



## LIVERPOOL PLAINS SHIRE COUNCIL INVESTMENTS POLICY

Version	Date	Resolution No.	Details
1	24 June 2004	9079	Amalgamation
2	28 Feb 2007	10785	Updated
3	28 July 2010	13085	Minister Guidelines
4	23 March 2011	13458	Changes to Investment Order
5	26 June 2013	384	Ministerial Investment Order
6	23 April 2014	877	Ministerial Investment Order
7	28 March 2018	2822	Policy Review
8	28 August 2019	3349	Due diligence review

### POLICY OBJECTIVE

The objective of this policy is to:

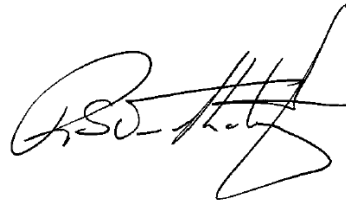
- 1 To provide a framework for investment of surplus Council funds at the most favourable rate of interest available, whilst having due consideration of risk and security for investments ensuring its liquidity requirements are being met.
- 2 Whilst exercising the power to invest consideration must be given to the preservation of capital, liquidity and the return on investment.
  - A 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.
  - B 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.
  - C Investments are expected to achieve a market average rate of return in line with Council's risk management guidelines.

### EFFECTIVE DATE AND POLICY REVIEW

The policy shall be reviewed every four years or earlier if required by legislation, Council resolution or recommendation of the General Manager. If the policy is not reviewed within this timeframe, it remains active until such time as it is reviewed or revoked by Council.

This policy comes into effect on 28 August 2019.

Signed by General Manager

A handwritten signature in black ink, appearing to read 'R S van Katwyk', written over a horizontal line.

R S (Ron) van Katwyk

Date Approved      28 August 2019

## POLICY

### OBJECTIVES

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.

### LEGISLATIVE REQUIREMENTS

All investments are to comply with the following:

- ▶ Local Government Act 1993 – Section 412 and 625
- ▶ Local Government (General) – Investment Order (of the Minister) – in accordance with the most recently published Order
- ▶ The Trustee Amendment (Discretionary Investments) Act 1997 – Sections 14A(2), 14C(1) and (2)
- ▶ Local Government (General) Regulation 2005 – Reg 212
- ▶ Local Government Code of Accounting Practice and Financial Reporting
- ▶ Australian Accounting Standards, and
- ▶ Office of Local Government Circulars.

### 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 Finance in accordance with the Responsible Accounting Officer's delegation makes investments on Councils behalf.

Officers with delegated authority to manage council's investments shall have received a copy of the Policy and understand their obligations in this role.

### PRUDENT PERSON STANDARD

Council 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 portfolio 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 the most current Ministerial Investment Order that has been issued by the NSW Minister for Office of Local Government,

- (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 binds 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 HourGlass 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.

### 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 and
- ▶ Standalone securities issued that have underlying, options, forward contracts and swaps of any kind.

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

## RISK MANAGEMENT GUIDELINES

Investments are to comply with the following three part 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.

### 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 TCorpIM Funds		100%

### 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+	40%
AA	A-1	35%
A	A-2	20%
BBB	A-3	10%
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.

### 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 shall be invested within the following maturity constraints.

Overall Portfolio Maturity		
Portfolio % < 1 year	Minimum 40%	Maximum 100%
Portfolio % > 1 year < 3 years	Minimum 0%	Maximum 60%
Portfolio % > 3 years < 5 years	Minimum 0%	Maximum 40%
Portfolio % > 5 years	Minimum 0%	Maximum 10%

\* *Ensure access is available within seven (7) days to at least \$1,000,000 or 10% of value of total investments, whichever is greater.*

### INVESTMENT ADVISOR

Should Council engage an investment advisor, the advisor must be approved by Council and licensed by the Australian Securities and Investment Commission (ASIC). 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. Any commissions paid to the advisor by product providers will be rebated, or otherwise onforwarded, to Council as per ASIC requirements for an independent investment advisor.

### 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.

### BENCHMARKING

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

**REPORTING AND REVIEW OF INVESTMENTS**

- 1 The Responsible Accounting Officer (RAO) shall be 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 of money earned, in respect of the money invested.
- 2 A monthly report shall be provided to Council, detailing the investment portfolio in terms of performance, investment institution and amount of each investment.
- 3 The report shall also detail each investments average return (%) compared against the performance benchmark rates.

**SCHEDULE 1:****Extracts of Legislative Requirements****LOCAL GOVERNMENT ACT 1993 – SEC 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 that 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.
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Circular No. 11-01  
Date 17 February 2011  
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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.

**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

(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

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**THE TRUSTEE AMENDMENT (DISCRETIONARY INVESTMENTS) ACT 1997 – SECTIONS 14A(2), 14C (1) & (2)****14A (2) Duties of trustee in respect of power of investment**

A trustee must, in exercising a power of investment:

- (a) 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
- (b) 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).

(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 2005 - CLAUSE 212

**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.