

Policy

SMRC 258 – Investment Policy

Responsible portfolio	Finance	Document Register ID	250.2022.108.2
Policy owner	Chief Financial Officer	Review date	17/11/2023
Date of Council Meeting	17/11/2022	Resolution Number	Number 324/22
Legislation, Australian Standards, Code of Practice	<ul style="list-style-type: none"> • <i>Local Government Act 1993;</i> • <i>Local Government (General) Regulation 2005;</i> • <i>Ministerial Investment Order;</i> • <i>Local Government Code of Accounting Practice and Financial Reporting</i> • Australian Accounting Standards • Division of Local Government Circulars 		
Aim	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.		

1 Objectives

To provide a framework for investment of Council's surplus funds while exercising the power to invest, consideration is given to the preservation of capital, liquidity, and the return of investments.

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, by Council officers and reported to Council on a monthly basis.

Investments should be allocated to ensure there is sufficient liquidity to meet all reasonable 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.

2 Scope

This policy applies to all Council Officers who have authority delegated to them to invest surplus funds on Council's behalf and is in accordance with legislation and guidelines. This policy relates to the investment of surplus funds and not other assets of Council. Land and property, with the exception of any grandfathered investment property, are considered to be outside the scope of this policy.

3 Definitions

Term	Meaning
Act	<i>Local Government Act 1993</i>
ADI	An Authorised Deposit-taking institution (ADI) is a corporations that is authorised under the Banking Act 1959 (C'wlth) to take deposits from customers
Bill of exchange	A bill of exchange is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a sum certain in money to or to the order of a specified person, or to bearer.
BBSW	The Bank Bill Swap Reference Rate (BBSW) is the midpoint of the nationally observed best bid and offer for AFMA Prime Bank eligible securities. The BBSW is calculated daily. Floating rate securities are most commonly reset quarterly to the 90-day BBSW.
Credit risk	The potential loss arising from an Authorised Deposit-taking institution (ADI) failing to meet its obligations in accordance with the agreed terms
Council funds	Surplus monies that are invested by Council in accordance with s625 <i>Local Government Act 1993</i> .
Debenture	A debenture is a document evidencing an acknowledgement of a debt, which a company has created for the purposes of raising capital. Debentures are issued by companies in return for medium to long term investment of funds by lenders.
Derivative based instruments	A financial derivative is a financial instrument whose value or performance is derived from or reliant on the fluctuations of the value of an underlying group of assets such as commodities, bonds, stocks, currencies, interest rates, and stock market indices.
FRN	A Floating Rate Note (FRN) is a medium to long term fixed interest investment where the coupon is a fixed margin ("coupon margin") over a benchmark, also described as a "floating rate". The benchmark is usually the BBSW and is reset at regular intervals – most commonly quarterly.
Grandfathered	Investments held by Council that were previously allowed under the Minister's Order but were grandfathered when the NSW State Government issued the Ministerial Order dated 12 January 2011.
Interest risk	The potential for investment losses via the decline in value of the investment that can be triggered by unexpected fluctuations in interest rates.
Leveraging	To use borrowed capital for an investment.
LGGR	<i>Local Government (General) Regulation 2005</i>
OLG	NSW Office of Local Government
RAO	Responsible Accounting Officer (RAO) of a Council means a member of the staff of the Council designated by the Chief Executive Officer, or if no such member has been designated, the Chief Executive Officer (ie clause 196 <i>Local Government (General) Regulation 2005</i>)
TCorp	New South Wales Treasury Corporation

4 Delegation of Authority

Authority for implementation of the Investment Policy is delegated by Council to the Chief Executive Officer (CEO) in accordance with the *Local Government Act 1993*.

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

Officers delegated 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.

5 Prudent Personal Standard

The investment will be managed with the care, diligence and skill that a prudent person would exercise. As trustee 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. The Ministerial Order, located at attachment A, specifically sets out this requirement for due diligence to be applied when investing Council's surplus funds.

6 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 conflict of interest to the CEO.

Independent advisors are also required to declare that they have no actual or perceived conflicts of interest.

7 Policy Statement

7.1 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.

Where financial institutions are offering equivalent investment returns with the same credit rating and assessed financial risk and the investment fits within the provisions of this Investment Policy, consideration will be given to placing funds with institutions identified as having the higher Environment, Social and Governance (ESG) standards, which may include, but not limited to, investing with institutions not financing fossil fuel companies.

Council officers making decisions on investments should take all reasonable care to ensure that such investments are not made with companies whose activities would bring Council into disrepute or would conflict with its proclaimed policies on health, sustainability and ethical governance.

All investment instruments include both principal and investment income.

7.2 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;
- Stand-alone securities issued that have underlying future, options, forwards contracts and swaps of any kind.
- The use of leveraging (borrowing to invest) for an investment

7.3 Risk Management Guidelines

All investments entail some risk. Generally, the higher the anticipated rate of return of an investment, the higher the risk and variability of investment returns. Investing should produce a diversified portfolio that reflects reasonable market return.

This Investment Policy states a conservative, risk averse investment profile and recognises that Council has a low tolerance to investment risks which would result in a loss of investment capital. The nature of a conservative approach to investments recognises that the expectations of returns on investments would also need to be conservative. A risk averse investment policy acts to preserve capital, but also affects the contribution of earnings from investments and the growth in value of the investment portfolio. This approach accepts that Council's return on investment could be lower than average market expectations, particularly where average market expectations are based on rates of return for risk diversified portfolios.

The Ministerial Order has identified the types of investments Council is allowed to invest money in. This is the basis for a cautious approach to investing of Councils surplus funds. The Ministerial Order can be found at attachment A.

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 – limiting 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 repay 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;
- 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.

8 Credit and Maturity Guidelines

Investment are to comply with 3 key criteria relating to:

- Overall Portfolio Credit Framework – limit overall credit exposure of the portfolio
- Institutional Credit Framework – limit exposure to individual ADI's based on their credit ratings
- Term to maturity framework – limits based upon maturity of securities

The portfolio holdings must not exceed the maximum percentage allocation, issuer credit rating and time horizon requirements as set out in the table below:

Standard & Poor's Rating		Overall Portfolio Maximum % Credit limit	Institutional Direct Investment Maximum % Credit limit	Term to maturity Maximum Time Frame
Long Term	Short Term			
AAA	A-1+	100%	100%	5 years
AA+ to AA-	A-1+	100%	100%	5 years
A+ to A		100%	30%	3 years
A-	A-1/A-2	40%	20%	3 years
BBB+ to BBB	A-2	30% (no more than 10% in BBB)	10% (no more than 5% for BBB)	3 years (12 months for BBB)
BBB- and Unrated	A-3	5%	1.5% (5% for local ADI)	12 months
TCorpIM		30%	10%	

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

Funds managed by NSW Treasury Corporation are currently eligible pooled managed fund investments under the Ministerial Order. These type of funds tend to have no fixed maturity date.

9 Grandfathering Provisions

Any investments that were invested prior to the adoption of this version of the Investment Policy will be grandfathered until maturity unless a financial gain to be made by Council in redeeming the investment prior to maturity. Once an investment matures, it will be required to be invested in accordance with this policy.

10 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
- The Custodian conducts regular reconciliation of records with relevant registries and/or clearing systems
- The institution or Custodian recording and holding the assets will be:
 - The custodian nominated by TCorp for investment in the TCorp IM Funds
 - Austraclear, or
 - An institution with an investment grade issued by Standard and Poor's or Moody's rating, or
 - An institution with adequate insurance, including professional indemnity insurance and other insurance considered prudent and appropriate to cover its liabilities under any agreement.

11 Benchmarking

As Council traditionally invests in short term deposits, the performance benchmark to be used is the BBSW 90 day Bank Bill Index.

12 Investment Advisor

Should it be deemed necessary to consult an investment advisor, any such advisor must be approved by Council and licensed by the Australian Securities and Investment Commission with the exception of NSW TCorp. The advisor must be an independent person who has no actual or potential conflict of interest in relation to the investment products being recommended and is free to choose the most appropriate product within the terms and conditions of the investment policy.

13 Reporting to Council

Per clause 212 of the Local Government (General) Regulation –

1. The responsible accounting office 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

This procedure should be read in conjunction with the following documents:

Documentation

250.2020.588.1 Investment of Surplus Funds Procedure

Attachment A – Ministerial Investment Order

Attachment B – Standard and Poor’s Ratings Description

Review

Council reserves the right to review, vary or revoke this policy and should be reviewed periodically to ensure it is relevant and appropriate.

Attachment A – Ministerial Investment Order

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 12th day of January 2011



Hon BARBARA PERRY MP
 Minister for Local Government

Attachment B – Standard & Poor's Ratings Description

Credit Ratings

Standard & Poor's (S&P) is a *Nationally Recognized Statistical Rating Organization (NRSRO)* as defined by the US SEC; it provides analytical services. An S&P rating is an opinion of the general creditworthiness of an obligor with respect to particular debt security or other financial obligation — based on relevant risk factors.

Credit ratings are based, in varying degrees, on the following considerations:

- a) Likelihood of payment.
- b) Nature and provisions of the obligation.
- c) Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganisation or other laws affecting creditors' rights.

The issue rating definitions are expressed in terms of default risk.

Long-Term Investment-Grade Obligations Ratings are:

AAA: An obligation/obligor rated AAA has the highest rating assigned by S&P. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

AA: An obligation/obligor rated AA differs from the highest rated obligations only in a small degree. The obligor's capacity to meet its financial commitment on the obligations is very strong.

A: An obligation/obligor rated A is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations/obligor in higher rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

BBB: An obligation/obligor rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to the obligor to meet its financial commitment on the obligation.

Speculative Grade: Lower long-term rating bands exist, from BB down to C; these are considered "speculative-grade;" to varying degrees, more vulnerable to default than the "investment-grade" ratings above. Likewise, there are lower short-term ratings Obligations in default are rated D.

Unrated: Financial institutions do not necessarily require a credit rating from the various ratings agencies such as Standard and Poor's and these institutions are classed as "Unrated". Most Credit Unions and Building Societies fall into this category. These institutions nonetheless must adhere to the capital maintenance requirements of the Australian Prudential Regulatory Authority (APRA) in line with all Authorised Deposit Taking Institutions (Banks, Building Societies and Credit Unions).

Plus (+) or Minus (-): The ratings from "AA" to "CCC" may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

CreditWatch highlights an emerging situation, which may materially affect the profile of a rated corporation and can be designed as positive, developing or negative. Following a full review, the rating may either be affirmed or changed in the direction indicated.

A Rating Outlook assesses the potential direction of an issuer's long-term debt rating over the intermediate-to-long term. In determining a Rating Outlook, consideration is given to possible changes in the economic and/or fundamental business conditions. An outlook is not necessarily a precursor of a ratings change or future CreditWatch action. A "Rating Outlook – Positive" indicates that rating may be raised. "Negative" means a rating may be lowered. "Stable" indicates that ratings are not likely to change. "Developing" means ratings may be raised or lowered.

Other NRSROs have comparable rating bands and definitions.