



Approval Date: 23 June 2020

Review Date: May 2021

Responsible Officer: Chief Financial Officer

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### **History of Policy review**

Version	Adoption Date	Minute No	Details of Review
4	23 June 2020	5/2020/8	Complete review
3	18 April 2018	5/2018/18	Complete review
2	23 May 2017		Complete review
1	24 May 2016		Complete review

### **Objective**

- 1.0 To provide a framework for the investing of surplus Council funds at the most favourable rate of interest available, whilst having due consideration of risk and security for investments ensuring its liquidity requirements are being met.
- 2.0 Whilst exercising the power to invest, consideration must be given to the preservation of capital, liquidity and the return on investment.
  - 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 the risk of significant costs due to the unanticipated sale of an investment.
  - C. Investments are expected to achieve a market average rate of return in line with Council's risk management guidelines.

### **Council Policy Reference**

AFM – Investment Policy

### **Statutory Requirements**

[Local Government Act 1993](#)

Local Government Act 1993 – Investment Order dated 31 July 2008

Local [Government Act 1993](#) – Investment Order dated 12 Jan 2011

[Local Government \(General\) Regulation 2005](#)

[Trustee Act 1925 \(NSW\)](#)

[Australian Accounting Standards](#) issued by the Australian Accounting Standards Board.

### **Government References**

[NSW DLG Investment Policy Guidelines – May 2010](#)

Local Government Code of Accounting Practice and Financial Reporting

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DLG Circulars relating to Investments

### **Related Policy/Procedure**

AFM – Financial Management and Control

### **Investment**

#### **1. Authority for Investment**

All investments are to be made in accordance with:

- Local Government Act 1993 – Section 625, Section 413 and Section 12
- Local Government Act 1993 – Investment Order (of the Minister) dated 12<sup>th</sup> January 2011.
- Local Government (General) Regulation 2005 – Clause 212
- Australian Accounting Standards issued by the Australian Accounting Standards Board.
- Trustee Act 1925 (NSW) – Section 14

#### **2. Delegation of Authority**

The General Manager has the authority to invest surplus funds and may delegate this function to the Chief Financial Officer and/or Management Accountant. All investments must be signed by two (2) signatories. The following officers have the authority to sign investments:

- General Manager
- Chief Financial Officer
- Director Environmental Services
- Director Engineering Services
- Management Accountant

#### **3. Ministerial Order**

The Minister for Local Government issued a revised order pursuant to [Section 625 of the Local Government Act 1993](#). The Minister signed the amended Order on 12 January 2011 and it was gazetted on 11 February 2011. It replaces the order dated 31 July 2008

#### **4. PRUDENT PERSON STANDARD**

Council 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 investment Policy, **and not for speculative purposes.**

#### **5. ETHICS AND CONFLICTS OF INTEREST**

Council 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.

### **Investment Guidelines**

#### **6. Forms of Investment**

All forms of Investment for the purposes of [section 625 \(2\) of the Local Government Act 1993](#) are by Order of the Minister notifying forms of investment. A copy of the Investment Order is attached as "Annexure A".

## 7. Legislative Obligations

All investments are to be made exercising care, diligence and skill that a prudent person of business would exercise in managing the affairs of another person. ***Investments that are high risk, speculative or hazardous in nature are to be avoided.***

## 8. Legislative Requirements

All investments are to be made in accordance with the provisions of the Local Government Act 1993, with particular regard to the following:

- The purpose of the investment;
- The desirability of diversifying council investments;
- The nature of and risk associated with council investments;
- The desirability of maintaining the real value of the capital and income of the investment;
- The risk of capital or income loss or depreciation;
- The potential for capital appreciation;
- The likely income return and the timing of income return;
- The length of the term of the proposed investment;
- The period for which the investment is likely to be required ;
- The probable duration of the investment;
- The liquidity and marketability of a proposed investment during, and on the determination of, the term of the investment;
- The aggregate value of the assets of the council;
- The effect of the proposed investment in relation to any tax liability;
- The likelihood of inflation affecting the value of the proposed investment;
- The costs (including commission, fees and charges) of making a proposed investment;
- The results of any review of existing council investments;
- Other matters as appropriate.

## 9. 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:

- a) Derivative based instruments;
- b) Principal only investments or securities that provide potentially NIL or negative cash flow; and
- c) Standalone securities issued that have underlying, options, forward contracts and swaps of any kind

## 10. Operational Requirements

- a. The working account balance of Council is to be kept at a level no greater than is required to meet Council's immediate working operational requirements except where the rate of return is comparable to the rate of return of other investments.
- b. A delegated Finance Officer will notify the Management Accountant that excess funds exist in the working account or that an existing investment is due for maturity and funds are not required to meet Council's immediate working operational requirements.
- c. The Management Accountant will authorise the Finance Officer to investigate investment options.

### 11. Quotations

- a. Three (3) quotations will be obtained from authorised institutions before making an investment.
- b. The Code of Accounting Practice and Financial Reporting require that Council maintains a separate record of these quotations.
- c. All quotes are to be attached to the investment authorisation to be signed by the authorised signatories and filed in the Financial Investment Voucher Folder.

### 10 Risk Management Guidelines

Investments are to comply with the following criteria:

***Preservation of capital – the requirement for preventing losses in an investment portfolio’s total value (considering the time value of money);***

#### **(a) Credit Quality Limits**

The portfolio credit guidelines to be adopted will reference the Standard & Poor’s (S&P) ratings system criteria and format - however, references in the previous Minister’s Orders also recognised Moody’s and Fitch Ratings and any of the three ratings may be used where available.

However, the primary control of credit quality is the prudential supervision and government support and explicit guarantees of the Approved Deposit Institution (ADI) sector, not ratings.

The maximum holding limit in each rating category for Council’s portfolio shall be:

<b>Long Term Rating Range (or Moody’s equivalent)</b>	<b>Maximum Holding</b>
AAA Category	100%
AA Category or Major Bank*	100%
A Category	80%
BBB Category	70%
Unrated ADIs	10%

\*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*
- *Westpac Banking Corporation*

*including ADI subsidiaries whether or not explicitly guaranteed, and brands (such as St George).*

Council may ratify an alternative definition from time to time.

Standard & Poor’s ratings attributed to each individual institution will be used to determine maximum holdings.

In the event of disagreement between 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 purchases.

(b) Institutional Diversification –

1. Not less than three (3) quotations shall be obtained from authorised institutions when an investment is made.
2. Individual investments shall not exceed \$2,000,000.

**Counterparty Limits**

Exposure to individual counterparties/financial institutions will be restricted by their rating so that single entity exposure is limited, as detailed in the table below.

Limits do not apply to Federal or NSW-guaranteed investments, which are uncapped. It should be noted that the NSW government does not guarantee the capital value or unit price of the TCorpIM Funds.

<b>Individual Institution or Counterparty Limits</b>	
<b>Long Term Rating Range (or Moody's equivalent)</b>	<b>Limit</b>
AAA Category <sup>1</sup>	50%
AA Category or Major Bank* <sup>2</sup>	50%
A Category	40%
BBB Category	25%
Unrated Category	5%

3. All term deposit investments are to be made with authorised deposit taking institutions covered under the Australian Government Guarantee;

(c) Maturity Risk – The investment portfolio shall be invested within the following maturity constraints.

<b>OVERALL PORTFOLIO MATURITY</b>		
Portfolio % < 3 months	Minimum 10%	Maximum 100%
Portfolio % 3-12 months	Minimum 10%	Maximum 100%
Portfolio % > 1 year, < 2 years	Minimum 0%	Maximum 70%
Portfolio % > 2 years, < 5 years	Minimum 0%	Maximum 50%
Portfolio % > 5 -10 years	Minimum 0%	Maximum 25%

(d) Market/Credit Risk – consideration shall be given to the risk that the fair value or the future cash flows of an investment will fluctuate due to changes in market prices, or the risk of failure to repay principal or pay interest of an investment.

(e) Liquidity Risk –

1. Investment maturity shall correspond with cash flow requirements.

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<sup>1</sup> AAA Category includes *TCorpIM Cash Fund*, which typically maintains a credit score consistent with a AAA<sup>f</sup> rating.

<sup>2</sup> AA Category also includes *TCorpIM Strategic Income Fund*, which typically maintains a credit score consistent with a AA<sup>f</sup> rating.

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2. Access to a minimum \$1,000,000 or 5% of the investment portfolio is available within seven (7) days.

### 12. Investments Register

The Code of Accounting Practice requires Council to maintain a separate record of money it has invested under [section 625 \(2\) of the Local Government Act 1993](#). The record must specify:

- a) date the investment is made;
- b) the amount of money invested;
- c) particulars of the security or form the money is invested;
- d) name of the institution;
- e) due date and term of the investment;
- f) if available, the rate of interest to be paid;
- g) the amount of money that the council has earned, in respect to the money invested;
- h) investment number consisting of three digits/financial year (e.g. 123/09);
- i) When being rolled over, the investment being closed should refer to the new investment number. When the new investment is being made the investment number of the closed investment should be recorded.

An Investment Register is held by Council both in hard copy and electronically. The Investment Register held in hard copy contains all information as above and any documentation relating to the investment and is maintained by a delegated Finance Officer. An electronic copy of all investment information is to be filed in TRIM.in Financial Management – Investments.

### 13. Financial Investment Voucher Folder

- The *Financial Investment Voucher Folder* is maintained and updated by a delegated Finance Officer with all correspondence both inward and outward relating to the investment.
- Each investment will be allocated a section labelled with the investment number.
- The section within the folder will contain all correspondence, confirmation of the term deposit/investment, coupon payment advices etc.
- All correspondence must be filed in TRIM in Financial Management – Investments.

### 14. Maturity

Once an investment has matured the following may occur:

- a) Rollover the investment – if it is determined that the investment will be rolled over (taking into account Part 7 of this procedure), then the investment will be rolled over and issued with a new investment number. The interest paid and the new investment number will be recorded in the investment register under the number of the investment being rolled over. The new investment number will refer to the previous investment number.
- b) Redeem the investment – Interest paid, principle repaid will be recorded in the investments register.

### 15. Reports on Council Investments

The Responsible Accounting Officer (RAO) must provide Council with a written report detailing all money that Council has invested. The report must be made up to the last day of the month immediately preceding the meeting. This information must be presented in accordance with [section 625 \(2\) of the Local Government Act 1993](#) and must be presented at each monthly ordinary meeting under the provisions of [Clause 212 of the Local Government \(General\) Regulation 2005](#). This report *must include a certificate as to whether or not the investment has been made in accordance with the Act, the regulations and Council's investment policy.*

#### **16. Independent Investment Advisors**

- Any investment advisor or investment dealer acting on behalf of Council must be licensed with the Australian Securities and Investment Commission.
- These third parties are expected to exercise the care, diligence and skill that a prudent person would exercise in managing the affairs of another person.
- This procedure is to be presented to all third parties to ensure that they are delivering appropriately and complying with Council's requirements, including the Ministerial Investment Order.
- The RAO should obtain written confirmation from independent financial advisors 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 they are recommending or reviewing.
- Product manufacturers / distributors should be excluded from being appointed investment advisors to Council.

#### **17. Withdrawal of Investments**

- In the event that a credit rating of a security, company or body issuing the security falls below the minimum requirement, as set out in the Minister's Order, Council must make all the necessary arrangements to withdraw the deposit as soon as practicable.
- In the case of existing securities (as tabled Part 4) excluded by the recently revised Investment Order, they are to be grandfathered. These investments become ultra vires under the new Investment Order and can continue to be held to maturity, redeemed or sold. Before disposing of these investments Council will seek independent financial advice by an independent investment advisor or dealer licensed by the Australian Securities and Investment Commission (ASIC)([www.asic.gov.au](http://www.asic.gov.au)).

#### **18. Annual Review**

Investment performance will be reviewed monthly and the outcomes will be reported to Council. The investment policy and procedures will be reviewed annually, or immediately following the release of any OLG Guidelines or Circulars aimed at assisting Councils in Developing investment Policy or Procedures. .

**LOCAL GOVERNMENT ACT 1993 – INVESTMENT ORDER**

(Relating to investments by councils)

I, the Hon. Paul Lynch 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) mortgage of land in any State or Territory of the Commonwealth (restricted to first mortgages over land with a loan to value ratio of no greater than 80%);
- (d) interest bearing deposits with, or any debentures or bonds issued by, an institution deposit-taking institution (as defined in the Banking Act 1959 (Cth)) but excluding subordinated debt securities;
- (e) any bill of exchange which has a maturity date of not more than 180 days and is purchased for value payable on the terms in one course a bill of exchange against a bank which has been designated as an authorised deposit-taking institution by the Australian Prudential Regulation Authority;
- (f) a deposit with the Local Government Financial Services Pty Ltd;
- (g) a deposit with the New South Wales Treasury Corporation or investments in the Fixed Place Investment facility of the New South Wales Treasury Corporation.

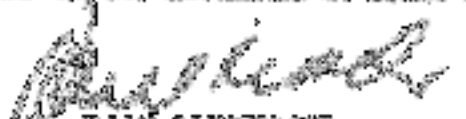
All investment instruments (excluding short term discount instruments) referred to above include both principal and investment income.

Transitional Arrangements

(1) Subject to paragraph (2) nothing in this Order affects any investments made before the date of this Order which was made in compliance with the previous Ministerial Order dated 16 July 2005, and such investments are taken to be in compliance with this Order.

(2) Paragraph (1) only applies to those investments made before the date of this Order and does not apply to any restructuring or refinancing 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.

Dated this 3<sup>rd</sup> day of July 2021

  
HON PAUL LYNCH MP  
Minister for Local Government



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“Appendix B” – Investment Register

Investment Number	Date Invested	Amount \$	Lodged With	Rate % per annum	Term	Due Date	Interest \$
Details							

Investment Number	Date Invested	Amount \$	Lodged With	Rate % per annum	Term	Due Date	Interest \$
Details							

Investment Number	Date Invested	Amount \$	Lodged With	Rate % per annum	Term	Due Date	Interest \$
Details							

Investment Number	Date Invested	Amount \$	Lodged With	Rate % per annum	Term	Due Date	Interest \$
Details							

