



# **Council Investment Policy**

## POLICY OBJECTIVE

To provide a framework for Council to invest all of its surplus funds ‘the portfolio’ within approved risk guidelines.

The policy aims to guide Council’s officers charged with managing the investment portfolio to achieve Council’s investment objectives and expectations and to protect the portfolio from loss. Funds are to be invested in a manner which maximizes safety of the portfolio.

A further objective of the policy is to ensure there is sufficient liquidity available to Council to meet all anticipated cash flow requirements. Significant costs can be incurred by Council as a result of unanticipated sale of investments to meet cash flow demands.

The policy will identify appropriate benchmarks for returns which meet Council’s investment expectations.

## DEFINITIONS

For ease of reference the list of definitions below includes terms used in the Ministerial Investment Order.

ADI	Authorised Deposit-taking Institutions (ADIs) are corporations that are authorised under the Banking Act 1959 (Cwth) 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.
Credit Risk	Credit risk is the risk of loss to an investor due to the failure of the institution/entity with which an investment is held to pay the interest and/or repay the principal of an investment.
Grandfather Clause	Grandfather clause is a legislative clause, which, in prohibiting a certain activity, exempts those who were already engaged in the activity at the time the legislation was passed.
Interest Rate Risk	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	The total pool of all of the Council’s investments.
Investment Instruments	The financial products that Council is permitted to invest in under the current Ministerial Investment Order.
LGGR	Local Government (General) Regulation 2005 (NSW).
Liquidity Risk	Liquidity risk is the risk an investor is unable to redeem the investment at a fair price within a timely period.
Local ADI	An ADI with a presence (branch) in the Goulburn Mulwaree Local Government Area)
Market Risk	Market risk is the risk that the fair value or future cash flow of an investment will fluctuate due to changes in market prices.

Maturity Risk	Maturity risk is 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.
Ministerial Investment Order	An order Pursuant to section 625 of the <i>Local Government Act 1993</i> issued by the Minister for Local Government.
OLG	NSW Office of Local Government, Department of Premier and Cabinet.
Capital Preservation	Capital preservation refers to an investment strategy with the primary goal of preventing losses to an investment portfolio's total value.
Prudent Person Standard	Prudent person standard is a 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 for his or her own investment.
Responsible Accounting Officer	Responsible Accounting Officer (RAO) means a member of the staff of Council designated by the General Manager, or if no such member has been designated, the General Manager. (LGGR, clause 196)
Securities	For financial markets these are the many types of financial instruments (i.e. documents) that are traded in financial markets (except futures contracts), e.g. bonds and shares.
TCorp	New South Wales Treasury Corporation

## LEGISLATIVE PROVISIONS

All investments are to be made in accordance with:

- *Local Government Act 1993*
- *Local Government (General) Regulation 2005*
- *Local Government Code of Accounting Practice* and Financial Reporting
- Ministerial Investment Order
- Australian Accounting Standards
- Office of Local Government Circulars

## POLICY STATEMENT

### Delegation of Authority

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

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

Officers' delegated authority to manage Council's investments will be recorded and 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 skill that a prudent person would exercise. As trustees of public funds, officers are to manage Council's investment portfolio to preserve the capital value in accordance with the spirit of the Policy.

### **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 General Manager.

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

### **Approved Investments**

Investments are limited to those permitted under the most current Ministerial Investment Order issued by the NSW Minister for Local Government.

### **Prohibited Investments**

In accordance with the Ministerial Investment Order 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.

## Risk Management Guidelines

Investments obtained are to be considered in light of the following key criteria:

- Preservation of Capital – the requirement to prevent losses in the investment portfolio’s total value (considering the time value of money);
- Diversification – setting limits to the total amount that may be invested with a particular financial institution or government authority, to reduce credit risk;
- Credit risk – the risk that an institution that Council has invested in fails to pay due interest and/or repay the principal amount of the investment;
- Market Risk - the risk that the fair value of future cash flows of an investment will fluctuate due to changes in market prices;
- Liquidity Risk - the risk that an investor is unable to repay the investment at a fair price within a timely period; and
- Maturity Risk - the risk relating to the length of the interval from the date of investment to repayment date. Depending upon the type of investment the investment risk can increase in line with the length of the interval to maturity.

## Portfolio and Counterparty Limits

Council’s policy is to use Long Term Ratings to control portfolio and counterparty exposures. Alignment of the long term ratings between the three main rating agencies is shown in Table One below.

**Table 1:**

Moody’s	Standard and Poor’s	Fitch	Rating Description
Long Term	Long Term	Long Term	
Aaa	AAA	AAA	Prime
Aa1	AA+	AA+	
Aa2	AA	AA	High Grade
Aa3	AA-	AA-	
A1	A+	A+	
A2	A	A	Upper Medium Grade
A3	A-	A-	
Baa1	BBB+	BBB+	
Baa2	BBB	BBB	Lower Medium Grade
Baa3	BBB-	BBB-	

To manage the credit quality across the portfolio the limits in Table Two must not be breached. If Standard and Poor’s ratings are not available the equivalent rating issued by Moody’s or Fitch should be substituted.

**Table 2:**

S&P Long Term**	S&P Short Term**	Portfolio Limit	Counterparty Limit	Max Tenor
TCorp	A-1+	100%	100%	N/A
AAA	A-1+	100%	100%	N/A
AA+ to AA-	A-1+	100%	100%	5 years
A+ to A	A-1	100%	30%	3 years
A-	A-2	40%	20%	3 years
BBB+	A-2	30%*	10%	3 years
BBB	A-3		5%	12 months
BBB- & below-Local ADIs	A-3 & below – local ADIs	5%	5%	12 months
BBB- & below – other	A-3 & below – other		\$250K	12 months

\*Sub-limit of 10% applies to ADIs rated BBB

\*\*where a Counterparty has two or more ratings, it is the S&P equivalent of the lower of those ratings that shall apply for the purposes of the Investment Framework

In the event that any of Council’s investments are downgraded to fall outside the policy they will be divested as soon as practicable. Should a disagreement on the rating band arise between the agencies Council will use the higher rating in measuring compliance and the lower rating when assessing new investments opportunities.

**Investment Horizon Limitations**

The term to maturity restrictions in Table Three are to be adhered to at all times.

**Table 3:**

Term to Maturity	Portfolio Maximum Threshold
At Call	100%
One day to 3 months	90%
+ 3 months to 12 months	80%
+12 months to 36 months	30%
+36 months to 60 months	30%
+ 60 months	0%

The application of the thresholds has been determined after consideration of Council’s ongoing liquidity requirements along with a contingency, major capital expenditure forecasts and alignment of Council’s long term liabilities with investments of a matching duration.

### Investment Adviser

Council's investment adviser must be approved by Council and with the exception of TCorp, licensed by the Australian Securities and Investment Commission. The adviser must be an independent person who has no actual or potential conflict of interest in relation to investment products being recommended and is free to choose the most appropriate product within the terms and conditions of the policy.

The adviser is required to provide written confirmation that they do not have any actual or potential conflicts of interest in relation to the investments they are recommending or reviewing. The adviser must confirm that they will not be receiving any commissions or other benefits in relation to the investments to be recommended or reviewed.

### Measurement

The investment returns for the portfolio are to be regularly reviewed by assessing the market value (including accrued earnings) of the portfolio. The market value is to be assessed at least monthly in preparation for the next ordinary meeting of Council.

### Benchmarking

The performance of the investment portfolio will be measured against the undermentioned benchmarks.

Investment	Benchmark
Cash (<30 days' notice)	Official Cash Rate
Term up to 36 months	Ausbond Bank Bill Index
Beyond 36 months	Ausbond Composite 2-5 year index
TCorpIM Funds	The Benchmark for the Fund

### Reporting and Reviewing of Investments

Documentary evidence must be held for each investment and details recorded in Council's investment register. The documentary evidence must provide Council with legal title to the investment.

As at 30 June each year a certificate for each investment must be obtained from the financial institution confirming the amount of the investment held and reconciled to the Investment Register.

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

A monthly report will be provided to Council. The report will detail the investment portfolio in terms of performance and movements in market value, compliance with portfolio and counterparty limits and compliance with investment horizon limitations.

### Safe Custody

When appropriate, investments may be held on Council’s behalf in safe custody providing the following requirements are met.

1. Council must retain beneficial ownership at all times;
2. Council must be in receipt of documentation verifying the existence of the investment;
3. The custodian must be:
  - The custodian nominated by TCorp for investment in TCorpIM Funds, or
  - Austraclear, or
  - An Investment Grade institution so rated by Standard and Poor’s, Moody’s or Fitch.

### Review Intervals and Policy Variations

This Investment Policy will be reviewed at least once a year or as required in the event of legislative changes. The Investment Policy may also be changed as a result of other amendments that are to the advantage of Council and in the spirit of this policy. Any amendment to the Investment Policy must be by way of Council resolution.

Version	Council Meeting Date	Resolution	Adoption Date	Effective From
1	16 December 2008	08/800	16 December 2008	16 December 2008
2	21 May 2013	13/179	21 May 2013	5 July 2013
3	19 August 2014	14/336	4 October 2014	4 October 2014
4	16 May 2017	17/159	16 May 2017	16 June 2017
5	5 November 2019	2019/437	20 December 2019	20 December 2019
6	3 May 2022	2022/147	3 May 2022	31 May 2022
<b>All policies can be reviewed or revoked by resolution of Council at anytime</b>				

**DIRECTORATE:** Corporate & Community Services

**BUSINESS UNIT:** Finance