Council Policy 19

Investment of Surplus Funds

Application	All Staff with Investment Delegations
Responsible Officer	Director Corporate & Community Services
File No	POL:CWP:DCWP
Authorised by	Council
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Purpose

To provide a framework for the investment of Council funds that seeks to maximise earnings whilst having due consideration of the risk and security for that investment; and to ensure that Council's liquidity requirements are being met.

Preservation of capital is the principal purpose 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 credit and interest rate risk within identified thresholds and parameters.

Definitions

TERM	MEANING
Authorised Deposit-Taking Institution (ADI)	A corporation that is authorised under the *Banking Act 1959* to take deposits from customers.
Bill of Exchange	A written order from one person to another to pay a specified sum of money to a designated person on demand or at a fixed or determinable future time.
Bank Bill Swap reference rate (BBSW)	Is a short-term interest rate used as a benchmark for the pricing of Australian dollar derivatives and securities – most notably, floating rate bonds.
Debenture	A document evidencing an acknowledgment of debt created by a company for the purpose of raising capital.
Floating Rate Note (FRN)	A type of bond. A borrower (typically a government or company) issues bonds to raise capital. In return, they promise to pay bondholders back in full on the bond's maturity date. Until that date, the borrower pays regular interest payments or 'coupons'.
Bank Bill Index	Represents the performance of a notional rolling parcel of bills averaging 45 days. It is a widely used benchmark for local councils and other institutional cash investments.

Policy Statement

<u>Delegation of Authority</u>

Authority for implementation of the Investment Policy is delegated by Council to the General Manager in accordance with the *Local Government Act (1993) s327.*

The General Manager has in turn delegated the day-to-day management of investments to the Director Corporate and Community Services, the Management Accountant and the Finance Officer who must ensure adequate skill, support and oversight is exercised in the investment of Council funds.

The General Manager must approve delegations in writing and record them in the Delegations Register. Delegated officers are required to acknowledge that they have received a copy of this policy and understand their obligations in this role.

Prudent Person Standard

The investments will be managed with the care, diligence and skill that a prudent person would exercise. As trustees of public monies, officers are to manage and safeguard the portfolio in accordance with the spirit of this Investment Policy and not for speculative purposes.

Ethics and Conflicts of Interest

Officers should refrain from personal activities that would conflict with the proper execution and management of Council's investment portfolio. Council's Code of Conduct provides guidance for recognising and disclosing any conflicts of interest. Disclosures of conflicts of interest are to be made to the General Manager.

Independent investment advisors must declare that they have no actual or perceived conflict of interest. They must not receive inducements in relation to Council's investments.

Authorised Investments

Carrathool Shire Council approves the following investments allowed by the *Ministerial Investment Order 2011*:

- Commonwealth/State/Territory government securities e.g. bonds
- Interest bearing deposits/senior securities issued by an eligible ADI
- Bills of exchange (< 200 days duration) guaranteed by an ADI
- Debentures issued by a NSW Council under the *Local Government Act 1993*
- Deposits with T-Corp &/or investments in T-Corp IM Funds
- Existing investments grandfathered under the *Ministerial Investment Order 2011*

Prohibited Investments

In accordance with the *Ministerial Investment Order 2011*, 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
- Standalone securities issued that have underlying futures, options, forward contracts or swaps of any kind
- The use of leveraging (borrowing to invest) for an investment.
- Land mortgages

Nothing in this policy shall prohibit the short-term investment of loan proceeds where the loan is raised for non-investment purposes and there is a delay prior to the expenditure of the funds.

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 rates of 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.

One of the central roles of the Investment Policy is to provide guidance on risk minimisation. The following points provide a background (but not an exhaustive list), of risk exposures to be considered when managing Council's investment portfolio:

- Preservation of Capital – the requirement for preventing losses in an investment portfolio's total value.
- Credit Risk – the risk that a party or guarantor to a transaction will fail to fulfil its obligations. This relates to the risk of loss due to the failure to pay to Council interest and/or repay principal.
- Diversification – the requirement to place investments in a broad range of products to avoid over-exposure to a particular sector of the investment market.
- Liquidity Risk – the risk that an institution runs out of cash and is unable to redeem investments at a fair price within a timely period. This may result in Council incurring additional costs and/or possibly being unable to execute its spending plans.
- Market Risk – the risk that fair value or future cash flows will fluctuate due to changes in market prices. Benchmark returns may unexpectedly overtake the investment return.
- Maturity Risk – the risk relating to the length of term to maturity of the investment. The longer the term, the greater the length of exposure and risk to market volatilities.
- Rollover Risk – the risk that income will not meet expectations or budgeted requirement because interest rates are lower than expected in future.

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. 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.

Credit and Maturity Guidelines

Primary control of credit quality is the prudential supervision and government support and explicit guarantees of the ADI sector, not ratings. Not less than three (3) quotations must be obtained prior to investing council funds. The best quote on the day will generally be successful having regard for portfolio diversification and administrative and banking costs. Ratings are used to provide credit framework limits. Investments are to comply with three key criteria relating to:

i. To control the credit quality of the entire portfolio, the following credit framework limits the percentage of the portfolio exposed to any particular credit rating category. While TCorp Facilities are not rated they typically maintain a credit score consistent with a AAA rating for the *Hourglass Cash Facility* and a AA rating for the *Hour Glass Strategic Cash Facility*.

S&P Long Term Credit Rating*	S&P Short Term Credit Rating*	Portfolio Maximum
AAA Category	A1 +	100%
AA Category or Major Bank**	A1	100%
A Category	A2	45%
BBB Category	A3	30%
Unrated Authorised Deposit Taking Institution	Unrated	10%
NSW Treasury Corp Hour Glass Facility	Unrated	30%

Moody's/Fitch equivalent *

ANZ, Commonwealth Bank, National Australia Bank & Westpac incl their subsidiaries & brands (eg St George) **

ii. 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 Long Term Credit Rating*	S&P Short Term Credit Rating*	Portfolio Maximum
AAA Category	A1 +	50%
AA Category or Major Bank**	A1	50%
A Category	A2	30%
BBB Category	A3	30%
NSW Treasury Corp Hour Glass Facility	Unrated	30%
Unrated Authorised Deposit Taking Institution	Unrated	10%

Moody's/Fitch equivalent *
ANZ, Commonwealth Bank, National Australia Bank & Westpac incl their subsidiaries and brands (eg St George) **

Where the institution is a major bank, the portfolio maximum may be increased to 70% should a significant benefit to Council be identified.

iii. The investment portfolio is to be invested within the following maturity constraints:

Overall Portfolio Term to Maturity Limits			
Description	**Investment Horizon**	**Minimum**	**Maximum**
Working Capital Funds	0-3 months	10%	100%
Short Term Funds	3-12 months	10%	100%
Short-Medium Term Funds	1-3 years	0%	20%
Medium Term Funds	3-5 years	0%	0%
Long Term Funds	5-10 years	0%	0%

Performance Benchmarks

The performance of each investment will be assessed against the benchmarks listed in the table below.

Investment	Performance Benchmark	Time Horizon
Overnight Account (11am), Term Deposits, Cash Management Accounts, Professional Funds Accounts	Bank Bill Index (BBI)	3 months or less
Short dated bills, deposits issued by ADI (appropriate term), Term Deposits	Bank Bill Index (BBI)	3-12 months
Term Deposits within the applicable maturity range	Bank Bill Index (BBI)	1-3 years

It is Council's expectation that the performance of each investment will be greater than or equal to the applicable benchmark - taking into consideration risks, liquidity and other benefits. It is also expected that Council will take due steps to ensure that any investment is executed at the best pricing reasonably possible.

Reporting

Documentary evidence must be held for each investment and details thereof maintained in the investment register. Details to be included are:

- The amount of money invested
- Particulars of the security or form of investment in which the money is invested
- The term of the investment, and
- The rate of interest to be paid, and the amount of money that Council has earned, in respect of the investment.

The documentary evidence must provide Council legal title to the investment. Certificates must be obtained from the financial institutions confirming the amounts of the investments held on the Council's behalf as at 30 June each year and be reconciled to Council records. All investments are to be appropriately recorded in Council's financial records and reconciled at least monthly.

Council will be provided with a written report each month setting out the details of the entire investment portfolio. The report will confirm compliance of Council's investments with legislative and policy requirements. Council may nominate additional content for reporting.

Reference

This policy has been prepared to encompass the legislative requirements and obligations for the investment of Council funds. Where this policy is silent on matters referred to in the following legislation, such matters must be followed in accordance with the legislation.

Associated Documents

Local Government Act 1993, section 625
Local Government (General) Regulation 2022, clause 16
Ministerial Investment Order 2011
Trustee Act 1925, section 14
Local Government Code of Accounting Practice & Financial Reporting
Australian Accounting Standards
NSW Office of Local Government Investment Policy Guidelines 2010
NSW Office of Local Government Circulars
Council Code of Conduct

Work Health & Safety

Carrathool Shire Council will endeavour to reduce hazards in the workplace for its employees, by ensuring that a safe and healthy working environment is maintained. As a component of the work health and safety management practices of Council, WH&S principles must be considered when

Revision Table

Minute /Date	Amendment Summary – Reason or Reference
21.10.2003	Adopted
0467 / 20.02.2018	Include risk management principles, credit quality benchmarks and reporting guidelines.
1533 / 15.12.2020	Delegations – Incl. Management Accountant Credit Maturity Guidelines ii. – Incl. NSW Treasury Corp
0031 / 11.01.2022	Adopted
0393 / 20.12.2022	Statutory Review, amendments to single threshold limits for major banks.
0750 /19.12.2023	Statutory review with minor formatting changes only
0093 / 17.12.2024	Statutory review – minor administrative updates
0429/ 16.12.2025	Statutory review – no amendment made

Review

This policy will be reviewed annually or as required in the event of legislative changes. This 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.