



# Investment Policy

Date Adopted/ Approved:	Adopted at Ordinary Meeting on 14 December 2020
Review Date:	December 2021
Version:	1.
Responsible Position:	Chief Financial Officer
ECM Doc ID:	

## 1. Purpose

- 1.1 The Investment Policy sets out requirements for management of Council's cash and investment portfolio.
- 1.2 It seeks to safeguard the City's cash and investments portfolio whilst balancing risk, day to day business requirements and meeting Council's longer term strategic and business objectives on behalf of the community.
- 1.3 The policy reinforces Council's ongoing commitment to maintain a conservative risk and return portfolio, an important component of its ongoing prudent financial management practices.

## 2. Our Future Willoughby 2028 Outcome:

- 2.1 A City that is effective and accountable.

## 3. Application

- 3.1 The policy applies to all investments of Council money.
- 3.2 This policy applies to all employees, agents, officers and councillors of Willoughby City Council. Only officers with the appropriate delegation are authorised to make Investments on Council's behalf. All officers who hold this delegation are bound by this policy.

## 4. Policy Principles

- 4.1 As a holder of public monies (effectively in trust) and by regulation, Council's investor profile is that of a conservative investor, investing primarily in low-risk securities such as fixed income term deposits with Authorised Deposit-taking Institutions (ADIs). Council has a low to moderate risk tolerance given capital preservation and legislative requirements. Consequently a well diversified investment portfolio spread across a broad maturity profile will be placed in very low risk, senior ranked assets issued by banks/ADIs that are regulated by the Australian Prudential Regulation Authority (APRA).
- 4.2 Funds will be invested at the most favourable rates available to maximise returns having regard to the risk, liquidity and the preservation of capital in accordance with legislation, the current Ministerial Order and this Policy.
- 4.3 Capital is to be preserved by placing investments in a manner that ensures security and safeguards the capital and integrity of the investment portfolio.
- 4.4 The investment portfolio will be structured to ensure there is sufficient liquidity to meet anticipated cash flow requirements so as to avoid incurring significant penalty costs when redeeming investments before their official maturity date.
- 4.5 Investments are to achieve an acceptable rate of return in line with the annual investment strategy which sets the agreed margin above the industry benchmark whilst also having regard to Council's risk tolerance and prevailing market conditions.

## 5. Policy Statement

### Risk Management Guidelines

Investments obtained are to be considered in light of the following key criteria:

- 5.1 Preservation of Capital and the prevention of losses in an investment portfolio's total value;
- 5.2 Diversification by placing investments in a broad range of products so as not to be over exposed to a particular sector of the investment market;
- 5.3 Market Risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices;
- 5.4 Liquidity Risk if unable to redeem the investment at a fair price within a timely period;
- 5.5 Maturity Risk in the length of time that it takes for the investment to mature. The longer the term, the greater the length of exposure and risk to market volatility;
- 5.6 Rollover Risk is the risk that income will not meet expectations or budget requirements because interest rates are lower than expected in the future.

### Investment Portfolio Credit and Maturity Parameters

Investments are to comply with the following portfolio credit rating limits:

- 5.7 Portfolio and Institutional Credit Rating Group Limits

Long Term Rating (S&P or equivalent)	Short Term Rating (S&P or equivalent)	Credit Rating Policy Maximum (2018/19) %	Individual Institution Maximum (2018/19) %
AAA and AA +/- to AA- or Major Banks^	A1+	100	30
A + to A-	A1	70	20
BBB + or BBB	A2	50	15
BBB -	A3	10	5
Unrated	Unrated	10	5

^ For the purpose of this Policy, “Major Banks” are currently defined as:

The ADI deposits or senior guaranteed principal and interest ADI securities issued by the major Australian banking groups:

- Australia and New Zealand Banking Group Limited
- Commonwealth Bank of Australia
- National Australia Bank Limited
- Westpac Banking Corporation

including ADI subsidiaries whether or not explicitly guaranteed, and brands (such as St George).

Council may ratify an alternative definition from time to time.

Standard & Poor’s ratings attributed to each individual institution will be used to determine maximum holdings.

In the event of disagreement between agencies as to the rating band (“split ratings”) Council shall use the higher in assessing compliance with portfolio Policy limits, but for conservatism shall apply the lower in assessing new purchases.

#### 5.8 Investment Horizon Limits – Overall Portfolio Term to Maturity

Investment decisions are to be mindful of liquidity risk, maturity risk, cash flow and income requirements. The following “term to maturity” settings prescribe the overall maturity profile of the investment portfolio:

<b>Term to Maturity</b>	<b>Minimum Allocation</b>	<b>Maximum Allocation</b>
<b>0-3 months</b>	<b>15%</b>	<b>100%</b>
<b>3-12 months</b>	<b>0%</b>	<b>100%</b>
<b>1-2 years</b>	<b>0%</b>	<b>70%</b>
<b>2-5 years</b>	<b>0%</b>	<b>40%</b>
<b>+ 5 Years</b>	<b>0%</b>	<b>10%</b>

## Approved Investments

5.8 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 managed funds; and
- Investments grandfathered under the previous Ministerial Investment Order.

## Prohibited Investments

5.9 This investment policy prohibits but is not limited to any investment carried out for speculative purposes, including;

- Derivative based instruments;
- Equity based investments (e.g. Shares);
- 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.

## Investment Advisor

5.10 Council may engage an investment advisor licensed by the Australian Securities and Investment Commission. The advisor must be fully independent with no conflicts of interest in relation to investment products being recommended.

## Performance Benchmarks and Measurement

5.11 The performance of the investment portfolio shall be measured against the Bloomberg AusBond Bank Bill Index plus Council's required margin as determined annually in the strategic investment plan.

## Reporting to Council

5.12 In accordance with the Local Government Financial Regulations, a monthly report will be provided to Council, detailing the investment portfolio in terms of performance, portfolio balances and net returns compared to industry benchmarks. The report will also detail the interest income for the month and any other relevant information required by Council.

## 6. Responsible Officer

- 6.1 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 investments to the Responsible Accounting Officer or senior staff, subject to regular reviews.
- 6.2 The Chief Financial Officer (Customer and Corporate Directorate) is the Responsible Accounting Officer with current responsibility for managing the investment portfolio with the care, diligence and skill that a prudent person would exercise.

## 7. Monitoring and Review

- 7.1 The division of Local Government (as it was then known) Investment Policy Guidelines (2010) Paragraph 1.4 prescribes that Council should review the Investment Policy each year.

## 8. Reporting and Legislative Requirements

- *Local Government Act (1993) Section 625 (Appendix A)*
- *Minister's Investment Order (gazetted) (Appendix B)*
- *The Trustee Amendment (Discretionary Investments) Act (1997) – Section 14 (Appendix C)*
- *Local Government (General) Regulation (2005) Clause 212 (Appendix D)*
- *Office of Local Government – Local Government Code of Accounting Practice and Financial Reporting (Appendix E)*
- *Local Government Act (1993) Definitions (Appendix F)*
- *Australian Accounting Standards*
- *Office of Local Government Investment Circulars*
- *Office of Local Government Investment Policy Guidelines*

## Appendix A - Definitions

Term	Definition
the Act	<i>Local Government Act 1993</i> (NSW)
ADI	Authorised Deposit-taking Institution
Advisor	A person or authorised representative of an organisation licensed by ASIC to provide advice on some or all of these areas: investing, superannuation, retirement planning, estate planning, risk management, insurance and taxation.
ASIC	Australian Securities & Investments Commission
Asset allocation (funds)	The apportionment of an investment portfolio between different asset classes/geographical markets. The proportion in each asset class will be determined by a fund's benchmark, its objectives and its risk profile.
Code of Conduct	The current <i>Code of Conduct</i> as adopted by Willoughby City Council.
Council	Willoughby City Council
Hour-Glass Cash	Short-term cash deposit with T Corp
Hour-Glass Strategic Cash	Medium- to longer-term cash deposits with TCorp
Investment Definitions	Refer Appendix F – Office of Local Government Investment Policy Guidelines
Major Banks	<p>Major Australian banking groups issuing ADI deposits or senior-guaranteed principal and interest ADI securities, limited to:</p> <ul style="list-style-type: none"> <li>• Australia and New Zealand Banking Group Limited</li> <li>• Commonwealth Bank of Australia</li> <li>• National Australia Bank Limited</li> <li>• Westpac Banking Corporation</li> </ul> <p>including ADI-licensed subsidiaries whether or not explicitly guaranteed, and brands (such as St George Bank).</p>
Official Cash Rate	Overnight money market interest rate.
the Regulation	<i>Local Government (General) Regulation 2005</i> (NSW)
TCorp	NSW Treasury Corporation

## **Appendix B – Extracts of Legislative Requirements**

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### **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.

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### **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.

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### **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.



Circular No. 11-01  
Date 17 February 2011  
Doc ID. A232163

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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.



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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