

Policy Title	Investment Policy
Related Documentation	Accounting Practices Statement
Relevant Legislation/ Corporate Plan	<i>Local Government Act 1993</i> <i>Local Government General Regulation 2005</i> Ministerial Investment Order Local Government Code of Accounting Practice and Financial Reporting Australian Accounting Standards Office of Local Government Circulars
Responsible Officer	Executive Manager Corporate Services and Governance

Policy details may change prior to review date due to legislative changes, therefore this document is uncontrolled when printed.

Objectives

To comply with the legislative requirements and regulations relevant to the management of Council's investments.

To maximise returns to Council consistent with all requirements of the policy.

To preserve the capital of the investment portfolio. Investments are to be placed in a manner that seeks to ensure the security and safeguarding of the investment portfolio. This includes managing all risks within identified thresholds and parameters.

To ensure the investment portfolio has sufficient liquidity to meet all reasonably anticipated cash flow requirements, as and when they fall due, without incurring significant costs due to the unanticipated sale of an investment.

To establish a framework for monitoring the investments. The investment portfolio is expected to achieve a predetermined market average rate of return that considers Council's risk tolerance. Any additional return target set by Council will also consider appropriate risk limitations and prudent investment principles.

To confirm delegations and other relevant governance matters in relation to Council's investments.

Policy Statement

Interest on these investments represents a significant contribution to the total income of Council and it is essential Council has clear policy guidelines as to how funds can be invested. While the *Local Government Act 1993 – Order* (relating to investments by Councils) is quite explicit as to the types of institutions with which Council can invest, there are nevertheless variations in the financial ratings of these institutions and the types of investments that can be purchased, which are not

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explained. This policy aims to clearly state the institutions and parameters within which Council can invest the maximum proportion of funds that may be placed with individual organisations and the types of investments acquired. Council aims to operate within stricter risk controls than those specified under the legislation because of its conservative nature.

Scope

This policy applies to Investment monies built up through:

- General unrestricted reserves created through rate income and other revenue sources exceeding (re)current expenditure, sale of properties and other assets
- Restricted reserves that accrue through contributions under Section 7.11 of the *EPA Act* and grants and contributions etc
- Internally restricted reserves
- Loan proceeds drawn down awaiting expenditure
- Revenues received from the sale of property
- Timing differences within the year between rate receipts and expenditures.

Definitions

MTB Major Trading Bank
ADI Approved Deposit Taking Institution
TCorp New South Wales Treasury Corporation

Legislative Context

Council's power to invest is derived from Section 625 of the *Local Government Act 1993*, as amended by the *Statute Law (Miscellaneous Provisions) Act 2000* – which limits investments to only those that the Minister approves.

The Local Government Act 1993
Section 625 (2) of the Act provides that:

“Money may be invested only in a form of investment notified by order of the Minister published in the Gazette”.

The current Ministerial order – 12 January 2011.

Principles

Authority for Investment

Investment of Council funds is limited to those allowed by the most current Ministerial Investment Order that has been issued by the NSW Minister for Local Government in accordance with the following guidelines:

Authorised Investments

- i) Public funds or securities issued by or guaranteed by the Commonwealth, State of the Commonwealth or a Territory
- ii) Debentures or securities issued by a Council (within the meaning of the *Local Government Act 1993* (NSW))
- iii) Interest bearing deposits with, or any debentures or bonds issued by, an authorised deposit taking institutions (as defined by the *Banking Act 1959 (Cwlth)*), but excluding subordinated debt obligations

- iv) Bills of exchange which have maturity dates of not more than 200 days; and if purchased for value confers on the holder in due course the right of recourse against a bank which has been designated as an authorised deposit taking institution by the Australian Prudential Regulation Authority (APRA)
- v) Deposits 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.

Long Term Credit Ratings

The rating scale from Standard and Poor's (S&P) ratings agency, a globally recognised rating agency, is:

AAA } an extremely strong capacity to repay debt

AA+ }
to } a very strong capacity to repay debt
AA- }

A+ }
to } a strong capacity to repay debt
A- }

BBB+ }
to } an adequate capacity to repay debt
BBB- }

Council will use S&P ratings in the first instance for assessing the credit rating of any debt instrument under this policy. However, if the debt instrument is not rated by S&P, but is rated by either of the other globally recognised credit ratings agencies, being Fitch and Moody's, their equivalent S&P rating will be used. If the instrument is rated by both Fitch and Moody's but not S&P and the Fitch and Moody's rating differ, then the S&P equivalent of the lower of the two ratings will be used.

Quotations on Investments

If practical, not less than three quotations shall be obtained from authorised institutions whenever an investment is proposed. The best quote on the day will be successful after allowing for administrative and banking costs, as well as having regard to the limits set in the schedule. The purpose of this requirement is to ensure prices obtained by Council are competitive within the market. However, if this objective can be achieved by other means then this requirement of the policy will be satisfied.

General Policy Guidelines

Diversification

Diversification is used to spread risk through utilisation of maximum percentage investment limits to the following:

- Individual Institutions (varies per credit rating)
- Credit Rating Bands (eg, AAA v BBB) - these are Standard & Poor's Long Term ratings (or Moody's and Fitch equivalents).

These limits are as per the following schedule:

Credit Rating of Institution Standard & Poors <u>Long Term Rating</u>	Minimum % of Total Investments (cumulative)	Maximum % with one Institution	Maximum Term
AA+, AA, AA- and above (or MTB)	40%	45%	7 yrs
A+, A, A- and above	60%^	20%	5 yrs
BBB+, BBB, BBB- and above	100%	5%	3 yrs
T Corp MTGF and LTGF		20%	N/A

Investments in the TCorpIM Core Funds facilities will be regarded as AA- rated in line with the majority of underlying investments in the funds in the case of the Cash or Short Term Income Funds.

Investments in the TCorp Medium Term Growth Fund (MTGF) or Long Term Growth Fund (LTGF) will form part of the limits for TCorp MTGF and LTGF above.

^ An additional restriction will also apply of 70 percent of the total portfolio must be rated A- or above when the TCorp MTGF and LTGF are excluded from the calculation of total portfolio investment size.

Authorised Investments

- a) Major trading banks (MTB's) refer to ANZ Banking Group Ltd, Commonwealth Bank of Australia, National Australia Bank and Westpac Banking Corporation, and the wholly owned and guaranteed subsidiaries of these banks provided the investment is authorised under the current Order; and the subsidiary carries the same credit rating as the parent from Standard and Poor's, Moody's and Fitch;
- b) Any debt security issued by an Authorised Deposit Taking Institution (ADI) whose rating is BBB- or higher at the time of purchase and which is authorised under the current Investment Order.
- c) Any Fund approved by TCorp and falling under the current Investment Order.

Liquidity

Access to cash for operational purposes on a day to day basis will be managed through the timing of maturities, cash at call and the overdraft facility. A balance will be struck between keeping excessive amounts of cash in short term investments at low interest rates and the associated costs of doing so as compared with the risks and costs of having to utilise the overdraft facility.

Maturities

Funds may be invested for a period up to seven years in accordance with the credit rating restrictions outlined in the diversification section above.

The maturity allocation of core funds, and whether fixed or floating rates, will be determined by the interest rate outlook and be apportioned based on Council's cash flow forecast in conjunction with Council's Independent Investment Advisor and as per the restrictions outlined in this policy.

Grandfathering

Any investment purchased when compliant with the investment policy may be held to maturity or sold as Council believes best, dependent on the individual circumstances, so long as the chosen risk management strategy is in accordance with the principles of the Investment Guidelines above; the prevailing legislation and the prudent person guidelines.

Specifically, grandfathering will apply to any investment that:

- Was made ineligible by a previous change to the external legislation if that change allows for grandfathering,
- Is made ineligible as a result of a change to this investment policy,
- Is in breach of the investment policy due to a change of circumstance (because the investment has been downgraded or has had its credit rating withdrawn post purchase),
- Is in breach due to a change of portfolio size or composition (eg. because the overall portfolio size has decreased causing the percentage of total portfolio limit which applies to individual remaining investments to increase therefore causing a breach).

Environmental, Social and Governance (ESG) Investing

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 ESG standards, which may include but not limited to, investing with institutions not financing fossil fuel companies.

Trading Policy

It is not Council's intention to trade instruments within the portfolio to seek capital gains, rather Council will be a hold to maturity investor, excepting for circumstances where monies are held in tradable securities for the purposes of providing a contingent liquidity buffer as an alternative to using the overdraft facility or where monies have been invested as part of a long term liability defeasance strategy and a rebalancing is necessary due to changes in the assessed value of either the liabilities or the investments used to hedge those liabilities

Long Term Liability Defeasance

Council may seek to invest monies in the appropriate TCorp funds in line with the restrictions outlined in the diversification section of this policy for the purpose of defeasing long term liabilities held by Council. Council may have long term liabilities which may be better matched (the risks hedged) by longer term investments which contain a capital growth as well as an income component. Council will only purchase assets with a growth component as part of a long term liability defeasance strategy and will not purchase assets with a growth component for the prospect of short term speculative gains.

Investment Strategy

Council will formulate an ongoing investment strategy with the assistance of its Independent Investment Advisor. This will be a "living document" and whilst a formal annual review will be performed, the strategy will be subject to ongoing review with regards to market conditions and any changes to Council's risk tolerance or cash flow requirements. The Investment Strategy will always operate within the limits of this Investment Policy and will under normal conditions operate with adequate buffers within the Investment Policy limits to avoid any potential breaches as part of Council's conservative management of risks.

Independent Investment Advice

Council's Independent Investment Advisor must be licensed by the Australian Securities and Investment Commission. The Advisor must be independent person who has no actual or potential conflict of interest in relation to investment products being recommended.

New investment instruments that are promoted by an appropriately rated financial institution must be the subject of a review by Council's Independent Investment Advisor. Funds may not be placed in any new financial product before this review has been completed.

Review of Investment Portfolio Performance

Council is presented with a monthly report on the performance of each fund/product that makes up Council's Investment portfolio. In conjunction with Council's Independent Investment Advisor, the Investment Policy will be reviewed at least annually or as required in the event of legislative or other changes.

Council's Independent Investment Advisor will provide a monthly compliance check based on Council's portfolio at the end of each month.

Benchmarks

Cash	Reserve Bank Cash Reference Rate
Direct Investments	AUSBOND Bank Bill Index
TCorp Funds	As per the specific fund as specified by TCorp
Overall Portfolio	AUSBOND Bank Bill Index

Responsibility

Executive Manager Corporate Services and Governance, Senior Financial Accountant and other authorised signatories.

Effectiveness of this Policy

This policy will be reviewed annually in accordance with Regulations and Departmental Guidelines to ensure its continuing suitability and effectiveness. Records of reviews shall be maintained.

END OF POLICY STATEMENT