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

**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.

**DATA AND DOCUMENT CONTROL – GOVERNANCE USE ONLY**

|   |   |                      |
|---|---|----------------------|
| <b>Directorate:</b> City Governance<br><b>Section:</b> Financial Services<br><b>Record No:</b> CDO-24/748 | <b>Adopted Date:</b> 03/08/1984<br><b>Revised Date:</b> 12/11/2024<br><b>Minute Number:</b> 337<br><b>Review Date:</b> 30/12/2025 | <b>Page:</b> 1 of 10 |
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## **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 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**

| <b>Term</b> | <b>Definition</b>                    |
|-------------|--------------------------------------|
| 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**

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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 managed funds with-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 AA-  | } | a very strong capacity to repay debt       |
|         | } |  |
| A+      | } |  |
| to A-   | } | a strong capacity to repay debt            |
|         | } |  |
| BBB+    | } |  |
| to BBB- | } | an adequate capacity to repay debt         |
|         | } |  |

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:

| <b>Credit Rating of Institution<br/>Standard &amp; Poors Long Term<br/>Rating</b> | <b>Minimum % of<br/>Total<br/>Investments<br/>(cumulative)</b> | <b>Maximum % with<br/>one Institution</b> | <b>Maximum Term</b> |
|---|--|---|---------------------|
| AA+, AA, AA- and above (or MTB)   | <b>40%</b>   | <b>45%</b>                                | <b>7 yrs</b>        |
| A+, A, A- and above   | <b>60%^</b>  | <b>20%</b>                                | <b>5 yrs</b>        |
| BBB+, BBB, BBB- and above   | <b>100%</b>  | <b>10%</b>                                | <b>5 yrs</b>        |
| T Corp MTGF and LTGF  |  | <b>20%</b>                                | <b>N/A</b>          |

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 Short Term Income Fund.

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 per cent 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.

**Credit Quality Limits**

The portfolio credit guidelines to be adopted will reference the Standard & Poor’s (S&P) ratings system criteria and format - however, references in the previous Minister’s Orders also recognised Moody’s and Fitch Ratings and any of the three ratings may be used where available.

However, the primary control of credit quality is the prudential supervision and government support and explicit guarantees of the Approved Deposit Institution (ADI) sector, not ratings.

The maximum holding limit in each rating category for Council’s portfolio shall be:

| <b>Long Term Rating Range<br/>(or Moody’s equivalent)</b> | <b>Maximum Holding</b> |
|---|------------------------|
| AAA Category  | 100%                   |
| AA Category or Major Trading Banks*                       | 100%                   |
| A Category  | 70%                    |
| BBB Category  | 40%                    |
| Unrated ADIs  | 20%                    |

\*For the purpose of this Policy, Major Trading 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
- Commonwealth Bank of Australia
- National Australia Bank Limited
- Westpac Banking Corporation.

Including ADI subsidiaries whether or not explicitly guaranteed, and brands (such as St George). Council may ratify an alternative definition from time to time.

Standard and Poor ratings attributed to each individual institution will be used to determine maximum holdings.

In the event of disagreement between agencies as to the rating band (split ratings) Council shall use the higher in assessing compliance with portfolio policy limits, but for conservatism shall apply the lower in assessing new purchases.

**Counterparty Limits**

Exposure to individual counterparties/financial institutions will be restricted by their rating so that single entity exposure is limited, as detailed in the table below.

Limits do not apply to Federal or NSW-guaranteed investments, which are uncapped. It should be noted that the NSW government does not guarantee the capital value or unit price of the TCorpIM Funds.

**Individual Institution or Counterparty Limits**

| <b>Long Term Rating Range (or Moody's equivalent)</b> | <b>Limit</b> |
|---|--------------|
| AAA Category <sup>1</sup>                             | 50%          |
| AA Category or Major Bank* <sup>2</sup>               | 45%          |
| A Category  | 20%          |
| BBB Category  | 10%          |
| Unrated Category                                      | 5%           |
| TCorp LTGF or MTGF                                    | 20%          |

**Maturity Limits**

Council's investment portfolio shall be structured around the time horizon of investment to ensure that liquidity and income requirements are met.

"Horizon" represents the intended minimum term of the investment; it is open for the Investment Strategy to define a target date for sale of a liquid investment.

Once the primary aim of liquidity is met, Council will ordinarily diversify its maturity profile as this

will ordinarily be a low-risk method of obtaining additional return as well as reducing the risks to Council's income. However, Council always retains the flexibility to invest as short as required by cashflow requirements or the economic outlook.

The factors and/or information used by Council to determine minimum allocations to the shorter durations include:

- Council's liquidity requirements to cover both regular payments as well as sufficient buffer to
- cover reasonably foreseeable contingencies

<sup>1</sup> AAA Category includes TCorp Hour-Glass Cash Facility, which typically maintains a credit score consistent with a AAA<sup>f</sup> rating.

<sup>2</sup> AA Category also includes TCorp Hour-Glass Strategic Cash Facility, which typically maintains a credit score consistent with a AA<sup>f</sup> rating.

- medium term financial plans and major capital expenditure forecasts
- known grants, asset sales or similar one-off inflows
- seasonal patterns to Council's surplus funds.

| <b>Investment Horizon Description</b> | <b>Investment Horizon</b> | <b>Minimum Allocation</b> | <b>Maximum Allocation</b> |
|---------------------------------------|---------------------------|---------------------------|---------------------------|
| Working capital funds                 | 0-3 months                | 10%                       | 100%                      |
| Short term funds                      | 3-12 months               | 0%                        | 100%                      |
| Short-Medium term funds               | 1-2 years                 | 0%                        | 70%                       |
| Medium term funds                     | 2-5 years                 | 0%                        | 50%                       |
| Long term funds                       | 5-10 years                | 0%                        | 20%                       |

Within these broad ranges, Council relies upon assumptions of expected investment returns and market conditions that have been examined with its investment advisor.

**Authorised Investments**

- 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;
- 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.
- 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 because 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 actively trade instruments within the portfolio to seek capital gains. Council will always retain the option to simply hold liquid securities to maturity to reduce the mark-to-market volatilities.

Council may also sell assets prior to maturity in the following circumstances:

- If the asset is liquid, easily tradeable, can be sold without significant loss and was purchased as part of a liquidity buffer against the event of unforeseen and unexpected liquidity requirements. If Council judges the asset has deteriorated in credit quality and there is a material risk of further market price deterioration or ultimate default if it



continues to held and Council, upon seeking external advice from a competent and reputable advisor, is advised that a sale of the asset is in the best interests of Council for risk management purposes to potentially minimise any future losses

- For clarity, securities such as floating rate notes (FRN) and fixed bonds hold an advantage of being “liquid” compared to other complying investments such as term deposits, which are illiquid. Securities can be sold to third parties and incur no ‘break fees’ (unlike term deposits), when they are sold prior to maturity. They are however, susceptible to mark-to-market valuations so if sold prior to maturity, they can incur a capital gain or a capital loss. It is the Council’s intention to only sell prior to maturity if it results in a capital gain (benefit to Council) In most circumstances, the only exception where it may incur a capital loss is in the case of an emergency due to cash flow requirements.

### **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. The monthly investment review provided by Council’s investment advisor can be considered an ongoing investment strategy document.

### **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.

Any fees, commissions, or other incentives paid to the Investment Advisor in relation to any investment products recommended must be rebated in full to Council to avoid any conflicts of interest arising.

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, Manager Financial Services 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**