

<b>POLICY NAME</b>	<b>INVESTMENT POLICY</b>
Date Adopted	26 February 2025
Resolution Number	14/25
Policy Custodian	Director or Corporate Services
Policy Development Officer	Manager Finance & Technology
Review Date	February 2026 (1 year)
Relevant Legislation	Local Government Act (NSW) 1993 – sec 625 Local Government (General) Regulation (NSW) 2021 – Reg 212 Ministerial Investment Order The Trustee Amendment (Discretionary Investments) Act 1997 – sec 14A(2), 14C(1) and (2) Department of Premier and Cabinet Division of Local Government – Investment Policy Guidelines – May 2010 Local Government Code of Accounting Practice and Financial Reporting Australian Accounting Standards
Related Documents	N/A



## POLICY OBJECTIVES

The purpose of this policy is to provide a framework for the optimum investment of Tenterfield Shire Council’s funds at the most favourable rate of interest available to it at the time to maximize returns whilst having due consideration of risk tolerance, liquidity and security for its investments.

While exercising the power to invest, consideration is to be given to the preservation of capital, liquidity, and the return on 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. In setting these limits Council is determining the general level of risk that is acceptable for public monies managed for the

Tenterfield Shire Council community.

- 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.

## **POLICY 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 Environmental Planning and Assessment Act 1979;
- Internally restricted reserves;
- Restricted reserves accruing through special purpose grants; donations etc.;
- Loan proceeds drawn down awaiting expenditure; and
- Timing differences within the year between rate receipts and applications.

## **POLICY STATEMENT**

An investment policy is a governing document that incorporates the provisions of Section 625 of the Local Government Act 1993, the Local Government Regulations, the Investment Policy Guidelines and the current Ministerial Investment Order at 11 February 2011 to guide the investment process. It should communicate the Council's:

- investment philosophy;
- overall risk policy
- identify the roles for those involved in the investment process; and
- detail the requirements for compliance with the policy's goals and procedures.

Interest on 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. 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 with which Council can invest, the maximum proportion of funds that may be placed with individual organisations, and the types of investments entered into.

This policy ensures that Council and its representatives exercise care, diligence, and skill that a prudent person would exercise in investing Council's funds in seeking to first minimize the risk or loss or liquidity constraints, and secondly receive the appropriate return.

Council officers that are involved in selecting, reviewing and/or monitoring investment products should use this policy to ensure they understand the parameters, risks, and expectations that Councils are required to consider when making an investment.

### **Delegation of Authority**

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

The General Manager may in turn delegate the day-to-day management of Council's investment to the Responsible Accounting Officer or senior staff, subject to regular review. The Responsible Accounting Officer is the Manager Finance and Technology.

Delegated staff will have the appropriate level of skills to undertake the investment functions of Council.

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

### **Prudent Person Standard**

The investment 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 the Investment Policy.

Whenever an investment deposit is proposed, the Council Officer shall obtain not less than three (3) quotations from authorised institutions.

### **Ethics and Conflict of Interest**

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

## **Approved Investments**

The Ministerial Investment Order allows for the following as approved investments:

- Commonwealth / State / Territory Government security i.e. bonds;
- Interest bearing deposits issued by an authorised Deposit-taking Institution (ADI)
- Bills of exchange, (<200 days duration), guaranteed by and Authorised Deposit taking Institution (ADI);
- Debentures issued by NSW Local Government; and
- Deposits with NSW Treasury and/or investments in TCorp's Hour-Glass Investment Facility.

## **Prohibited Investments**

This Investment Policy prohibits, but is not limited to, any investment carried out for speculative purposes including:

- Any investment product that is not included in the Ministerial Investment Order and the "Approved Investments" listing outlined above;
- 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 the use of leveraging (borrowing to invest) an investment, but to clarify, does not exclude loans for other purposes (such as loans under the Local Infrastructure Renewal Scheme) being invested prior to the expenditure of those funds for their intended purpose.

## **Investment Advisor**

If an investment advisor is engaged s/he must be approved by Council and licensed by the Australia Securities and Investment Commission. The advisor must be an independent person who has no actual or potential conflicts of interest in relation to investment products being recommended. The investment advisor may recommend the most appropriate product within the terms and conditions of the investment Policy.

The independent advisor is required to provide written confirmation that s/he does not have any actual or potential conflicts of interest in relation to the investments s/he is recommending or reviewing, including that s/he is not receiving any commissions or benefits in relation to the investments being recommended or reviewed.

## **Risk Management Guidelines**

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

- Credit Risk – the risk that an institution/entity Council has invested in

- fails to pay the interest and or repay the principle of an investment;
- Preservation of Capital – the requirement for preventing losses in an investment portfolio’s total value;
- Diversification of Financial Institutions – the requirement to place investments in a broad range of institutions so as not to be over exposed to a particular organisation within the investment market;
- Market Risk – the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices;
- Liquidity Risk – the risk an investor is unable to redeem the investment at a fair price within a timely period; and
- Maturity Risk – the risk relating to the length of term to maturity of the investment. The larger the term, the greater the length of exposure and risk to market volatilities.

### **Credit and Maturity Limits**

Investments obtained must comply with key criteria as indicated below relating to:

- Portfolio Credit Framework: limit overall credit exposure to the portfolio;
- Counterparty Credit Framework: limit exposure to individual counterparties/institutions;
- Term of Maturity Framework: limits based upon maturity of securities;
- Protection of Principal: Investments entered into must be structured to minimise risk of loss of principal;
- Grant Funding Conditions: conditions relating to grant funding available to invest must be complied with;
- Trust funds are excluded from this Policy as they must be kept in a separate bank account.

#### **A) Overall Portfolio Limits**

The following credit framework limits the percentage of the portfolio exposed to any particular credit rating category:-

S&P Long Term Rating	S&P Short Term Rating	Direct Investment Maximum %
AAA to AA-	A-1+	100%
A to A-	A-1	45%
BBB+ to BBB-	A-2	25%
BB+ to D	-	10%
Government*		100%

#### **B) Counterparty Credit Framework**

This limits the exposure to an individual institution based on the credit

rating of that institution such that exposure to any one institution is limited, as detailed in the table below:-

S&P Long Term Rating	S&P Short Term Rating	Direct Investment Maximum %
AAA to AA-	A-1+	60%*
A to A-	A-1	35%
BBB+ to BBB	A-2	15%
BB+ to D	-	5%
Government*		100%

\*Recognising that at times due to timing issues this may increase to 100% for brief periods.

For the purpose of determining the "Direct Investment Maximum %", an investment in an approved institution which operates as a division of a parent institution, shall be treated as being an investment in the parent institution.

### C) Term to Maturity Framework

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

<b>Overall Portfolio Term to Maturity Limits</b>	
Portfolio % < 1 year	100% maximum 60% minimum
Portfolio % > 1 year < 5 years	40%
<b>Individual Investment Maturity Limits</b>	
ADI	Five (5) years
Non ADI	Three (3) years

\*An exception to the above limits applies to funds placed with either the Australian Federal Government or the NSW State Government or their respective Treasury Functions. 100% of Council's monies can be placed with these institutions. In the event that an entity is unrated by S&P but rated by Moody's or Fitch, the S&P equivalent to that rating is to be utilised into the above framework. The short-term credit rating will apply in the case of discrepancies between the short and long-term rating.

### Benchmarking

Performance benchmarks are to be provided for comparative purposes only. The benchmark is not an investment return target. The rate of return on Council's investments will be dependent on Council's risk tolerance.

The Term Deposit rate for the average 90-day rate of the five (5) largest banks identified in the Bloomberg Ausbond Bank Bill Index is considered appropriate for the purpose of benchmarking Council's investments.

## **Reporting and Reviewing of Investments**

Documentary evidence must be held for each investment and details thereof maintained in an Investment Register.

Certificates must be obtained from the financial institutions confirming the amounts of investments held on 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 on a monthly basis.

A monthly report will be provided to Council. The report will detail the investment portfolio in terms of performance, percentage exposure of total portfolio, maturity date and changes in market value. Any material deterioration in Council's investment portfolio is to be reported to Council at the next available Ordinary Council Meeting.

Any breaches of the Policy will also be included in the first investment report following the discovery of any breach.

This Investment Policy will be reviewed at least once a year or as required in the event of legislative changes. The 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.

## **ACCOUNTABILITY, ROLES & RESPONSIBILITY**

### **Elected Council**

- Provide strategic direction and stewardship;
- Consider legislative requirements and good governance when setting policies and strategies;
- Adopt an Investment Policy annually.

### **General Manager, Executive and Management Teams**

- Implement the policy and oversee the compliance of Council investments with the policy;
- Keeping abreast of legislative amendments and review and make recommendations for variations to the policy as required.

### **Individual Managers**

- Manager Finance and Technology to ensure adherence to this Policy and report any breaches;
- Officers' delegated authority to manage Council's investments shall be recorded and required to acknowledge they have received a copy of this policy and understand their obligations in this role.

## POLICY DEFINITIONS

Authorised Deposit-taking Institutions (ADIs)	Are corporations authorised under the Bank Act 1959 (Cwth) to take deposits from customers. ADI's include banks, building societies and credit unions all of which are regulated by the Australian Prudential Regulation Authority.
Bank Bill Swap Rate	A compilation and average rate of market rates supplied by domestic banks relating to multiple maturities of bank bills.
Bloomberg Ausbond Bank Bill Index	Is an index comprised of 13 synthetic instruments defined by rates interpolated from the RBA 24-hour cash rate and the one and three month Bank Bill Swap Rates.
Bill of Exchange	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.
Credit Risk	Is the risk of loss to an investor due to the failure of the institution/entity with which an investment is held to pay the interest and/or repay the principal of an investment.
Debenture	A debt security usually secured by a fixed or floating charge over an underlying asset or pool of assets. Debentures are normally issued by companies in return for medium and long-term investment funds.
Floating Rate Notes	Securities that (in Australia) pay a coupon normally priced at a fixed margin above the Bank Bill Swap Rate.
Interest Rate Risk	The risk that the fair value or future cash flows of an investment will fluctuate because of changes in market interest rates.
Investment Portfolio	The total pool of all the Council's investments.
Liquidity Risk	The risk that Council runs out of cash, is unable to redeem the investments at a fair price within a timely period, and thereby incurs additional costs – either due to its own liquidity management or through changes in the liquidity profile of an investment.
Market Risk	The risk that the fair value or future cash flow of



	an investment will fluctuate due to changes in market prices.
Maturity Risk	The risk relating to the length of term to maturity of the investment. The larger the term, the greater the length of exposure and risk to market volatilities.
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	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 (RAO) of Council	A member of the staff of the Council designated by the General Manager, or if no such member has been designated, the General Manager (LGRR, clause 196).
TCorp	NSW Treasury Corporation.
Term Deposits (or Deposits)	Non-tradeable investments offered by ADIs with varying maturity dates (normally from one month to 60 months) and a rate set at the outset. Interest is normally payable upon maturity or if the term is longer than 12 months, annually from the investment date. Penalties apply if the funds are withdrawn before maturity and a notice period of 31 days is usually required.

## VERSION CONTROL & CHANGE HISTORY

Previous Versions	Date of Adoption by Council	Resolution #	Author/Editor	Summary of Changes
V1.0	27/04/00	334/00	Council	Adoption of Original Policy
V2.0	28/11/07	690/07	Council	Revised
V3.0	22/10/08	236/08	Council	Revised
V4.0	22/09/10	680/10	Council	Revised
V5.0	26/10/11	509/11	Council	Revised
V6.0	24/10/12	427/12	Council	Revised
V7.0	23/10/13	385/13	Council	Revised
V8.0	21/05/14	159/14	Council	Revised
V9.0	20/05/15	137/15	Council	Revised
V9.1	18/05/16	120/16	Council	Revised
V10.0	28/06/17	105/17	Council	Revised
V11.0	23/05/18	97/18	Council	Revised
V12.0	22/05/19	121/19	Council	Revised
V13.0	24/06/20	108/20	Council	Revised
V14.0	23/11/22	226/22	Council	Revised
V15.0	26/02/25	14/25	Liz Alley	Amended Legislation and Position Titles