Section 625;
- Local Government (General) Regulation 2005 – Clause 212
- Local Government Code of Accounting Practice and Financial Reporting – Section 11.3.4 and 11.3.5 – Requirement for a Prudent Person Approach
- The Trustee Amendment (Discretionary Investments) Act 1997 – Sections 14A(2), 14C(1) & (2);
- Ministerial Investment Order
- Investment Policy Guidelines May 2010
- Australian Accounting Standards; and
- Office of Local Government Circulars

## Version History

Version No.	Date	CD Reference	Reason for Review
1	28/02/2011	INT-1233/11	Policy expiry date due for review.
2	28/11/2012	INT-10738/12	
3	30/04/2015	INT-6250/15	
4	31/10/2016	INT-31119/16	
5	14/12/20	CD-217/20	
6	27/06/2022	CD-158/21	Policy expiry date due for review.