

To provide guidelines for the investment of Council money safeguarding capital, maintaining sufficient liquidity, maximising interest earnings and legislative compliance.

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### Background

#### Policy 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 while having due consideration of risk and security for that investment type and ensuring that 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 on investment in line with TCorp investment guidelines:

- i). Preservation of capital is the principal objective of the investment portfolio.
- ii). Investments are to be placed in a manner that seeks to ensure security and safeguarding the investment portfolio.
- iii). 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 an investment.

- iv). Investments are expected to achieve a market average rate of return in line with Council's risk tolerance.

This policy only deals with Council's investments with financial institutions and does not consider investments Council may wish to make in other forms of capital, such as property.

## **Policy statement**

### **Legislative authority for investments**

- *Local Government Act 1993*
- *Local Government (General) Regulation 2021*
- *Trustee Act 1925*
- *Banking Act 1959 (Cth)*
- Ministerial Investment Order
- Local Government Code of Accounting Practice and Financial Reporting
- Australian Accounting Standards.

### **Delegation of authority**

Authority for implementation of this policy is delegated by Council to the General Manager in accordance with the *Local Government Act 1993*.

The General Manager or a delegated representative has authority to invest Council's funds. Officers delegated with authority to manage Council's investments shall be recorded and required to acknowledge that they have received a copy of this policy and understand their obligations in this role.

The placement of investments requires a minimum of two signatures from officers with delegated authority to invest surplus funds.

### **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 policy. The matters to which a prudent person shall have regard when making an investment on behalf of another are set out in the attachment to this policy (Section 14C *Trustee Act 1925* (NSW) and Ministerial Order).

It is expected that the skills of officers making investments will include:

- i). An understanding of this policy and associated legislation such that when placing an investment all relevant conditions are considered and weighed up.
- ii). An understanding of the current positioning of the financial markets, i.e. what is the current 90-day Bank Bill Swap (BBSW) rate and yield curve.
- iii). An understanding of the type of investments in which they are dealing, i.e. investment rate offered, term to maturity and the organisation that is receiving and using the funds. Also, the underlying conditions of the transaction that impact risk and reward, including circumstances in which the user of the funds may default in payment of capital and interest.
- iv). An understanding of the institution that will receive and use the funds, including their credit worth, i.e. current Standard and Poors rating/if they are Australian Prudential Regulation Authority (APRA) regulated.

The role of an investing officer is to:

- i). Avail themselves of current market information and investment options.
- ii). Be aware of Council's current liquidity position and the options that best suit Council in terms of length of the investment.
- iii). Currently, investments are only made in the form of a term deposit with an

Authorised Deposit-taking Institution (ADI) and the investing officer shall consider at least three quotes from different ADIs. Typically, the investing officer becomes aware of is supplied daily rates by telephoning the institution or by receiving an email.

- iv). Council's investment placement sheet is completed to ensure that the investment complies with the rules of this policy and is signed by two investment officers.

The investing officer shall maintain an investment register, which shall include:

- i). The source and the amount of money invested.
- ii). Particulars of the security or form of investment in which the money was invested.
- iii). The term of the investment (i.e. placement and maturity dates where applicable).
- iv). If appropriate, the rate of interest to be paid, and the amount of money that Council has earned, in respect of the money invested.

### **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.

Officers are also required to provide written notice of any private employment or contract work that may conflict with their Council duties in accordance with section 353 of the *Local Government Act 1993*.

### **Investments that do not support the fossil fuel industry**

This policy is limited to assessing investments that do not support the fossil fuel industry in accommodating ethical investment considerations. Council will attempt to give preference to financial institutions that do not invest in or finance the fossil fuel industry where:

- i). The investment is compliant with Council's Investments policy.
- ii). The investment rate of interest is competitive relative to other similar investments that may be on offer to Council at the time of the investment. A competitive rate is deemed to be within 5 basis points (0.05%) of any other investment offered.
- iii). No limit will be placed on the total percentage invested with institutions that do not support the fossil fuel industry.

Information classifying institutions as supporting the fossil fuel industry or not will be sourced from [www.marketforces.org.au](http://www.marketforces.org.au) - which is an affiliate project of the Friends of the Earth Australia.

### **Approved and prohibited 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 and include:

- i). Any public funds or securities issued by or guaranteed by the Commonwealth, any State of the Commonwealth, or a Territory.
- ii). Any debentures or securities issued by a council (within the meaning of the *Local Government Act 1993*).
- iii). Interest bearing deposits with, or any debentures or bonds issued by, an ADI (as defined in the *Banking Act 1959*), but excluding subordinated debt obligations.
- iv). Any bill of exchange that 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 that has been designated as an ADI by APRA.
- v). A deposit with the Treasury Corporation or investments in an Hour-Glass investment facility of the Treasury Corporation.

- vi). Investments grandfathered under the previous Ministerial Investment Order.

In accordance with the current Ministerial Investment Order, this policy prohibits 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.
- iii). Stand-alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind.

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

### **Risk management guidelines**

Council's strategy is to preserve the capital invested by diversifying with different approved financial institutions on the short-term money market (minimum 70% of portfolio to be 12 months or less).

Investments obtained are to be considered based on the following key criteria:

- i). Preservation of Capital – the requirement for preventing losses in an investment portfolio's total value (considering the time value of money).
- ii). Diversification – setting limits to the amounts invested with a particular financial institution or government authority to reduce credit risk.
- iii). Credit risk – the risk that Council has if an institution fails to pay the interest and or repay the principal of an investment.
- iv). Market risk – the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices.
- v). Liquidity risk – the risk an investor is unable to redeem the investment at a fair price within a timely period.
- vi). 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.
- vii). Rollover risk- the risk that income will not meet expectations or budgeted requirement because interest rates are lower than expected in future.

### **Liquidity risk parameters**

All investments are to be placed with institutions regulated by APRA in accordance with the *Banking Act 1959*, i.e. ADIs; the Local Government Financial Services Pty Ltd or the NSW Treasury Corporation but excluding subordinated debt obligations.

At least three quotations shall be obtained from qualifying institutions whenever an investment is proposed. The best quote of the day will be successful, providing the investment will not breach any parameters contained within this policy, and after allowing for administrative and banking costs.

The portfolio is limited to a maximum of 30% of the total portfolio that can be placed in investments exceeding 12 months to maturity with no allowance for investments with a maturity exceeding three years.

### **Credit risk parameters**

Investment portfolio parameters are risk-management tools used to manage credit risk by diversifying the portfolio to avoid a narrow concentration of investments. Investment credit risk parameters are based on credit rating bands as published by the credit rating agencies (e.g. Standard and Poor's, Moody's, Fitch).

Council will use Standard and Poor's long-term credit ratings (or Moody's or Fitch equivalents). The Standard and Poor's ratings are broadly defined as follows:

AAA	Extremely strong capacity to repay
AA+, AA, AA-	A very strong capacity to repay
A+, A, A-	A strong capacity to repay
BBB+, BBB	Adequate protection and adequate capacity to pay

The following credit risk parameters apply to the investment portfolio:

Credit Rating (S & P Long Term)**	Maximum Limit	Single Entity Exposure Limit	Max Tenor
AAA	100%	100%	3 years
AA+ to AA-	100%	100%	3 years
A+ to A	100%	30%	3 years
A-	40%	20%	3 years
BBB+	30%*	10%	3 years
BBB		5%	1 year
BBB- & below – local ADIs	5%	5%	1 year
BBB- & below - other		\$250k	1 year

This does not apply to the Commonwealth Bank as this institution deals with Council's transaction banking. Any excess funds that are unable to be invested in Term Deposits or other allowable instruments to allow for cash flow liquidity are placed with the Commonwealth Bank.

### Performance benchmarks

Investment performance will be measured monthly, in relation to both current month and 12- month rolling returns, against the:

- Average 90-day BBSW
- Earnings to the approved budget.

### Reporting

The *Local Government (General) Regulation 2021* (clause 212) requires a report on investments be presented to Council at each ordinary meeting.

The report to Council will include, as a minimum:

- Total value of the portfolio and the balance of the trading bank account.
- Complete list of all investments in the portfolio.
- Break-up of the portfolio per institution, showing the rating for each institution and which investments are Australian Government guaranteed or not.
- Comparison of interest earned to budget for the month and year to date.
- Comparison of weighted average interest rate and 90-day BBSW for the month and year to date.
- Statement as to whether the investments are in accordance with the Local Government Act 1993, Regulation and Council's 'Investments' policy.

All investments are to be appropriately recorded in Council's financial records and reconciled on a monthly basis as a minimum.

## Threshold breaches

This policy imposes limits and thresholds in relation to the acquisition and holding of investments. However, due to changes in the amount of Council's investment portfolio over time, situations may occur where these limitations or thresholds are breached.

Where limitations or thresholds are breached due to a change in the overall size of the total investment portfolio, or a possible change in ratings of the financial institutions, the following process will apply:

- i). An immediate forced sale of investments in breach of the limits or thresholds will not be required unless, in the General Manager's opinion, such sale is necessary to protect the value of the overall investment portfolio.
- ii). An immediate freeze on acquisitions of new investments in the relevant category, until the portfolio can be effectively managed back to align with the requirements of this policy.
- iii). The objective will be to manage the portfolio back in accordance with the policy limits, within three months from the date the portfolio first exceeds the limit or threshold.

## Investment advisor

Council does not currently utilise an investment advisor. If one was to be appointed in the future they would be required to be licensed by the Australian Securities and Investment Commission and be an independent person who has no actual or potential conflict of interest in relation to investment products being recommended. Any future independent advisor would also be required to provide written confirmation annually 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.

## Contact officer

Finance Manager

## Related documents

### Policies

N/A

### Procedures

N/A

### Legislation

*Local Government Act 1993*

*Local Government (General) Regulation 2021*

*Trustee Act 1925 (relevant provision extracted – refer to attachment). Banking Act 1959 (Cth)*

### Other

Ministerial Investment Order

Local Government Code of Accounting Practice and Financial Reporting

Australian Accounting Standards

Office of Local Government circulars. TCorp

Investment Guidelines

File No.: D21/418		Next review date: 1 years	
Version	Purpose and description	Date adopted by Council	Resolution No.
1.0	Annual review	21/12/2011	106/11
2.0	Annual review	21/11/2012	109/12
3.0	Annual review	19/11/2014	114/14
4.0	Annual review	16/03/2016	19/16
5.0	Annual review, includes merger of three counties	15/03/2017	19/17
6.0	Annual review	16/05/2018	36/18
7.0	Annual review	17/04/2019	25/19
8.0	Annual review	21/04/2021	18/21
9.0	Annual review	15/06/2022	29/22
10.0	Annual review, minor amendments	13/12/2023	63/23
11.0	Annual review	30/10/2024	61/24
11.1	Policy transferred to a new template		
12.0	Annual review, minor amendments	15/10/2025	51/25

## SECTION 14C NSW TRUSTEE ACT 1925

NSW legislation website

### 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,
  - (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.
- (3) A trustee is to comply with this section unless expressly forbidden by the instrument (if any) creating the trust.