Council Policy

Investment

1 Purpose of Policy

To ensure Council maintains an investment policy that complies with the Act, the Local Government (General) Regulation 2005 (LGGR) and the Ministerial Investment Order and ensures it or its representatives exercise care, diligence and skill that a prudent person would exercise in investing council funds.

2 Policy Statement

The objectives of this policy are 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 Council's liquidity requirements are being met.

Investments must only be made in compliance with the most current Ministerial Investment Order that has been issued by the NSW Minister for Local Government and in accordance with this Policy.

When exercising the power of investment, Council 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.

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.

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

3 Principles

3.1 Investment Strategy

An Investment Strategy will run in conjunction with the Investment Policy. The Investment Strategy will be reviewed with an independent investment advisor once a year. The Strategy will outline:

- Council's cash flow expectations;
- Optimal target allocation of investment types, credit rating exposure and term to maturity exposure; and
- Appropriateness of overall investment types for Council's portfolio.

3.2 Investment Advisor

Council's investment advisor must be approved by Council and licensed by the Australian Securities and Investments 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.

3.3 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. Approved investments include:

- Commonwealth/State/Territory Government security eg bonds;
- Interest bearing deposits with, or any debentures or bonds, issued by an authorised deposit taking institution (ADI) (as defined In the Banking Act 1959 (Cwth)), but excluding subordinated debt obligations; Bills of exchange, (<200 days duration), issued and/or accepted by an authorised deposit taking institution (ADI);
- Debentures issued by NSW Local Government;
- Deposits with NSW Treasury &/or Investments in T Corp's Hour Glass Facility; and
- Investments grandfathered under the previous Ministerial Investment Order.

3.4 Prohibited Investments

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; and
- 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.

3.5 Prudent Person Standard

Council has a fiduciary responsibility when investing. 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 portfolio to safeguard the portfolio in accordance with the spirit of this Investment Policy, and not for speculative purposes.

3.6 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 Chief Executive Officer.

Independent advisors are also required to declare that they have no actual or perceived conflicts of interest.

Where financial institutions are offering equivalent investment returns with the same credit ratings and the investment conforms with the Investment Policy then preference will be given to institutions demonstrating environmental and social responsibility.

3.7 Audit, Risk and Improvement Committee

The policy must be reviewed annually by the Audit, Risk and Improvement Committee. Such review to be carried out prior to an annual review of the policy that is required under Clause 5.1.

3.8 Linking Investments to Underlying Liabilities

Investments should seek to maximise return whilst having regard to the timing and nature of future liabilities and Council's cash flow profile. Liquidity requirements have due regard to the timing and nature of both future liabilities and Council's cash flow requirements.

4 Guidelines

4.1 Risk Management Guidelines

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

- ***Preservation of Capital*** – the requirement for preventing losses in an investment portfolio's total value;
- ***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;
- ***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;
- ***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; and
- ***Leveraging Risk*** - the magnification of an investor's risk and return that occurs when the investor takes on financial leverage through an investment product.

4.2 Credit and Maturity Guidelines

Investments are to comply with three key criteria relating to:

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

4.2.1 Overall Portfolio Credit Framework

To control the credit quality of the entire portfolio, the following credit framework limits the percentage of the portfolio exposed within the market to any particular credit rating category.

S&P Long Term Rating*	S&P Short Term Rating*	Maximum %
AAA (incl. government guaranteed deposits)	A-1+	100%
AA+		
AA		
AA-		
A+	A-1	100%
A		
A-	A-2	80%
BBB+		
BBB		
BBB-	A-3	30%
Unrated**	Unrated**	20%

* or Moody's / Fitch equivalents

** Unrated Category is restricted to eligible managed funds such as the NSW Treasury Corporation Hour Glass Facilities.

4.2.2 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:

S&P Long Term Rating*	S&P Short Term Rating*	Maximum %
AAA (incl. government guaranteed deposits)	A-1+	50%
AA+		
AA		
AA-		
A+	A-1	40%
A		
A-	A-2	30%
BBB+		
BBB		
BBB-	A-3	10%
Unrated**	Unrated**	10%

* or Moody's / Fitch equivalents

** Unrated Category is restricted to eligible managed funds such as the NSW Treasury Corporation Hour Glass Facilities.

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.

4.2.3 Term to Maturity Framework

The investment 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 ≤3 year	Min 0%	Max 60%
Portfolio % >3 year ≤5 year	Min 0%	Max 30%

5 Reporting Requirements

5.1 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, percentage exposure of total portfolio, maturity date and changes in market value.

By resolution Council will adopt an Investment Policy that is consistent with the Ministerial Investment Order and any guidelines issued by the Chief Executive (Local Government), Department of Premier and Cabinet from time to time.

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.

5.2 Measurement

The investment return for the portfolio is to be regularly reviewed by an independent financial advisor by assessing the market value of the portfolio. The market value is to be assessed at least once a month to coincide with monthly reporting. Any changes to the market value that have not been accounted for will be brought to account on a mark-to-market basis.

5.3 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. The performance of investments with terms greater than 2 years will also be measured against the Bloomberg Ausbond Composite 2-5 year index.

6 Delegation of Authority

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

The Chief Executive Officer may in turn delegate the day-to-day management of Council's investments 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.

The Chief Executive Officer or any other staff member, with delegated authority by Council to invest funds on behalf of Council must do so in accordance with the adopted investment policy.

7 Amendments

The Chief Executive Officer or their delegated representative be authorised to approve variations to investment options that may not be consistent with this policy, if the investment is to Council's advantage and/or due to revised legislation.

All such variations are to be reported to Council within 14 days.

8 Scope and application

This policy applies to all employees, agents, officers and councillors of Northern Beaches Council.

9 References and related documents

All investments are to comply with the following:

- Local Government Act 1993;
- Local Government (General) Regulation 2005;
- Ministerial Investment Order 2011;
- Local Government Code of Accounting Practice and Financial Reporting;
- Australian Accounting Standards; and
- Office of Local Government Circulars

10 Definitions

"Act" Local Government Act 1993;

"LGGR" Local Government (General) Regulation 2005;

11 Responsible Officer

Chief Financial Officer

12 Review Date

The policy is due for review at least once per year or as required in the event of legislative changes.

13 Revision History

Revision	Date	Change	TRIM Ref
1	27 Sept 2016	Policy adopted by Council	2016/322788
1.1	17 April 2018	Minor amendment – formatting changes to updated policy template.	2016/322788

SCHEDULE 1:
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.

LOCAL GOVERNMENT (GENERAL) REGULATION 2005 - REG 206 & 212

206 Accounting records and accounting practices to accord with the Code

1) A council's accounting records must be kept in a form that accords with the Code.
2) A council's accounting practices must accord with the Code.

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.

LOCAL GOVERNMENT CODE OF ACCOUNTING PRACTICE AND FINANCIAL REPORTING – CL 11.3.4 & 11.3.5

11.3.4 Councils must maintain a separate record of money it has invested under section 625 of the LGA. The record must specify:
   (a) the source and the amount of money invested; and
   (b) particulars of the security or form of investment in which the money is invested; and
   (c) if appropriate, the rate of interest to be paid, and the amount of money that the council has earned, in respect of the money invested.

11.3.5 Council must maintain an investment policy that complies with the Act and ensures it or its representatives exercise care, diligence and skill that a prudent person would exercise in investing council funds.

dlg | circular to councils

Circular No.	11-01	Contact	Finance Policy Section
Date	17 February 2011		02 4428 4100
Doc ID.	A232163		dlg@dlg.nsw.gov.au

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