



# **INVESTMENT POLICY**

**Dungog Shire Council**

2024

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## 1 PURPOSE

To provide a framework for the investing of Council's funds at the most favourable rate of interest 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, due consideration is to be given to:

- **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.
- **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 significant costs due to the unanticipated sale of an investment.

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

## 2 LEGISLATIVE REQUIREMENTS

All investments are to comply with the following:

- *Local Government Act 1993 – Section 412 & 625*
- *Local Government Act 1993 – Investment Order (of the Minister) – in accordance with the most recently published Order;*
- *Local Government (General) Regulation 2021 – Reg 212;*
- *The Trustee Amendment (Discretionary Investments) Act 1997 – Sections 14A(2), 14C(1) & (2);*
- Local Government Code of Accounting Practice and Financial Reporting; and
- Australian Accounting Standards.

## 3 POLICY STATEMENT

### 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 may in turn delegate the day-to-day management of Council's Investment to the Responsible Accounting Officer or senior staff, subject to regular reviews.

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.

## **Prudent Person Standard**

Council has a fiduciary responsibility when investing. 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.

## **Ethics and 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 required to declare that they have no actual or perceived conflicts of interest.

## **Approved Investments**

Investments are limited to those allowed by any current Ministerial Investment Order that has been issued by the NSW Minister for Local Government.

## **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:

- Derivative based instruments; Principal only investments or securities that provide potentially nil or negative cash flow;
- Stand-alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind;
- Other investments excluded by the Investment Order.

This policy also prohibits the use of leveraging (borrowing to invest) of an investment.

## **Risk Management Framework**

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

Investments are to comply with the following three-part Risk Management Framework:

1. **Overall Portfolio Credit Framework** limits overall credit exposure of the portfolio. 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:

Long-term Credit Ratings	Portfolio Max %
AAA	100%
AA+, AA, AA-	100%
A+, A	100%
A-	40%
BBB+ and BBB total	30%
Sub limit: BBB+	Up to 30%
Sub limit: BBB	Up to 10%
BBB- and lower: Local ADIs & Other	5%
NSW TCorpIM Funds	Portfolio Max %
NSW Treasury Corp Deposits and TCorpIM Funds (allowable under the Ministerial Order)	50%

Credit ratings are based upon the Standard & Poor's (S&P) Investment Rating, or equivalent, where a S&P Investment Rating does not exist.

2. **Institutional Credit Framework** limits exposure to individual institutions based on their credit rating as follows:

Long-term Credit Ratings	Portfolio Max %
AAA	50%
AA+, AA, AA-	50%
A+, A	40%
A-	20%
BBB+	10%
BBB	5%
BBB- and lower	5%
Sub limit: BBB- and lower: Local ADIs	Up to 5%
Sub limit: BBB- and lower: Other	\$250,000 per institution
BBB- and lower: Local ADIs & Other	5%
NSW TCorpIM Funds	Portfolio Max %
TCorpIM Cash Fund (not rated)	30%
TCorpIM Short-term Income Fund (not rated)	20%

Credit ratings are based upon the Standard & Poor's (S&P) Investment Rating, or equivalent, where a S&P Investment Rating does not exist.

If any of the Council's investments are downgraded such that they no longer fall within the investment policy limits, they will be divested as soon as practicable having regard to potential losses resulting from early withdrawal.

3. **Term to Maturity Framework** limits exposure based upon maturity of securities and credit ratings of investments. Council's investment portfolio shall be structured around the time horizon of investment to ensure that liquidity and income requirements are met.

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

Overall Portfolio Term to Maturity Limits		
Portfolio % $\leq 1$ year	Min 20%	Max 100%
Portfolio % $> 1$ year $\leq 10$ years	Min 0%	Max 80%
Sub limits by Maturity		
Portfolio % $> 3$ years	Min 0%	Max 50%
Portfolio % $> 5$ years $\leq 10$ years	Min 0%	Max 25%
Sub limits by Credit Rating		
Sub limits: AA+, AA, AA- rating:		5yrs maximum
Sub limits: A+, A, A-, BBB+ rating:		3yrs maximum
Sub limits: BBB, BBB- and below rating:		1yr maximum

## Investment Strategy

An Investment Strategy will operate in conjunction with the Investment Policy. The investment strategy will be reviewed with an independent investment advisor biennially. The Strategy will outline:

- Market conditions and the appropriate responses - particularly relative positioning within the limits outlined in this policy;
- Diversification: the allocation of investment type, credit quality, counterparty exposure and term to maturity profile;
- Relative return outlook, risk-reward considerations, assessment of the market cycle and hence constraints on risk;
- Council's current cash flow expectations and the implications for deviations from a long-term liquidity profile; and
- Optimisation of overall eligible investments for Council's portfolio.

## Investment Advisor

Council's investment advisor must be approved by the General Manager 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. The advisor shall also assist Council to ensure that the commercial terms on which Council is offered investments by banks, fund managers, issuers and brokers are fair and reasonable.

## **Measurement**

The investment return for the portfolio is to be regularly reviewed by Council's financial advisor by assessing the market value of the portfolio. The market value is assessed at least once a month to coincide with monthly reporting.

## **Performance Benchmarks**

The performance of the investment portfolio shall be measured against the industry standard Bloomberg Ausbond Bank Bill Index and/or the Official Cash Rate. Monies invested "At Call" should where possible reference the Official Cash Rate.

## **Reporting and Reviewing of Investments**

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

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 on a monthly basis.

A monthly report will be provided to Council. The report will detail the investment portfolio in terms of performance, show movements of investments and maturity date.

## **Review and Variation to Investment Policy**

This Investment Policy will be reviewed 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 the Council and in the spirit of this policy. Any amendment to the Investment Policy must be by way of Council resolution.

## **Audit Requirements**

Council's external auditors will require independent certification from the relevant financial institutions/safe custodians to confirm the balance of investments held on Council's behalf at the end of the financial year.

The external auditor will periodically review the adequacy of the investment policy, strategy and management's internal controls as part of their audit review program.

## 4 SCHEDULES

### Schedule 1 - Standard & Poor's (S&P) Ratings Description

#### Credit Ratings

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:

Rating	Definition
<b>AAA</b>	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.
<b>AA</b>	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.
<b>A</b>	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.
<b>BBB</b>	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.
<b>Unrated</b>	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).



<b>Plus (+) or minus (-)</b>	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. Each new investment and investment recall requires two authorised signatories.
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CreditWatch highlights an emerging situation, which may materially affect the profile of a rated corporation and can be designed as positive, developing or negative. Following a full review the rating may either be affirmed or changed in the direction indicated.

A Rating Outlook assesses the potential direction of an issuer’s long-term debt rating over the intermediate-to-long term. In determining a Rating Outlook, consideration is given to possible changes in the economic and/or fundamental business conditions. An outlook is not necessarily a precursor of a ratings change or future CreditWatch action. A “Rating Outlook – Positive” indicates that rating may be raised. “Negative” means a rating may be lowered. “Stable” indicates that ratings are not likely to change. “Developing” means ratings may be raised or lowered.

## Schedule 2 – Extracts of Legislative Requirements

### LOCAL GOVERNMENT ACT 1993

#### 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

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

A trustee must, in exercising a power of investment:

1. 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
2. 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).

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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 2021**

### **Clause 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.



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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.

A handwritten signature in blue ink, reading 'Ross Woodward'.

**Ross Woodward**  
Chief Executive, Local Government  
A Division of the Department of Premier and Cabinet

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## LOCAL GOVERNMENT ACT 1993 – INVESTMENT ORDER

### 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.

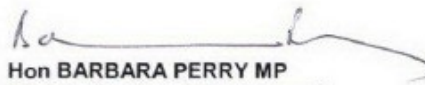
All councils should by resolution adopt an investment policy that is consistent with this Order and any guidelines issued by the Chief Executive (Local Government), Department of Premier and Cabinet, from time to time.

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



## **5 POLICY ADMINISTRATION**

Responsible Officer:	Manager Finance
Council or	Council
Management:	
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