



## Investments Policy

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Minute No:	2022/290
Supersedes:	1.8.10 (v6)
Proposed Review Date:	18/12/2023
Responsible Officer:	Manager Corporate Services

Verified by General Manager:

Verified by Mayor:

## **1. Intent**

To provide guidance and undertake investment of surplus funds in line with Council's current Investment Strategy.

To maximise earnings from authorised investments and ensure the security of Council Funds in compliance with section 625 of the Local Government Act 1993.

## **AUTHORITY FOR INVESTMENT**

All investments are to be made in accordance with:-

- Ministerial Investment order: issued 12/01/2011 Attachment
- Local Government (General) regulation 2005 – Reg 212 Attachment
- Local Government Act 1993 - section 412 and 625 Attachment
- Local Government Act 1993 – Investment Order (of the Minister) – in accordance with most recently published Order
- Local Government Code of Accounting Practice and Financial Reporting
- Australian Accounting Standards
- Office of Local Government Circulars as applicable
- The Trustee Amendment (Discretionary Investments) Act 1997 – sections 14A(2), 14C(1) and (2) Office of Local Government Investment Policy Guidelines

## **DELEGATION OF AUTHORITY**

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

The General Manager has also delegated authority to the Manager of Corporate Services and to the Finance Team Leader, and any other persons who have the requisite skills to undertake investment functions as authorised by the General Manager to invest surplus funds.

Officers with delegated authority are required to acknowledge they have received a copy of this Policy and understand their obligations in this role.

## **PRUDENT PERSON STANDARD**

The investment will be managed with the care, diligence and skills 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 this Investment Policy and not for speculative purposes.

## **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. The Policy requires officers to disclose any conflict of interest to the General Manager.

## **AUTHORISED INVESTMENTS**

The Officers delegated authority to manage Council's Investment is limited to investments allowed by the Ministerial Investment Order noting the following:

- All investments must be denominated in Australian Dollars. Authorised Investments would include but not necessarily be limited to:
- Commonwealth/State/Territory Government security e.g. Bonds;
- Interest bearing deposits issued by an authorised deposit taking institution;
- Bills of exchange, (< 200 days duration), guaranteed by an authorised deposit taking institution
- Debentures Issued by NSW Local Government

Investments with TCorp and/or investments in TCorp managed funds.

## **PROHIBITED INVESTMENTS**

This investment policy prohibits any investment carried out for speculative purposes including but not limited to:

- 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

This policy also prohibits the use of leveraging (borrowing to invest) of an investment or investments that are themselves leveraged.

## EXPLANATIONS AND PROCEDURES

### TYPES OF APPROPRIATE MANAGED FUNDS

Cash funds invest solely in cash and bank bills, but offer much greater flexibility than Council investing in bills direct (which are held to maturity), since they offer immediate access to funds at all times with no penalty.

Both Rated and Unrated Cash-Plus funds invest primarily in bank bills and floating rate notes and only make strategic entry into longer term government securities when appropriate to enhance returns. They aim to outperform bank bills over a 6-12 month time horizon and should primarily be used for Council's longer-term "core" investments. Access to funds is still normally available within 24 hours at no penalty.

### APPROVED INVESTMENTS WITH FUND MANAGERS WOULD INCLUDE:

Fund Type	Minimum Investment Time Horizon	Maximum Exposure as % Total Investment Portfolio
Cash Funds (at call)	0 – 180 days	0 – 100
Cash Funds – Term Deposits	3 – 12 months	0 - 90

The asset structure and features of the fund are to be consistent with the desired outcomes of Council's Investment Strategy.

#### At Call Deposits:

Cash invested on an overnight basis with an Australian Authorised Deposit-taking Institution (ADI). Funds can be recalled or re-invested prior to the bank's Real Time Gross Settlement cut-off each day.

**Benefits:** At call account provides a quick and easy investment solution for current balances that are not being used otherwise.

**Major Risks/Disadvantages:** Potentially a lower return investment product.

#### Term deposits:

Interest bearing deposit held at an ADI for a specific contracted period. Term deposits are not tradeable in the market. They typically have a fixed rate for their life, but floating rate term deposits are also available.

#### Benefits:

- Term deposits are considered to be a relatively low-risk investment.
- As these funds are not callable prior to maturity, banks generally offer a return premium.
- This type of investment allows investors to match cash flow requirements.
- The return is known.

## Major Risks/ Disadvantages:

- Liquidity risk applies in that deposits are not redeemable before maturity.
- Deposits may not be breakable at all or may only be broken after a prohibitive break fee is paid.
- Interest Rate risk applies in that the rate of return is fixed.
- Credit risk is a function of the creditworthiness of the ADI.

## COUNCIL'S DIRECT INVESTMENTS

### (i) Quotations in Investments

Not less than two (2) quotations shall be obtained from authorised institutions when an investment is proposed and will be authorised by two signatories.

### (ii) Term of Maturity

The term to maturity of any of Council's direct investments may range from "at call" to twelve (12) months, for a term which best suits the cash flow requirements of Council. Council is specifically to approve if outside these terms.

## GENERAL PROCEDURE GUIDELINES FOR DIVERSIFICATION/CREDIT RISK

### i. Managed Fund Investments

The total amount invested with any one (1) fund manager should not exceed 60% of average annual funds invested by Council.

### ii. Direct Investments

The amount invested with any one financial institution should not exceed the following percentages of average annual funds invested by Council.

Long Term Rating (Standard & Poors)	Short Term Rating (Standard & Poors)	Maximum Percentage of Total Investments
AAA to AA-	A1+	100%
A+ to A-	A1	45%

Due to their A1+ ratings and Bourke branch, the Commonwealth Bank of Australia and the National Australia Bank are given a higher preference than other institutions with comparable ratings.

### (iii) Credit Ratings

Standard & Poor's and Moody's equivalent ratings are acceptable for investments.

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

## PERFORMANCE BENCHMARKS

Investment	Performance Benchmark
Cash / Cash Plus / Direct Investments	11 AM Cash Rate
Direct Investments	AFMS BBSW Rate: Average mid -90 days

*AFMA – Australian Financial Markets Association*

*BBSW – Bank Bill Swap*

## REPORTING

Documentary evidence must be held for each investment and details therefore maintained in an Investment Register. The documentary evidence must provide Council legal title to the investment.

A monthly report is to be provided to Council, which complies with the requirements of the Local Government Act, Regulations and Code of Accounting Practice and details performance and

counterparty percentage exposure of total portfolio.

The report should also detail investment income earned versus budget year to date.

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

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

#### **VARIATION TO PROCEDURE**

The General Manager or his delegated representative is authorised to approve variations to these procedures if the investment is to Council's advantage and/or due to revised legislation. The Investment Policy will be reviewed at least annually and any amendments to the Investment Policy must be by way of Council resolution.

All changes to these procedures are to be reported to Council within 28 days.

#### **INVESTMENT STRATEGY**

Council's current investment strategy provides that Council Officers invest any surplus funds. Individual investments are selected, involving staff time, to ensure access to cash on a rolling monthly basis.

#### **INCONSISTENCIES OF POLICY OR PROCEDURES**

If there are any aspects in which this Council Policy is inconsistent with the Office of Local Government Policy Guidelines of May 2010, and any subsequent relevant Local Government policies, the Office of Local Government Policy Guidelines are to apply.

#### **RELATED POLICIES**

There are no related Council Policies.

#### **Variation**

Council retains the right to review, vary or revoke this policy at any time.

The General Manager has the right to review or vary these procedures.

Policy adopted by Council:

#### Policy Amendments

<b>Version</b>	<b>Date Approved</b>	<b>Description of Changes</b>

## Attachment 1

### 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 June 2011

  
Hon BARBARA PERRY MP  
Minister for Local Government

## Attachment 2

### 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 specifies the way in which a council may invest its surplus funds.

## Attachment 3

### LOCAL GOVERNMENT ACT 1993 - SECT 625

#### How may councils invest?

#### 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.

**Note:** See Gazettes No 152 of 24.11.2000, p 12041; No 94 of 29.7.2005, p 3977; No 97 of 15.8.2008, p 7638 and No 160 of 24.12.2008, p 13140.

(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 or an entity within the meaning of that section is not an investment for the purposes of this section.

#### 412 Accounting records

- (1) A council must keep such accounting records as are necessary to correctly record and explain its financial transactions and its financial position.
- (2) 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.