

POLICY OBJECTIVE

The objectives of this policy are to:

- Provide a framework for the investing of Council's funds at the most favourable rate, whilst
- Ensuring consideration is given to the preservation of capital, liquidity, level of risk and security.

SCOPE

This policy applies to all Council investments.

LEGISLATIVE REQUIREMENTS

All investments are to comply with the following

- Local Government Act 1993
- Local Government (General) Regulation 2005
- Ministerial Investment Order (2011)
- The Trustee Amendment (Discretionary Investments) Act (1997) – Section 14
- Local Government Code of Accounting Practice and Financial Reporting
- Australian Accounting Standards
- Office of Local Government Investment Policy Guidelines
- Office of Local Government Circulars

POLICY STATEMENT

This policy is to ensure Council:

1. Protects Council/rate payers' capital whilst earning an acceptable income from investments.
2. Has appropriate working capital funds available to carry out its strategic objectives as outlined in the Delivery Program and Resourcing Strategies.
3. Holds a reasonable level of funds that are immediately accessible in the event of a disaster or unexpected failure of infrastructure.
4. Meets its liability commitments as they fall due.
5. Legally restricted funds are appropriately accounted for and invested to earn reasonable income towards their purposes. Legally restricted funds include unexpended grants, etc.
6. Resolves to set aside investments for particular purposes and these funds earn interest towards those purposes and are readily available when called upon (it should be recognised that these funds are by policy of Council only and have no enduring legal status that would bind a future Council).

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 Investment Portfolio to the Responsible Accounting Officer (RAO) or senior finance staff, subject to regular reviews.

Prudent Person Standard

The investment portfolio 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 portfolio to safeguard the portfolio in accordance with the spirit of this Investment Policy, and not for speculative purposes.

Risk Management Guidelines

Investments are expected to achieve a market average rate of return in line with the Council's risk tolerance and are to be considered in the light of the following considerations:

- Preservation of Capital – the requirement for preventing losses in an investment portfolio's total value (the time value of money);
- Diversification – the requirement to place investments in a broad range of products so as not to be over exposed to an entity or sector of the market;
- Credit Risk – the risk that a council has invested in fails to pay interest and/ or principal on maturity;
- 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;
- Rollover/Reinvestment Risk – the risk that returns do not meet expectations or budgeted requirements because prevailing re-investment interest rates are lower than expected;
- 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
- Leveraging Risk - the magnification of an investor's risk and return that occurs when the investor takes on financial leverage through an investment product.

Approved Investments

In line with the Ministerial Investment Order (2011) that has been issued by the NSW Minister of Local Government, and for the purpose of the policy, investments are limited to:

- Interest-bearing deposits issued by an authorised deposit taking institution (ADI);
- Securities issued by the Commonwealth Government, any State of the Commonwealth, or a Territory;
- A deposit with NSW Treasury Corporation.

Authorised investments allowed under this policy include the following examples:

Term Deposits

On-Call/ Cash Accounts

All examples above must only be issued by ADIs (such as banks, credit unions and building societies) or by the Commonwealth, State, or Territory Governments.

Credit and Maturity Guidelines

Investments are to comply with four key criteria relating to:

1. Overall Portfolio Credit Framework

To control the credit quality on the entire portfolio, the following credit framework limits the percentage of the portfolio exposed to any particular credit rating category:

Description		Maximum %
Securities issued by the Commonwealth of Australia or any state of the Commonwealth or Territory		100%
TCorpIM Cash Fund		100%
S&P short-term	S&P long-term	
A-1+	AAA	100%
	AA+, AA, AA - or Major Bank [^]	
A-1	A+, A	60%
A-2	A-, BBB+, BBB	35%
A-3 * or Unrated ADI Category*	BBB-, or Unrated ADI Category*	5%

* Only Applies to Approved ADI institutions. The Trustee Act provides for investments with building societies and credit unions; most of which are not assigned ratings. The maximum amount of funds allowed to be invested in total with building societies/ credit unions is 30 per cent.

[^] For the purpose of this Policy, "Major Banks" are currently defined as the ADI deposits or senior guaranteed principal and interest ADI securities issued by the major Australian banking groups:

- Australia and New Zealand Banking Group Limited (ANZ);
- Commonwealth Bank of Australia (CBA);
- National Australia Bank Limited (NAB);
- Westpac Banking Corporation (WBC); including ADI subsidiaries whether or not explicitly guaranteed, and brands (such as St George).

2. Institutional Credit Framework

Exposure to an individual institution will be restricted by their credit rating so that single entity exposure is limited, as detailed in the table below:

S&P short-term	S&P long-term	Maximum %
Securities issued by the Commonwealth of Australia or any state of the Commonwealth or Territory		100%
A-1+	AAA	40%
A-1+	AA+, AA, AA - or Major Bank [^]	40%
A-1	A+, A	25%
A-2	A-, BBB+, BBB	15%
A-3 * or Unrated ADI Category*	BBB-, or Unrated ADI Category*	\$250,000

*Only Applies to Approved ADI institutions. The Trustee Act provides for investments with building societies and credit unions, however they are not rated. The maximum amount of funds allowed to be invested with an individual building society/ credit union is 10 per cent.

3. Term to Maturity Framework

Terms of maturity shall be limited to the following maximums:

On-call/ Cash Accounts	No Limit if on-call
Term Deposits	See below criteria

With regards to the total of term deposits and On call/ Cash Accounts, the investment portfolio is to be invested within the following maturity constraints:

Overall Portfolio Term to Maturity Limits		
Portfolio under 3 months	Min 15%	Max 100%
Portfolio Between 3 months to 1 Year	Min 0%	Max 100%
Portfolio Between 1 to 2 years	Min 0%	Max 70%
Portfolio Between 3 to 5 years	Min 0%	Max 50%

Operating cash not required for immediate use may also be invested in at-call deposits to maximise returns. Operating cash is the cash required to fund operating activities for the immediate short term (less than a month). It takes into account cash flows (e.g. debtor and other receipts) and outflows (e.g. creditor payments, salaries etc.) for that time.

4. Quotation Framework

A minimum of three (3) quotations must be obtained prior to placing any new or renewal investment.

Prohibited Investments

In accordance with the Ministerial Investment Order, this investment policy prohibits but is not limited to the following investments:

- 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.

Investment Advisor

Council may opt to pursue the appointment of an Investment Advisor who is licensed by the Australian Securities and Investment Commission. Council may also engage NSW Treasury Corporation (TCorp) to provide financial advice about investment strategies.

The advisor 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 investment policy.

The independent advisor 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, including that they are not receiving any commissions or other benefits in relation to the investments being recommended or reviewed.

Measurement and Performance Benchmarking

The investment return of any investments held at market value are to be regularly reviewed by an independent financial advisor by assessing the market value of the portfolio. The market value is to be assessed at least once a month to coincide with monthly reporting. The performance of the investment portfolio shall be measured against Bloomberg AusBond Bank Bill Index and/or the Official Cash Rate.

Reporting and Reviewing of Investments

Documentary evidence must be held for each investment including:

- Details maintained in the investment register
- Provide legal title to the investment
- Certificates must confirm the amounts of the investment held on Council's behalf as at 30 June each year and must be reconciled to the investment register
- This investment Policy is to be reviewed at least annually or as required in the event of legislative changes or change of Council.
- All investments must be recorded in Council's financial records
- Reconciled monthly with a monthly report provided to Council as per clause 212 of the *Local Government (General) Regulation 2005*.

The General Manager or their delegated representative is authorised to approve variations to this Policy if the investment is to Council's advantage and/or due to revised legislation or statutory guidance – with full consideration to the prudent person standard.

ASSOCIATED POLICIES AND PROCEDURES

- Edward River Council's integrated planning and reporting framework
- Investment Checklist

POLICY VERSION CONTROL

Title	Investment Policy			
ECM Doc Set ID	52505			
Date Adopted	19 April 2022			
Date of Review	March 2022			
Council Minute No.				
Responsible Officer	Manager Finance			
Version Number	Modified By	Modifications Made	Date modified and Approved by Council	Council Minute Number
4	Manager Finance	Emphasis laid on preservation of capital, liquidity and returns; Overall Portfolio credit framework, Institutional credit framework and term to maturity limits reviewed and amended; Investment references to bonds, debentures, bills of exchange, hour-glass investments and certificates of deposits as being approved investments have been removed; Long term S&P ratings details introduced;	19 April 2022	