

### 1. BACKGROUND

Council has a responsibility to maintain effective control over funds that are surplus to Council's immediate requirements and to ensure that Council's representatives exercise the care, diligence and skill that a prudent person would exercise in investing those funds.

### 2. PURPOSE

The purpose of this policy is to provide a framework for investment of Council's funds. The policy establishes a series of limits within which Council officers must operate in the planning, and process, of investing Council monies. In setting these limits Council is determining the general level of risk that is acceptable for monies managed on trust for the community of Coonamble.

### 3. POLICY OBJECTIVE

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, 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.
- Managing Council's liquidity. Investments are to 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 appetite as outlined in this policy. Investments are expected to achieve a market average rate of return in line with Council's risk tolerance.

## **4. LEGISLATION**

All investments are to comply with the following:

- *Local Government Act 1993.*
- Local Government (General) Regulation 2021.
- Ministerial Investment Order - in accordance with the most recently published Order.
- Office of Local Investment Policy Guidelines.
- Local Government Code of Accounting Practice and Financial Reporting.
- Australia Accounting Standards.
- Office of Local Government Circulars; and
- The Trustee Amendment (Discretionary Investments) Act 1997.

## **5. APPLICATION/SCOPE**

### **DELEGATION OF AUTHORITY**

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

The General Manager can delegate the day-to-day management of Council's investments to the Director of Corporate Services who will manage the function with the assistance from the relevant Finance Staff.

Officers with 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.

## **6. POLICY**

### **6.1 PRUDENT PERSON STANDARD**

The 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 portfolios in accordance with this Investment Policy, and not for speculative purposes.

## **6.2 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.

## **6.3 APPROVED INVESTMENTS**

Officers' delegated authority to manage Council's investments is limited to investments allowed by the Ministerial investment Order and include:

- Commonwealth/State/Territory Government security e.g., bonds.
- Interest bearing deposits issued by an authorised deposit-taking institution.
- Bills of exchange, (<200 days duration). Guaranteed by an authorised deposit-taking institution.
- Debentures issued by NSW Local Government.
- NSW Treasury Corporation

## **6.4 PROHIBITED INVESTMENTS**

This investment policy prohibits 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 futures, options, forwards contracts and swaps of any kind.

This policy also prohibits the use of leveraging (borrowing to invest) of an investment or investments that are themselves leveraged.

## **6.5 RISK MANAGEMENT GUIDELINES**

The following key criteria must be considered prior to placing investments:

- **Preservation of Capital** – the requirement for preventing losses in an investment portfolio's capital 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.
- **Credit Risk** – the risk that a product that Council has invested in fails to pay the interest and or repay the principal of an investment.
- **Market Risk** – the risk that the fair value or future cash flows (Market Value) of an investment will fluctuate due to changes in market prices, or benchmark returns will unexpectedly overtake the investments return.
- **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 longer the term, the greater the length of exposure and risk to market volatilities.
- **Reinvestment Risk** – the risk that an investor will be unable to reinvest cashflows (e.g. coupon repayments) and maturity proceeds at a rate comparable to their current rate of return because interest rates are lower in the future, thereby resulting in a reduction of income over time.

## 6.6 COUNCIL'S ATTITUDE TO RISK

All Coonamble Shire Council's investments must be made subject to the following minimum constraints:

- All investments must be of "investment grade" credit rating which implies that there is a **better than** "adequate" or "satisfactory" capacity to meet obligations.
- All investments should be dealt through reputable institutions with a Long-Term Credit rating as listed as per Table 1.
- All Investments must be for a period no longer than the period over which the underlying liability could reasonably be expected to arise.
- Where there is no identified underlying liability the term to maturity of the investments must not exceed 10 years.
- The investment portfolio must be managed in such a way that Council is able to meet its cash flow obligations at all times.

- Real returns must be reasonably matched so as to be compatible with the rising cost of the infrastructure or assets the investment is to fund.
- Preservation of the capital component of all investments must be the highest priority.

## 6.6 INVESTMENT GUIDELINES/STRATEGY

### 1. Quotations on Investments

Not less than three (3) quotations shall be obtained from authorised institutions when an investment is proposed and will be authorised by two signatories.

### 2. Assessment of Cashflow

Investments should be placed for a term which best suits the cashflow requirements of Council but for no longer than the period forecasted in the Long-Term Financial Plan, currently 10 years.

### 3. Preservation of Capital

#### a. Credit Risk

There are two types of Credit Ratings: Short-term ratings and Long-term credit ratings, N.B. The credit rating is as determined by Standard and Poor's, Fitch and Moody's.

Short-term credit ratings are an indication of the institutions capacity to meet short term financial commitments, i.e., less than 12 months.

Long-term credit ratings are an indication of the institutions capacity to meet financial commitment over the long term, i.e. greater than 12 months and generally apply to the rating of the institution.

#### b. Diversification Risk

The following tables represent the maximum allowable investment with any one Financial Institution.

**Table 1:**

Long term Credit rating	Short term credit	Portfolio limit (≤ 12-month investment)	Institution Limit (≤ 12- month	Portfolio limit (> 12-month investment)	Institution Limit (>12-month investment)
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	rating		investment)		
AAA	A-1+	100%	60%	60%	50%
AA+ through AA-	A-1+	80%	60%	60%	40%
A+ through A-	A-1+	60%	40%	30%	35%
BBB+ to BBB	A2 to A	40%	20%	30%	15%
T CorpIM Funds		100%	100%	20%	100%

Where an institution is unrated (i.e. a Credit Union) but has a local presence (i.e. Coonamble Shire), after careful consideration of the financial capacity of the institution, investments will be placed within the limitation of the Rating of A + or -, and only for periods less than 12 months.

Investments in TCorpIM Funds are diversified in term of both counterparties and assets.

## 6.7 INVESTMENT ADVISOR

Council from time to time may seek independent advice from an approved and licenced investment Advisor as the office of Local Government Guidelines about the investment strategy and/or specific investments. This advice must be in writing.

The investment advisor must be approved by Council 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 to reviewing, including that they are not receiving any commission or other benefits in relation the investments being recommended or reviewed.

The NSW Government has provided a waiver to allow Council to engage NSW Treasury Corporation 9TCorp) in the provision of investment advice. This waiver is necessary as TCorp is not licensed by ASIC.

## 6.8 BENCHMARKING

Performance benchmarks need to be established and should be based on sound and consistent methodology. Council's investments will be benchmarked against the following indicators.

INVESTMENT	PERFORMANCE BENCHMARK
Cash	11am cash rate
Direct Investments	AFMA BBSW Rate: Average mid – 90 days

AFMA – Australian Financial Markets Association

BBSW – Bank Bill Swap

## 6.9 REPORTING REQUIREMENTS

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 Council's behalf as at 30 June each year and reconciled to the Investment Register.

All investments are to appropriately record 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 term of performance, percentage exposure of total portfolio, maturity date and changes in market value.

The 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 Council and in the spirit of the policy. Any amendment to the Investment Policy must be by way of Council resolution

## 6.10 REVIEW

Review of this policy will incorporate relevant legislation, documentation released from relevant state agencies and best practice guidelines.

The standard review period will be every two (2) years from the effective date, however, may occur sooner if there is a change in legislation, Accounting Standards or other relevant guidelines. The responsible Council officer will be notified of the review requirements three (3) months prior to the expiry of this policy.

## 7. DEFINITION

Term	Definition
Act	<i>Local Government Act 1993</i>
ADI	Authorised Deposit-Taking Institutions (ADIs) are corporations that are authorised under the Banking Act 1959 (Commonwealth) to take deposits from customers.
AusBond BBI	The Bank Bill Index represents the performance of a notional rolling parcel of bills averaging 45 days and is the widely used benchmark for local councils and other institutional cash investments.
Bill of Exchange	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 in money to or to the order of a specified person, or to bearer. These can be underwritten by banks, to become “bank bills” on which the benchmark return is calculated.
BBSW	The Bank Bill Swap reference rate (BBSW) is the midpoint of the nationally observed best bid and offer for AFMA Prime Bank eligible securities. The BBSW is calculated daily. Floating rate securities are most commonly reset quarterly to the 90-day BBSW.
General Manager	Refers to the statutory executive of the Council as defined in section 335 of the Act, including where on an Interim or Acting basis, and under any alternative titles.
Council Funds	Monies that are invested by Council in accordance with section 625 of the Act.
Debenture	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.
FRN	A Floating Rate Note (FRN) is a medium to long term fixed interest investment where the coupon is a fixed margin (“coupon margin”) over a benchmark, also described as a “floating rate”. The benchmark is usually the BBSW and is reset at regular intervals – most commonly quarterly.
TCorp	New South Wales Treasury Corporation (NSW TCorp) including the TCorp Investment Management arm which manages the TCorpIM funds (formerly Hour-glass).



<b>Title: Investment and Procurement Policy</b>		
<b>Department:</b> Corporate Services		
<b>Version</b>	<b>Date</b>	<b>Author</b>
Three (3) Review	08/09/2021	B Quarmby
Four (4) Review	28/02/2025	B Quarmby
<b>Review Date:</b> February 2027		
<b>Resolution:</b> Resolution 2021/210		
<b>Amendment History</b>	<b>Date</b>	<b>Detail</b>
No changes	2017	
Amended	2021	Inclusion of risk appetite and definitions
Amended	2025	Expanded list of risk appetite and definitions Updated legislative provision
<b>Annexure Attached:</b> Nil		
<b>Paul Gallagher</b> <b>General Manager</b>		

