



# WALCHA COUNCIL

## ADMINISTRATION POLICY

### Investment

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#### Applicability

All Council Staff

#### Publication Requirement

Internal

#### Assigned Responsible Officer

Manager Corporate and Finance

#### Document Status

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#### Amendment Record

Amendment Version #	Date Reviewed	Description of Amendment
5.0	09/02/2021	Previous policy WO/16/643 reviewed to align with industry best practice and relevant legislative obligations. Noted as action in interim management letter.



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## 1. POLICY OBJECTIVE

To provide a framework for the investing of Council's funds at the most favourable return available to it at the time, whilst having due consideration of risk and security for that investment type and ensuring that its liquidity requirements are being met.

While exercising the power to invest, consideration is to be given to the preservation of capital, liquidity, and the return of investment.

Preservation of capital is the principal objective of the investment portfolio. Investments are to be placed in a manner that seeks to ensure security and safeguarding the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters.

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 significant costs due to the unanticipated sale of an investment.

Investments are expected to achieve a market average rate of return in line with the Council's risk tolerance.

## 2. POLICY SCOPE

This policy applies to all Council activities in relation to investments.

## 3. POLICY STATEMENT

Council can have on average \$2-3 Million of surplus funds invested at any one time. Interest on these investments represents a significant contribution to the total income of Council and it is essential that Council has clear policy guidelines as to how funds can be invested. This policy aims to clearly state the institutions with which Council can invest the maximum proportion of funds that may be placed with individual organisations and the types of investments entered into.

## 4. POLICY COMMITMENT

Walcha Council is committed to ensuring the long term financial security of council's activities and operations. This policy is part of delivering this for Walcha.

## 5. DEFINITIONS

**ADI** - Authorised Deposit-Taking Institutions (ADI) are corporations that are authorised under the Banking Act 1959 (Commonwealth) to take deposits from customers.

**AFMA BBSW**- Australian Financial Markets Association Bank Bill Reference Rate.

**Bill of Exchange** – A bill of exchange is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a sum certain in money to or to the order of a specified person, or to bearer.



**Preservation of Capital** - Preservation of capital refers to an investment strategy with the primary goal of preventing losses in an investment portfolio's total value.

**Prudent person standard** - Prudent person standard is a legal standard restricting the investing and managing of a client's account to what a prudent person seeking reasonable income and preservation of capital might exercise for his or her own investment.

**Responsible Accounting Officer** - Responsible Accounting Officer (RAO) of a council means a member of the staff of the council designated by the General Manager, or if no such member has been designated, the General Manager. (LGGR, clause 196).

## 6. DELEGATION OF AUTHORITY

Authority for implementation of the Investment Policy is delegated to the General Manager in accordance with the Local Government Act 1993. The Responsible Accounting Officer in accordance with the General Manager's delegation is responsible for the day to day management of Council's Investments.

The Manager Corporate and Finance in accordance with the Responsible Accounting Officer's delegation makes investments on Councils behalf. Officers with delegated authority to manage council's investments will have received a copy of this Policy and understand their obligations in this role.

## 7. PRUDENT PERSON STANDARD

Council's 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 AND CONFLICTS OF INTEREST

Officers will 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 required to declare that they have no actual or perceived conflicts of interest.

## 9. APPROVED INVESTMENTS

Investments are limited to those allowed by the most current Ministerial Investment Order that has been issued by the NSW Minister for Local Government. Refer Appendix 1 Local Government Act 1993 – Investment Order attached.

## 10. PROHIBITED INVESTMENTS

In accordance with the Ministerial Investment Order, this investment policy prohibits but is not limited to any investment carried out for speculative purposes including:

- (a) Derivative based instruments;



- (b) Principal only investments or securities that provide potentially nil or negative cash flow; and
- (c) 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.***

## 11. RISK MANAGEMENT GUIDELINES

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

- 1) **Total Credit Exposure:** limit overall credit exposure of the portfolio
- 2) **Individual Institutional Exposure:** limit exposure to individual institutions based on their credit rating; and
- 3) **Term to Maturity Exposure:** limit exposures based upon mature of securities.

### 11.1. Total Credit Exposure

To control the credit quality on the entire portfolio, the following credit framework limits the percentage of the total portfolio exposed to particular credit rating categories. Credit rating agencies apply short term ratings to investments with 12 months or less to maturity and long term ratings to those with greater than 12 months to maturity.

ADI Portfolio Credit Limits/Ratings		
Long Term	Short Term	Max % of Portfolio
AAA	A-1+	100%
AA	A-1	100%
A	A-2	50%
BBB	A-3	30%

  

Specific Ministerial Approval Forms of Investment	
NSW Treasury Corp Deposits and TCorp IM Funds	100%

### 11.2. Individual Institutional Exposure

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

ADI Portfolio Credit Limits/Ratings		
Long Term	Short Term	Max % of Portfolio
AAA	A-1+	100%
AA	A-1	35%
A	A-2	20%
BBB	A-3	10%



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**NSW Treasury Corp Deposits and TCorp IM Funds**

11 am, Term Deposits or Bonds	35%
TCorpIM Cash Fund	35%
TCorpIM Cash Fund	20%

Credit ratings are based upon the Standard and Poor's Investment Rating, or their equivalent where a Standard and Poor's Investment Rating does not exist. If any of Council's investments are downgraded such that they no longer fall within the investment policy, they will be divested as soon as practicable. The short term credit rating limit will apply in the case of discrepancies between short and long term ratings.

**11.3. Term to Maturity Exposure**

Council's investment portfolio shall be structured round the time horizon of investments to ensure that liquidity and income requirements are met. The investment portfolio will be invested within the following maturity constraints.

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Overall Portfolio Maturity		
Portfolio % < 1 year	Minimum 40%	Maximum 100%
Portfolio % > 1 year < 5 years	Minimum 0%	Maximum 40%

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The Responsible Accounting Officer is responsible to ensure that access is available within seven (7) days to at least \$1,000,000 or 10% of value of total investments, whichever is greater.

**12. INVESTMENT ADVISOR**

Should Council engage an investment advisor, the 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 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.

**13. MEASUREMENT**

Should Council invest in eligible NSW TCorp managed funds or market traded securities, eg Floating Rate Notes (FRN's) the market value is to be assessed at least once a year to coincide with annual reporting.



## **14. BENCHMARKING**

The performance of the investment portfolio will be measured against the industry standard Bloomberg AusBond Bank Bill Index and/or the RBA Official Cash Rates.

## **15. REPORTING AND REVIEW OF INVESTMENTS**

The Responsible Accounting Officer is responsible for reconciling the investment register on a monthly basis and ensuring sufficient records are maintained including:

- (a) The source and amount of money invested;
- (b) Particulars of the security or form of investment in which the money was invested;
- (c) The term of the investment; and
- (d) The rate of interest to be paid and the amount earned, in respect of the money invested.

A report detailing the investment portfolio in terms of performance, investment institution and amount of each investment will be provided to every Ordinary Meeting of Council and annually to the Audit Risk and Improvement Committee in the February meeting.

## **16. RELATED LEGISLATION, POLICIES AND REVIEW**

### **16.1. Related Legislation and Policies**

The following are relative to this policy:

- 1) Local Government Act 1993 NSW;
- 2) Local Government (General) Regulations 2005;
- 3) Local Government (General) – Investment Order (of the Minister) – in accordance with the most recently published Order
- 4) The Trustee Amendment (Discretionary Investments) Act 1997 – Sections 14A(2), 14C(1) and (2)
- 5) Local Government Code of Accounting Practice and Financial Reporting
- 6) Australian Accounting Standards; and
- 7) NSW Office of Local Government Circulars.

### **16.2. Review**

Council reserves the right to vary, replace or terminate this policy at any time. This policy will be reviewed every 2 years or following an ordinary election of Council, or earlier if there are relevant statutory or State Government policy changes.



## 17. APPENDIX

**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 12<sup>th</sup> day of January 2011

  
Hon BARBARA PERRY MP  
Minister for Local Government