

INVESTMENT POLICY

QUALITY CONTROL			
TRIM REFERENCES	12/114 – D16/44050		
RESPONSIBLE POSITION	Chief Financial Officer		
APPROVED BY	Council resolution		
REVIEW DATE	25 November 2024	REVISION NUMBER	2
EFFECTIVE DATE	ACTION	MINUTE NUMBER	
30 September 2020	Public Exhibition	46353	
25 November 2020	Adoption	46391	

1. INTRODUCTION

The purpose of this document is to establish the foundations that are to apply to the investment of Broken Hill City Council's funds that are surplus to Council's immediate requirements and to ensure that Council's representatives exercise the care, diligence and skill that a prudent person would exercise in investing those funds.

2. POLICY OBJECTIVE

The objective of this policy is to establish the framework within which the investment function of Broken Hill City Council will operate, be monitored, and be reported upon.

While exercising the power to invest, due consideration is to be given to:

- Preservation of capital. Preservation of capital is the principal objective of the investment process. Investments are to be placed in a manner that seeks to ensure security and of safeguarding the funds invested. This includes managing credit and interest rate risk within identified thresholds and parameters.
- Managing Council's liquidity. 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 costs due to the unanticipated sale of an investment.
- Maximising returns within Council's risk appetite as outlined in this policy. Investments are expected to achieve a market average rate of return in line with the Council's risk tolerance.

3. POLICY SCOPE

This policy applies to all Council Officers who have authority delegated to them to invest surplus funds on Council's behalf and is in accordance with legislation and guidelines.

4. POLICY STATEMENT

4.1. DELEGATION OF AUTHORITY

The General Manager is given delegated authority under Section 377 *Local Government Act 1993*, to invest temporary surplus funds in accordance with Council policy.

The General Manager may in turn delegate the day-to-day management of Councils Investment to the Responsible Accounting Officer, subject to regular reviews.

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

4.2. PRUDENT PERSON STANDARD

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

4.3. ETHICS AND CONFLICTS OF INTEREST

Officers shall refrain from personal activities that would conflict with proper execution and management of Council's investment portfolio. Council's Code of Conduct provides guidance for recognising and disclosing any conflicts of interest.

4.4. APPROVED INSTRUMENTS

Broken Hill City Council approves the following investments included in the Ministerial Investment Order:

- any public funds or securities issued by or guaranteed by, the Commonwealth, any State of the Commonwealth or a Territory;
- any debentures or securities issued by a council (within the meaning of the *Local Government Act 1993 (NSW)*)
- interest bearing deposits with an authorised deposit taking institution (ADI)
- a deposit with the New South Wales Treasury Corporation or investments in the New South Wales Treasury Corporation Investment Management Core Funds. .

4.5. PROHIBITED INVESTMENTS

In accordance with the Ministerial Investment Order, this Investment Policy prohibits any investment carried out for speculative purposes including:

- 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.

4.6. RISK MANAGEMENT GUIDELINES

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

- **Credit Risk** – The risk that a party to a transaction will fail to fulfil its obligations. In the context of this document it relates to the risk of loss due to the failure of an institution/entity with which an investment is held to pay the interest and/or repay the principal of an investment.
- **Diversification** – the requirement to place investments in a broad range of products so as not to be over exposed to a particular sector of the investment market.
- **Liquidity Risk** – The risk that Council incurs additional costs (or in the worst case is unable to execute its spending plans) due to having too little cash available due to being invested in illiquid assets.
- **Market Risk** – the risk that fair value or future cash flows of an investment will fluctuate due to changes in market prices, or benchmark returns will unexpectedly overtake the investment's 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.
- **Preservation of Capital** – the requirement for preventing losses in an investment portfolio's total value.
- **Reinvestment Risk** – the risk that an investor will be unable to reinvest cash flows (e.g., coupon payments) and maturity proceeds at a rate comparable to their current rate of return because interest rates are lower in the future, thereby resulting in a reduction of income over time.

4.7. CREDIT & MATURITY GUIDELINES

Investments are to comply with three key criteria relating to:

- 4.7.1. Overall Portfolio Credit Framework: limit overall credit exposure of the portfolio;
- 4.7.2. Institutional Credit Framework: limit exposure to individual institutions based on their credit ratings; and
- 4.7.3. Term to Maturity Framework: limits based upon maturity of securities.

4.7.1 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.

Credit Rating Categories	Portfolio Max %
AAA, AA+, AA, AA-	100%
A+, A	60%
A-	40%
BBB+ and BBB total	35%
<i>Sub limit: BBB+</i>	<i>up to 35%</i>
<i>Sub limit: BBB</i>	<i>up to 10%</i>
Specific Ministerial Approved Forms of Investment	Portfolio Max %
NSW TCorpIM Core Funds	30%

Credit ratings are based upon the Standard & Poor's Long Term Credit Ratings or Moody's / Fitch equivalents.

4.7.2 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:

Credit Rating Categories	Institution Max %
AAA, AA+, AA, AA-	45%
A+, A	30%
A-	20%
BBB+	10%
BBB	5%
NSW TCorpIM Funds (not rated)	Max %
TCorpIM Cash Fund	30%
TCorpIM Short Term Income Fund	30%
TCorp IM Medium Term Growth Fund	30%
TCorpIM Long Term Growth Fund	30%

Credit ratings are based upon the Standard & Poor's Long Term Credit Ratings or Moody's / Fitch equivalents.

4.7.3 Term to Maturity Framework

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

Overall Portfolio Term to Maturity Limits		
Portfolio % ≤1 year	Min 40%	Max 100%
Portfolio % >1 year ≤10 years	Min 0%	Max 60%
Sub limit by Maturity		
<i>Portfolio % > 5 years ≤ 10 years</i>	<i>Min 0%</i>	<i>Max 30%</i>
Sub limits by Credit Rating		
<i>AA+, AA, AA- rating:</i>		<i>5yrs maximum</i>
<i>A+, A, A-, BBB+ rating:</i>		<i>3yrs maximum</i>
<i>BBB rating</i>		<i>1yr maximum</i>

4.8. BENCHMARKING

As Council traditionally invests in short term deposits, the performance benchmark to be used is the Bloomberg AusBond Bank Bill Index.

4.9. INVESTMENT ADVISOR

Should the Council deem it necessary to consult an investment advisor, the investment 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. Any commissions paid to the advisor by banks/product providers will be rebated, or otherwise onforwarded, to Council as per ASIC requirements for an independent investment advisor.

4.10. REPORTING AND REVIEWING OF INVESTMENTS

Documentary evidence must be held for each investment and details thereof maintained in the Investment register.

Details to be included in the Investment Register:

- 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 investments held on the Council's behalf as at 30 June each year and reconciled to the Investment Register.

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 details of the entire investment portfolio. The report will confirm compliance of Council's investments with legislative and policy requirements.

5. IMPLEMENTATION

5.1. Roles and Responsibilities

The following Council officers are responsible for the implementation and the adherence to this policy:

- General Manager
- Chief Financial Officer
- Manager Finance
- Management/ Financial Accountant
- Assistant Management Accountant

5.2. Communication

This Policy will be communicated to the community and staff in accordance with Council's Policy, Procedure and Process Framework and Council's Business Paper process. Following adoption by Council the Policy will be made available on Council's website.

5.3. Associated Documents

The following documentation is to be read in conjunction with this policy.

- Code of Conduct Policy
- Records Management Policy
- Conflicts of Interest Policy

6. REVIEW

Review of this policy will incorporate relevant legislation, documentation released from relevant state agencies and best practice guidelines.

The standard review period will be every two (2) years from the effective date, however may occur sooner if there is a change in legislation, Accounting Standards or other relevant guidelines. The responsible Council officer will be notified of the review requirements three (3) months prior to the expiry of this policy.

The Chief Financial Officer is responsible for the review of this policy.

7. LEGISLATIVE AND LEGAL FRAMEWORK

All investments are to comply with the following:

- Local Government Act 1993 - Section 412 & 625;
- Local Government Act 1993 - Order (of the Minister) in accordance with the most recently published Order;
- The Trustee Amendment (Discretionary Investments) Act 1997 – Sections 14A(2), 14C(1) & (2);
- Local Government General Regulation 2005 – Reg 212;
- Office of Local Government Circulars;
- Local Government Code of Accounting Practice and Financial Reporting; and
- Australian Accounting Standards.

Council employees shall refrain from personal activities that would conflict with proper execution and management of Council's Investment Policy. Council's Code of Conduct provides guidance for recognising and disclosing any conflicts of interest.

8. SCHEDULES

- **Schedule 1 – Standard & Poor's Ratings Description;**
- **Schedule 2 – Copies of Relevant Legislation.**

SCHEDULE 1

Standard & Poor's Ratings Description

Credit Ratings

Standard & Poor's (S&P) is a professional organisation that provides analytical services. An S&P rating is an opinion of the general creditworthiness of an obligor with respect to particular debt security or other financial obligation - based on relevant risk factors.

Credit ratings are based, in varying degrees, on the following considerations:

- Likelihood of payment;
- Nature and provisions of the obligation;
- Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganisation or other laws affecting creditors' rights.

The issue rating definitions are expressed in terms of default risk.

Long-Term Obligations Ratings are:

- AAA: An obligation/obligor rated AAA has the highest rating assigned by S&P. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
- AA: An obligation/obligor rated AA differs from the highest rated obligations only in a small degree. The obligor's capacity to meet its financial commitment on the obligations is very strong.
- A: An obligation/obligor rated A is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations/obligor in higher rated categories. However, the obligors' capacity to meet its financial commitment on the obligation is still strong.
- BBB: An obligation/obligor rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to the obligor to meet its financial commitment on the obligation.
- Unrated: Financial institutions do not necessarily require a credit rating from the various ratings agencies such as Standard and Poor's and these institutions are classed as "Unrated". Most Credit Unions and Building Societies fall into this category. These institutions nonetheless must adhere to the capital maintenance requirements of the Australian Prudential Regulatory Authority (APRA) in line with all Authorised Deposit Taking Institutions (Banks, Building Societies and Credit Unions).

Plus (+) or minus (-): The ratings from "AA" to "BBB" may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

SCHEDULE 2:

Extracts of Legislative Requirements

LOCAL GOVERNMENT ACT 1993 - SECT 412 & 625

Section 412 Accounting Records

- (1) A council must keep such accounting records as are necessary to correctly record and explain its financial transactions and its financial position.
- (2) In particular, a council must keep its accounting records in a manner and form that facilitate:
 - (a) the preparation of financial reports that present fairly its financial position and the results of its operations, and
 - (b) the convenient and proper auditing of those reports.

Section 625 How May Councils Invest?

- (1) A council may invest money that is not, for the time being, required by the council for any other purpose.
- (2) Money may be invested only in a form of investment notified by order of the Minister published in the Gazette.
- (3) An order of the Minister notifying a form of investment for the purposes of this section must not be made without the approval of the Treasurer.
- (4) The acquisition, in accordance with section 358, of a controlling interest in a corporation is not an investment for the purposes of this section.

THE TRUSTEE AMENDMENT (DISCRETIONARY INVESTMENTS) ACT 1997 – SECTIONS 14A (2), 14C (1) & (2)

14A (2) Duties of trustee in respect of power of investment

A trustee must, in exercising a power of investment:

- (a) if the trustee's profession, business or employment is or includes acting as a trustee or investing money on behalf of other persons, exercise the care, diligence and skill that a prudent person engaged in that profession, business or employment would exercise in managing the affairs of other persons, or
- (b) if the trustee is not engaged in such a profession, business or employment, exercise the care, diligence and skill that a prudent person would exercise in managing the affairs of other persons.

14C Matters to which trustee is to have regard when exercising power of investment

- (1) Without limiting the matters that a trustee may take into account when exercising a power of investment, a trustee must, so far as they are appropriate to the circumstances of the trust, if any, have regard to the following matters:
 - (a) the purposes of the trust and the needs and circumstances of the beneficiaries,
 - (b) the desirability of diversifying trust investments,
 - (c) the nature of, and the risk associated with, existing trust investments and other trust property,
 - (d) the need to maintain the real value of the capital or income of the trust,
 - (e) the risk of capital or income loss or depreciation,
 - (f) the potential for capital appreciation,
 - (g) the likely income return and the timing of income return,
 - (h) the length of the term of the proposed investment,
 - (i) the probable duration of the trust,
 - (j) the liquidity and marketability of the proposed investment during, and on the determination of, the term of the proposed investment,
 - (k) the aggregate value of the trust estate,
 - (l) the effect of the proposed investment in relation to the tax liability of the trust,
 - (m) the likelihood of inflation affecting the value of the proposed investment or other trust property,
 - (n) the costs (including commissions, fees, charges and duties payable) of making the proposed investment,
 - (o) the results of a review of existing trust investments in accordance with section 14A (4).

(2) A trustee may, having regard to the size and nature of the trust, do either or both of the following:

(a) obtain and consider independent and impartial advice reasonably required for the investment of trust funds or the management of the investment from a person whom the trustee reasonably believes to be competent to give the advice,

(b) pay out of trust funds the reasonable costs of obtaining the advice.

LOCAL GOVERNMENT (GENERAL) REGULATION 2005 - CLAUSE 212

212 Reports on council investments

(1) The responsible accounting officer of a council:

(a) must provide the council with a written report (setting out details of all money that the council has invested under section 625 of the Act) to be presented:

i) if only one ordinary meeting of the council is held in a month, at that meeting,
or

(ii) if more than one such meeting is held in a month, at whichever of those meetings the council by resolution determines, and

(b) must include in the report a certificate as to whether or not the investment has been made in accordance with the Act, the regulations and the Council's investment policies.

(2) The report must be made up to the last day of the month immediately preceding the meeting.

Note. Section 625 of the Act says how a council may invest its surplus funds.

Circular No. 11-01
Date 17 February 2011
Doc ID. A232163

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REVISED MINISTERIAL INVESTMENT ORDER

A revised Investment Order pursuant to section 625 of the *Local Government Act 1993* has been issued. The Minister for Local Government signed the revised Order on 12 January 2011 and it was published in the NSW Government Gazette on 11 February 2011. It replaces the Order dated 31 July 2008. The revised Order is attached to this circular.

Changes to the Investment Order include:

- the removal of the ability to invest in the mortgage of land (part (c) of the Investment Order dated 31 July 2008)
- the removal of the ability to make a deposit with the Local Government Financial Services Pty Ltd (part (f) of the order dated 31 July 2008)
- the addition of "Key Considerations" in the revised Investment Order, which includes a comment that a council's General Manager, or any other staff, with delegated authority by a council to invest in funds on behalf of the council must do so in accordance with the council's adopted investment policy.

Councils are reminded that on 25 May 2010 the Division of Local Government issued Investment Policy Guidelines (Circular to Councils 10-11 refers). It is expected that all councils will by now have adopted an Investment Policy in accordance with the Guidelines.



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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