

Policy No. PP004

# Investment Policy

## 1 INFORMATION ABOUT THIS POLICY

### POLICY INFORMATION

<b>Date Adopted by Board</b> 23 February 2017	<b>Resolution No.</b> 20/034
<b>Policy Responsibility</b> Corporate Services Manager	
<b>Review Timeframe</b> 4 Yearly (Once Per Council Term)	
<b>Last Review</b> 16/01/2025	<b>Next Scheduled Review</b> 01/2028

### DOCUMENT HISTORY

DOCUMENT NO.	DATE AMENDED	SUMMARY OF CHANGES
<b>15/071</b>	DD/MM/YYYY	No change
	23/05/2016	Policy reformatted, addition of Purpose, Scope and Definitions Generally, reference to "council" amended to GWCC Highlighting of Preservation of capital is the principal objective of the investment portfolio in part 7 Objectives. Removed Market, Liquidity and Maturity Risk definitions (now duplicated) in part 14 Risk Management Guidelines. Policy Review now separate from Reporting and Reviewing of Investments.
<b>17/007</b>	23/02/2017	Additional wording to Prohibited Investments
<b>20/034</b>	23/04/2020	Amend wording to be in line with OLG Investment Guidelines. Update portfolio framework limits.
	16/01/2025	Updates to Risk Management Framework and Investment Advisor.

### FURTHER DOCUMENT INFORMATION AND RELATIONSHIPS

<b>Related Legislation</b>	<i>Local Government Act 1993</i> <i>Local Government (General) Regulation 2021</i> <i>Banking Act 1959 (Cwth)</i>
<b>Related Policies</b>	CP037 Code of Conduct

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### 3 PURPOSE

The purpose of Council's Investment Policy is to provide a framework for the investment of funds at Goldenfields Water County Council.

This policy aims to ensure Council's investments are managed in a prudent and appropriate manner in accordance with legislative requirements. The policy details Council's overall investment objectives and guiding principles, identifies who the policy applies to, and provides guidance for compliance with the policy's goals and procedures.

### 4 SCOPE

All Council officers, including those with delegated authority to act on Councils behalf in relation to investments, are required to act in accordance with this policy at all times.

### 5 DEFINITIONS

Term	Definition
<b>ADI</b>	Authorised Deposit Taking Institutions (ADI) are corporations that are authorised under the <i>Banking Act 1959 (Cwth)</i> to take deposits from customers.
<b>BBSW</b>	Bank Bill Swap Rate (BBSW) is a short-term interest rate used as a benchmark for the pricing of Australian derivatives and securities.
<b>Bill of Exchange</b>	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 money to or to the order of a specified person, or to bearer.
<b>Debentures</b>	A debenture is a document evidencing an acknowledgement of a debt, which a company has created for the purposes of raising capital. Debentures are issued by companies in return for medium- and long-term investment of funds by lenders
<b>Grandfather Clause</b>	Grandfather clause is a legislative clause, which in prohibiting a certain activity, exempts those who were already engaged In the activity at the time the legislation was passed.
<b>Investment Portfolio</b>	The total pool of all of the Council's investments.
<b>Ministerial Investment Order</b>	Ministerial Investment Order is an Order issued by the Minister for Local Government.
<b>Preservation of Capital</b>	Preservation of capital refers to a conservative investment strategy with the primary goal of preventing losses in the investment portfolio's face value.
<b>Prudent person standard</b>	Prudent person standard is a legal standard restricting the investment and managing of a client's account to what a reasonable person seeking reasonable income and preservation of capital might exercise for their own investment.
<b>RAO</b>	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 296).
<b>RBA</b>	Reserve Bank of Australia.

## 6 OBJECTIVES

The Goldenfields Water County Council investment objective is to provide the most favourable return to Council available to it at the time whilst having due consideration of risk and security for that investment type and ensuring Council's liquidity requirements are being met.

When investing funds Council has three primary objectives:

- Preservation of capital. 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.
- Manage 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.
- Maximise returns within Council's risk appetite as outlined in this policy. Investments are expected to achieve a market average rate of return in line with the Council's risk tolerance.

## 7 LEGISLATIVE REQUIREMENTS

Council makes all investment in accordance with:

- *Local Government Act 1993* – section 412 and 625;
- *Local Government Act 1993* – Prevailing Ministerial Investment Order
- *Local Government (General) Regulation 2021* – Reg 212 ;
- *The Trustee Amendment (Discretionary Investments) Act 1997* – sections 14A(2), 14C(1) and (2)
- Local Government Code of Accounting Practice and Financial Reporting;
- Australian Accounting Standards; and
- Office of Local Government Circulars.

## 8 DELEGATION OF AUTHORITY

Council, in accordance with the *Local Government Act 1993*, delegates authority for implementation of the Investment policy to the General Manager.

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 that are 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 when investing funds on behalf of Council in accordance with this policy.

## 9 PRUDENT PERSON STANDARD

The investment portfolio 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.

## 10 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.

Council's investments are primarily restricted to Australian Authorised Deposit Taking Institutions (banks, building societies, credit unions) that are governed by the Australian Prudential Regulatory Authority.

## 11 APPROVED INVESTMENTS

All investments must be denominated in Australia dollars. Authorised investments are limited to those allowed by the Ministerial Investment Order, issued by the NSW Minister for Local Government which include:

- Commonwealth/State/Territory Government securities, for example, bonds;
- Interest bearing deposits/senior securities issued by an eligible Authorised Deposit-taking Institution (ADI);
- Bills of Exchange (fewer than 200 days duration) guaranteed by ADI;
- Debentures issued by a NSW council under the *Local Government Act 1993*; and
- a deposit with the NSW Treasury Corporation or investments in an Hour-Glass investment facility of the NSW Treasury Corporation.

Council may also invest in property investments incorporating land, buildings, a portfolio of ground leases and land held for strategic purposes.

## 12 PROHIBITED INVESTMENTS

In accordance with the current 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
- 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. However, nothing in the policy shall prohibit the short-term investment of loan proceeds where the loan is raised for non-investment purposes and there is a delay prior to the expenditure of the loan funds.

## 13 RISK MANAGEMENT FRAMEWORK

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

- Overall Portfolio Credit Framework: limits overall exposure of the portfolio.
- Institutional Credit Framework: limits exposure to individual institutions based on their credit rating.
- Term to Maturity Framework: limits exposures based upon maturity of securities and credit ratings of investments.

### 13.1 Overall Portfolio Credit Framework

The table below sets out limitations for Investment funds to be observed by Council.

Long Term Credit Ratings	Portfolio Limit	Institution Limit	Maximum Tenor
AAA	100%	50%	5 years
AA+, AA, AA-	100%	50%	5 years
A+, A and A-	80%	40%	3 years
BBB+ and BBB Total	50%		
BBB+	up to 35%	10%	3 years
BBB	up to 15%	5%	12 months
BBB- and lower & Unrated	0%	0%	Not applicable

If any of Council's investments are downgraded or policy limits are raised, such that they no longer fall within the investment policy limits, they will be divested as soon as practicable after consultation with its investment advisor, having regard to potential losses resulting from early redemption and subject to minimising any loss of capital that may arise from compliance with this provision.

Where growth in investments, resulting from strong investment returns, or the total value of all investments decreases, either causing an institutional Credit Framework limit to be exceeded, the exceeding investments may be retained until maturity. However, no further investment may be made in the institution (which has exceeded the limit) while the institution exceeds the limit. Such investments must be reviewed annually.

### 13.2 Credit Rating Categories

Long-Term (Short-Term) Category	Definition
AAA (A1+)	The obligor's capacity to meet its financial commitments on the obligation is extremely strong.
AA (A1+)	An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitments on the obligation is very strong.
A (A1)	An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitments on the obligation is still strong.
BBB (A2)	An obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to weaken the obligor's capacity to meet its financial commitments on the obligation.
Unrated	Issuer is not rated (eg. building societies).

### 13.3 Term to Maturity Framework

Council's investment portfolio shall be structured to ensure that sufficient liquidity is available to meet cash flow requirements. The following guidelines shall be adhered to:

- Cash Flow Analysis:** Regular cash flow forecasts shall be conducted to determine the liquidity needs of Council. These forecasts will guide the maturity structure of the investment portfolio.
- Interest Rate Forecasts:** Interest rate trends and forecasts shall be considered when determining the term to maturity of investments. The goal is to optimise returns while managing interest rate risk.

3. **Maturity Laddering:** Investments shall be laddered to mature at regular intervals, ensuring a steady flow of funds to meet operational needs. This strategy helps mitigate reinvestment risk and provides flexibility in a changing interest rate environment.
4. **Maximum Maturity:** No investment shall have a maturity exceeding five years, unless specifically approved by the Board. This limit ensures that the portfolio remains responsive to changes in interest rates and cash flow needs.
5. **Liquidity Requirements:** A minimum of 20% of the portfolio shall be maintained in highly liquid instruments to meet unexpected cash flow demands.
6. **Review and Adjustment:** The term to maturity requirements shall be reviewed periodically and adjusted as necessary to align with updated cash flow forecasts and interest rate projections.

## 14 PERFORMANCE BENCHMARKS

Investment performance will be measured against the Reserve Bank of Australia Cash Rate, the Australian Securities Exchange Bank Bill Swap Rate (BBSW) or the Bank Bill Index depending upon the term of the investments.

## 15 INVESTMENT ADVISOR

Council's investment advisor must be appointed in line with Council's Procurement Policy and licensed by the Australian Securities and Investment Commission. The advisor must be an independent person who has no actual or perceived 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. Council's investment advisor should be regularly assessed (minimum annually) by Council's Responsible Accounting Officer to ensure value for money is being obtained through the engagement. If the RAO believes value for money is not being obtained, the services shall be advertised via a competitive process under Council's Procurement Policy framework.

Council's 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.

Council's investment advisor must provide an annual report to Council's Responsible Accounting Officer on Council's Investment portfolio, including:

- Comparison of the performances against the benchmarks;
- The incorporation of ESG factors of Council's investment portfolio.

## 16 REPORTING

The Responsible Accounting Officer will provide a report to Council every two months, detailing the investment portfolio in terms of performance and rate of return on the overall portfolio for the period, and will detail the purchase price, long-term rating, short-term rating, interest frequency, purchase date, maturity date, investment term in days, rate and percentage of portfolio for each individual investment.

For audit purposes, the Responsible Accounting Officer will obtain certificates from the banks or fund managers confirming the amounts of investment held on Council's behalf at 30 June each year.

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.

## **17 REVIEW AND EVALUATION**

The Investment Policy will be reviewed every four years or as required in the event of legislative changes.

Any breach of this policy will be notified to Council at the earliest opportunity following the breach.

## **18 LIQUIDITY RISK PARAMETERS**

Council is committed to supporting the local economy and ensuring the safety and integrity of its investments. Investments shall be made in financial institutions that are headquartered within Australia only and regulated by the Australian Prudential Regulation Authority (APRA) in accordance with the *Banking Act 1959*.

Not less than three (3) quotations shall be obtained from authorised institutions when a new direct investment is proposed. The best quote of the day will be successful, providing the investment will not breach any parameters contained within this policy and after allowing for administrative and banking costs.

The proposed amount, term and institution must be approved by the Responsible Accounting Officer prior to investment. Cash flow forecasts must accompany the proposal to the Responsible Accounting Officer in support.

Attachment 1

**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.

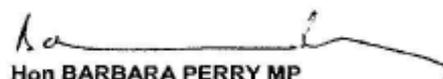
All councils should by resolution adopt an investment policy that is consistent with this Order and any guidelines issued by the Chief Executive (Local Government), Department of Premier and Cabinet, from time to time.

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