

# Investment Policy

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## 1. Purpose

The purpose of this document is to establish a framework with sound principles on Council's investment to gain favourable return on investment whilst having due consideration of risk and security and complying with legislative requirements.

## 2. Scope

The Policy applies to the management of Federation Council funds by Council officers.

## 3. Legislative Requirements

- Local Government Act 1993 Section 625
- Local Government (General) Regulation 2021-Clause 212
- Investment Orders issued by the Minister for Local Government
- Trustee Amendment (Discretionary Investments) Act 1997-Section 14
- Office of Local Government (OLG) Circulars
- Australian Accounting Standards
- Local Government Code of Accounting Standards

## 4. Policy Statement

Council will maximise earnings and security of all investments and Council shall comply with the requirements of the most current Ministerial Investment Order that has been issued by the NSW Minister for Local Government and Guidelines set by the Office of Local Government.

While exercising the power to invest, consideration is to be given to the preservation of capital, liquidity and the return of investment. Council therefore has several primary objectives for its investment portfolio:

- Compliance with legislation, regulations, the prudent person tests of the Trustee Act and best practice guidelines;
- The preservation of the amount invested;
- To ensure there are sufficient liquid funds to meet all reasonably anticipated cash flow requirements; and
- To generate income from the investment that exceeds the performance benchmarks mentioned later in this document.

A monthly Report will be provided to Council, detailing the investment portfolio in terms of performance, investment institution and amount of each investment.

## 5. Responsibilities

### 5.1 General Manager

The General Manager shall:

- ensure the development of investment procedures that conforms to Council's Policy.
- monitor the effectiveness of the procedures in operation and authorise changes to improve the procedures to conform to Council's Policy.
- report to council any issues that arise out of the Policy.

### 5.2 Manager Finance

The Manager Finance shall:

- develop investment procedures to enable implementation of the Policy, to the satisfaction of the General Manager.
- implement reporting to the General Manager and Council to monitor application of the Policy.
- report to the General Manager any issues that arise out of the Policy.

### 5.3 Staff

Staff shall:

- assist in developing the investment procedures.
- implement and carry out the actions listed in the procedures.
- report regularly to the Manager Finance on the effectiveness of the procedures.

## 6. 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 has in turn delegated the day-to-day management of Councils investments to the staff member(s) specified in the Delegation from General Manager to Staff policy who must ensure adequate skill, support and oversight is exercised in the investment of Council funds.

Officers' delegated authority to manage Council's investments shall be recorded and they are required to acknowledge they have received a copy of this policy and understand their obligations in this

## 7. 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 Council's investment portfolios to safeguard the portfolio in accordance with the spirit of this Investment Policy and not for speculative purposes.

## 8. Ethics & Conflicts of Interest

Officers shall refrain from personal activities that would conflict with the proper execution and management of Council's investment portfolio. This Policy requires officers to disclose any conflict of interest to the General Manager.

Independent advisors are also to declare that they have no actual or perceived conflicts of interest and receive no inducements in relation to Council's investments.

## 9. Authorised Investments

Council to undertake authorised investment that are:

- Made in accordance with:
  - Local Government Act 1993 – Section 625
  - Local Government Act 1993 – Investment Order (of the Minister) as in force from time to time;
  - The Trustee Amendment (Discretionary Investments) Act 1997 – Sections 14A(2),14C(1) & (2);
  - Local Government (General) Regulation 2005 – Clause 212
  - Division of Local Government Investment Policy Guidelines May 2010
  - Local Government Code of Accounting Practice & Financial Reporting
  - Australian Accounting Standards
  - Office of Local Government Circulars
  - Trustees Act 1925
- Following the latest Ministerial Order (12 January 2011) - Councils are only able to invest in:
  - 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, 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;
  - any bill of exchange which has a maturity date of not more than 200 days; and if purchased for a 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;
  - a deposit with the New South Wales Treasury Corporation or investments in TCorpIM Funds of the New South Wales Treasury Corporation.
- All investments must be denominated in Australian Dollars.
- In accordance with the Ministerial Order, when investing funds Council will 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 of making the proposed investment including commissions, fees and duties payable.

## 10. Prohibited Investments

This Investment Policy prohibits the following types of investment:

- Derivative based instruments;
- Principal only investments or securities that provide potentially nil or negative cash flow; and
- Standalone securities issued that have underlying futures, options, forwards contracts and swaps of any kind.

This Policy also prohibits any investment with speculative purposes, including the use of leveraging (borrowing to invest) for an investment. However, nothing in the 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 loan funds.

## 11. Risk Management Guidelines

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

- **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. 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 an institution runs out of cash, is unable to redeem investments at a fair price within a timely period, and thereby Council incurs additional costs (or in the worst case is 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, 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; and
- **Rollover/Reinvestment Risk** – the risk that income will not meet expectations or budgeted requirement because interest rates are lower than expected in future.

## 12. Investment Advisor

If an investment advisor is required, the investment advisor is to be appointed by Council resolution and must be licensed by the Australian Securities and Investment Commission and able to provide evidence of this license. The advisor must be independent and must confirm in writing that they have 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. Independence includes receiving no commissions or other benefits in relation to the investments being recommended or reviewed, except as fully rebated to Council, promptly.

## 13. Accounting

Council will comply with appropriate accounting standards in valuing its investments and quantifying its investment returns.

In addition to recording investment income according to accounting standards, published reports may show a break-down of its duly calculated investment returns into realised and unrealised capital gains and losses, and interest.

Other relevant issues will be considered in line with relevant Australian Accounting Standards, such as discount or premium, designation as held-to-maturity or on a fair value basis and impairment.

## 14. Safe Custody Arrangements

Where necessary, investments may be held in safe custody on Council's behalf, as long as the following criteria are met:

- Council must retain beneficial ownership of all investments;
- Adequate documentation is provided, verifying the existence of the investments at inception, in regular statements and for audit;
- The Custodian conducts regular reconciliation of records with relevant registries and/or clearing systems; and
- The Institution or Custodian recording and holding the assets will be:
  - The Custodian nominated by TCorpIM for their Funds;
  - Austraclear;
  - An institution with an investment grade Standard and Poor's, Moody's or Fitch rating; or
  - An institution with adequate insurance, including professional indemnity insurance and other insurances considered prudent and appropriate to cover its liabilities under any agreement.

## 15. 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 as follows with tolerance of +5% during transition period of maximum 7 calendar days:

Long Term Rating Range (or Moody's equivalent)	Maximum Holding
AAA Category	100%
AA Category or Major Bank*	100%
A Category	70%
BBB Category	20%
Unrated ADIs	10%

\*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).

Council may ratify an alternative definition from time to time.

S&P ratings attributed to each individual institution will be used to determine maximum holdings. If the ADI is not rated by S&P i.e. Moody’s or Fitch, the equivalent rating of S&P will be applied.

## 16. 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 with tolerance of +5% during transition period of maximum 7 calendar days.

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	
Long Term Rating Range (or Moody’s equivalent)	Limit
AAA Category	50%
AA Category or Major Bank* <sup>1</sup>	40%
A Category	25%
BBB Category	10%
Unrated Category	5%

<sup>1</sup> AA Category includes TCorpIM Cash Fund, which typically maintains a credit score consistent with a AA<sup>+</sup> rating. It also includes TCorpIM Strategic Income Fund, which typically maintains a credit score consistent with a AA<sup>-</sup> rating.

## 17. Investment Horizon Limits

Council’s investment portfolio shall be structured around the time horizon of investment to ensure that liquidity and income requirements are met with tolerance of +5% during transition period of maximum 7 calendar days.

“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.

<sup>1</sup> AA Category includes TCorpIM Cash Fund, which typically maintains a credit score consistent with a AA<sup>+</sup> rating. It also includes TCorpIM Strategic Income Fund, which typically maintains a credit score consistent with a AA<sup>-</sup> rating.

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;
- 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.

Investment Horizon Description	Investment Horizon	Minimum Allocation	Maximum Allocation
Working capital funds	0-3 months	20%	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%	60%
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.

## 18. Performance Benchmarks

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

It is Council’s expectation that the performance of each investment will be greater than or equal to the applicable benchmark whilst taking into account its 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.

Investment	Performance Benchmark	Time Horizon
Funds held in overnight accounts - 11 am Account, Cash Management Accounts, Professional Funds Accounts	AusBond Bank Bill Index (BBI)	3 months or less
Short-dated bills, deposits issued by ADIs of appropriate term. Term Deposits of appropriate remaining term, FRN’s nearing maturity.	AusBond Bank Bill Index (BBI)	3 months to 12 months
Term Deposits and senior FRNs with a maturity date between 1 and 2 Years.	AusBond Bank Bill Index (BBI)	1 to 2 years
FRN’s, Bonds, Term deposits with a maturity date between 2 and 5 Years (except as otherwise designated on a shorter horizon)	AusBond Bank Bill Index (BBI)	2 to 5 Years
TCorpIM Growth Funds	TCorp’s Internal Benchmark	+5 years

## 19. Policy History

Version	Date	Changes / Amendments
1.0	6 July 2023	Prepared for in principle adoption

## 20. Reviews

The Investment Policy will be reviewed by Council every four years, or as required in the event of legislative change or as a result of significantly changed economic/market conditions. To the extent that the Policy becomes inconsistent with the regulatory framework, the regulations will prevail.

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