POLICY NAME:	**INVESTMENTS**
POLICY REF:	**I01**
MEETING ADOPTED:	**27 July 2023** **Resolution No. 270723/24**
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1. OBJECTIVE

1.1 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 liquidity requirements are being met.

1.2 While exercising the power to invest, consideration is to be given to the preservation of capital, liquidity, and the rate of return on investment.

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

In conjunction with the above objectives, the placement of investments will occur, where possible, with financial institutions known to invest in fossil-fuel free industries or to fund environmentally productive activities that encourage resource efficiency, renewable energy and emissions reduction.

1.3 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.

2. BACKGROUND

Council has a fiduciary and legislative responsibility to manage public monies in a prudent and diligent manner. The Investment Policy sets the tone and expectations of Council and establishes guidelines and parameters for staff who are required to actually place the investments on a daily basis.

3. DEFINITIONS

BBSW: The Bank Bill Swap reference rates are independent and transparent rates for the pricing and revaluation of privately negotiated bilateral Australian dollar interest swap transactions. The rates are published daily.

APRA: The Australian Prudential Regulation Authority is a body established by an act of parliament. APRA oversees banks, credit unions, building societies, general insurance and reinsurance companies, life insurance, friendly societies and most members of the superannuation industry. APRA is funded largely by the industries that it supervises. It was established on 1 July 1998.

ADI: Authorised Deposit-taking Institutions are corporations which are authorised under the Banking Act 1959. ADIs include banks, building societies, and credit unions.

4. SCOPE OF POLICY

This policy applies to Councillors, Committees of Council and Council employees.

5. RELATED DOCUMENTATION

See section 5 on Legislative Authority for Investments and also Council's Delegation Register.

6. LEGISLATIVE AUTHORITY FOR INVESTMENTS

All investments are to comply with the following:

- Local Government Act 1993;
- Local Government (General) Regulation 2021
- Ministerial Investment Order;
- Local Government Code of Accounting Practice & Financial Reporting;
- Australian Accounting Standards; and
- Office of Local Government Circulars.

7. 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 and or authorised finance staff, subject to regular reviews.

Officers' delegated authority 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.

The placement or redemption of investments requires a minimum of two signatures from officers with delegated authority.

8. 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 Investment Policy.

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

- an understanding of the current positioning of the financial markets. ie; knowledge of the current 90 day BBSW rate;
- an understanding of the type of investments in which they are dealing. ie; investment rate offered, term to maturity and 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;
- an understanding of the institution that will receive and use the funds including

their credit worth ie; current Standard & Poor's rating and confirmation they are APRA regulated; and

- an understanding of Council's Investment Policy and associated legislation such that when placing an investment all relevant conditions are considered and weighed.

The role of the investing officer will be to:

- avail themselves of current market information and investment options;
- be aware of Council's current liquidity position and the options that best suit Council in terms of length of the investment;
- in most instances the form of investment shall be a term deposit with an ADI and the investing officer shall consider at least three quotes from different ADI's (Typically the investing officer becomes aware of daily rates by phoning the institution or receiving an email);
- phone the preferred institution and advise them that they have been successful, arrange for funds to be transferred as agreed, ensure that the recipient institution provides Council with appropriate acknowledgement and documentation following their receipt of funds, complete Council's investment placement sheet and have verifying officer sign sheet; and
- in instances where the form of investment is not a term deposit then the matter shall be discussed between at least two recognised investment officers, including the Responsible Accounting Officer prior to making a placement.

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

- the source and the amount of money invested;
- particulars of the security or form of investment in which the money was invested;
- the term of the investment (ie, placement and maturity dates where applicable);
- if appropriate, the rate of interest to be paid, and the amount of money that the Council has earned, in respect of the money invested; and
- classification as to whether the institution holding the investment is fossil fuel aligned or is otherwise marketed specifically as an ethical "green" investment product.

9. 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. 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.

10. APPROVED AND PROHIBITED INVESTMENTS

10.1 Investments are limited to those allowed by the most current Ministerial Investment Order that has been issued by the NSW Minister for Local Government. A copy of the current order is attached to this policy.

10.2 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; and
- Standalone 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.

11. RISK MANAGEMENT GUIDELINES

Council's primary strategy is to preserve the capital invested by diversifying with different approved financial institutions on the short term (12 months or less) money market.

This minimises the risk in terms of interest rate movement and integrity of individual financial institutions.

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

a. Preservation of Capital - the requirement for preventing losses in an investment portfolio's total value (considering the time value of money);
b. Diversification - setting limits to the amounts invested with a particular financial institution or government authority to reduce credit risk;
c. Credit Risk - the risk that a council has if an institution fails to pay the interest and or repay the principal of an investment;
d. Market Risk - the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices;
e. Liquidity Risk - the risk an investor is unable to redeem the investment at a fair price within a timely period;
f. 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; and
g. Reputational and Environmental Risk – the risk of damage to Council's image and/or risk to the environment resulting from Council taking out investments that are either held with institutions who are known to fund fossil fuel activities or are not otherwise marketed specifically as an ethical "green" investment product.

12. LIQUIDITY RISK PARAMETERS

12.1 All investments are to be placed with institutions regulated by the Australian Prudential Regulation Authority (APRA) in accordance with the Banking Act 1959 ie Authorised Deposit-taking Institutions (ADIs) or the NSW Treasury Corporation, but excluding subordinated debt obligations.

12.2 At least three quotations shall be obtained from qualifying institutions whenever an investment is proposed. The best quote of the day will be successful, subject to paragraph 13.1, providing the investment will not breach any parameters contained within this policy and after allowing for administrative and banking costs.

12.3 Not more than 40% of the portfolio can be placed in investments exceeding 12 months to maturity and not more than 20% in investments exceeding 3 years to maturity.

13. CREDIT RISK PARAMETERS

13.1 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 (eg Standard & Poor's, Moody's, Fitch).

13.2 Council will use Standard & Poor's (S&P) long term credit ratings (or Moody's or Fitch equivalents). The S&P 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, BBB-	Adequate protection and adequate capacity to pay
BB+, BB, BB-	Less vulnerable to non-payment however adverse economic conditions could lead to inadequate capacity to meet financial obligations
CCC	Vulnerable to non-payment and requires positive economic conditions to meet its financial obligations

13.3 The following credit risk parameters apply to the investment portfolio:

Maximum/Minimum Thresholds – ADI/Counterparty Portfolio Limits			
Credit Rating	**Maximum % of Total Portfolio**	**Minimum % of Total Portfolio**	**Exposure to a Single ADI / Counterparty**
A- or higher	100%	40%	20% of portfolio
BBB and BBB+	60%	n/a	20% of portfolio

Note – where an ADI has counterparties, ie has a parent or child relationship with another ADI entity, the group as a whole is to be considered as one group for the purpose of assessing Council's total exposure.

Exposure to a single ADI/Counterparty will be restricted by their credit rating so that single ADI/Counterparty exposure is limited, as detailed in the above table.

14. REPUTATIONAL AND ENVIRONMENTAL CONSIDERATIONS

14.1 Where possible (and subject to obtaining a comparable return and compliance with other investment policy parameters), the investing officer will place the investment with an institution which has been classified as non- fossil fuel aligned or in an investment product that is otherwise marketed specifically as an ethical "green" investment product. This classification shall be determined based on publicly available information, such as from Market Forces (www.marketforces.org.au) or Climate Bonds Initiative (www.climatebonds.net).

14.2 In placing the investment the investing officer will:

- Take every reasonable effort to maximise the percentage of the total portfolio held with non-fossil fuel aligned institutions or ethical "green" investment products.

- Be mindful of maximising the credit rating parameter that is aligned with non-fossil fuel aligned institutions (typically the B category).
- Consider the reputation of the institution with respect to ethical behaviour, with Council's preference being for investments to be held with institutions that display the highest standards of ethical behaviour.
- Also consideration will be given to prioritising investing in Australian domiciled organisations (i.e Banks with a head office in Australia) as opposed to entities domiciled overseas or with head offices domiciled overseas in instances where interest rates offered are the same.

15. PERFORMANCE BENCHMARKS

15.1 Investment performance will be measured monthly, in relation to both current month and 12 month rolling returns, against relevant benchmarks.

15.2 The investment portfolio's performance as to interest rate achieved should be compared to the 90 day BBSW, and as to earnings to the approved budget.

16. REPORTING

16.1 Documentary evidence must be held for each investment and details thereof maintained in an investment register.

The documentary evidence must provide Council legal title to the investment.

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

16.2 The Local Government (General) Regulation 2005 2021 (clause 212) requires a monthly report on investments to be provided to Council.

The monthly report to Council will include, as a minimum:

- the total value of the portfolio and the balance of the trading bank account;
- a complete list of all investments in the portfolio, including the 'Fair Value' of any tradeable investments;
- a break-up of the portfolio per institution, showing the rating for each institution;
- a comparison of interest earned to budget for the month and year to date;
- a comparison of weighted average interest rate and 90 day BBSW for the month and year to date;
- a statement as to whether the investments are in accordance with the Local Government Act, Regulations and Council's Investment Policy;
- a commentary on portfolio performance and other matters of interest; and
- an analysis of investments as to whether or not they are fossil fuel aligned or ethical "green" investment products.

16.3 Annual financial statements must be prepared by Council in accordance with the Local Government Code of Accounting Practice & Financial Reporting (the Code). The Code sets the minimum requirements set by the Australian Accounting Standards and the Office of Local Government, including accounting for investments

17. POLICY REVIEW

The 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.

18. THRESHOLD BREACHES

18.1 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.

18.2 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:

- Details of any breach to be reported to Council in the monthly report immediately following the breach.
- Immediate forced sale of the investments in breach of the limits or thresholds will not be required unless, in the General Manager's or Council's opinion that such sale is necessary to protect the value of the overall investment portfolio.
- An immediate freeze on acquisitions of new investments in the relevant category will commence, until the portfolio can be effectively managed back to align with the requirements of this policy.
- 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.

19. GRANDFATHERING OF INVESTMENTS

Transitional Arrangements

19.1 Transitional arrangements contained in the Minister's Order dated 12 January 2011, state that Council investments purchased prior to 31 July 2008, which complied with the previous Minister's Order, are taken to be in compliance with the current Minister's Order. This same 'grandfathering' provision applies to this Investment Policy.

19.2 Council will continue to hold investments that fall under the Minister's grandfathering provisions until maturity or until such time as the market price of such investments will allow a sale considered to be financially beneficial to Council.

CURRENT 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