

# Cash Investment Policy

## LEADERSHIP

**1.1 Our Council has the trust of the community and well informed decisions are made to ensure long term sustainability of our Shire.**

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## Table of Contents

1. Objectives.....	3
2. Policy Statement .....	3
2.1 Prudent Person Standard.....	3
2.2 Ethics and conflicts of interest.....	3
2.3 Risk Management framework.....	3
2.4 Approved investments .....	5
2.5 Non-fossil fuel investment preferencing .....	5
2.6 Local investment .....	6
2.7 Investment strategy .....	6
2.8 Investment advisor.....	6
2.9 Reporting and reviewing of investments .....	6
2.10 Safe Custody arrangements .....	7
3. Scope.....	7
4. Responsibilities .....	7
4.1 Councillors.....	7
4.2 Executive .....	7
4.3 Chief Financial Officer .....	7
4.4 Council staff.....	7
5. Performance Measures.....	8
6. Definitions .....	8
7. Related Material.....	9
7.1 Related Legislation .....	9
7.2 Related Policies, Procedures and General Manager Practice Notes .....	9
8. Non-compliance with this Policy.....	9
9. Document Control.....	9
9.1 Version Control .....	9
9.2 Superseded Documents .....	9
10. Attachments.....	10
10.1 Attachment 1 – Local Government Act 1993 – Investment Order. ....	11



## 1. Objectives

The objective of this Policy is to provide a framework for investing Council's funds at the most favourable return available at the time whilst having due consideration of risk and security for that investment type and ensuring that 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 on investment.

Preservation of capital is the principal objective on 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 enough 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 Council's risk tolerance.

## 2. Policy Statement

Wingecarribee Shire Council is committed to following the Investment Policy Guidelines determined under Section 23A of the *Local Government Act 1993*.

### 2.1 Prudent Person Standard

The investment portfolio will be managed with care, diligence and skill that a prudent person would exercise. As trustees of public funds, Officers are to manage Council's investment portfolio to safeguard the portfolio in accordance with the spirit of this Policy, and not for speculative purposes.

### 2.2 Ethics and conflicts of interest

Delegated 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 in accordance with Council's Code of Conduct.

### 2.3 Risk Management framework

Council has developed a risk management framework to assist in managing those risks outlined in the Policy Objective. This is achieved within identified thresholds and parameters represented by three criteria:

1. Credit risk: limit overall credit exposure of the investment portfolio
2. Diversification risk: limit exposure to individual institutions
3. Maturity risk: manage liquidity and exposure to interest rate risk over a period of time

## Credit Risk

To control the credit quality on the entire investment portfolio, the following credit framework limits the percentage of the investment portfolio exposed to any credit rating category.

Portfolio Credit Limits		
S&P Long Term Rating*	S&P Short Term Rating*	Maximum %
AAA	A1+	100
AA	A1	80
A	A2	60
BBB	A3	20
Government unrated		25
* where the security has a maturity date of > 1 year the long term rating is referenced		

## Diversification Risk

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:

Individual Institution Limits		
S&P Long Term Rating*	S&P Short Term Rating*	Maximum %
AAA	A1+	40
AA	A1	25
A	A2	15
BBB	A3	10
Government unrated		25
* where the security has a maturity date of > 1 year the long term rating is referenced		

## Maturity Risk

The investment portfolio is to be invested within the following maturity constraints:

Portfolio Term to Maturity Limits		
Investment Horizon	Minimum %	Maximum %
< 1 year	40	100
1 – 3 years	0	60
3 – 5 years	0	40
> 5 years	0	10
* where the security has a maturity date of > 1 year the long term rating is referenced		

## 2.4 Approved investments

Investments are limited to those allowed by the most current Ministerial Investment Order (Attachment 1) that has been issued by the NSW Minister for Local Government.

## 2.5 Non-fossil fuel investment preferencing

Council's preference is to enter into environmentally and Socially Responsible Investments (SRI) where:

- The investment is compliant with legislation and Investment Policy objectives and parameters; and
- The rate of return is favourable relative to comparable investments on offer to Council at the time of the investment.

SRI status may be in respect of the individual investment product, the issuer of the investment, or both and should be endorsed by an accredited environmentally and socially responsible industry body or institution, or have a recognised ESG score.

The criteria for SRI are all preferred and not mandatory requirements.

Council's criteria for an SRI are those which direct investment towards the socially and/or environmentally productive activities listed below:

Environmentally productive activities are considered to be:

- resource efficiency-especially water and energy
- renewable energy
- production of environmentally friendly products recycling, and waste and emissions reduction

Socially productive activities are considered to be:

- fair trade and provision of a living wage
- human health and aged care
- equal opportunity employers, and those that support the values of communities, indigenous peoples and minorities
- provision of housing, especially affordable housing



Avoid investment in the socially and/or environmentally harmful activities listed below:

Environmentally harmful activities are considered to be:

- production of pollutants, toxins and greenhouse gases (either in Australia or abroad)
- habitat destruction, especially destruction of forests and marine eco-systems.
- nuclear power
- uranium mining

Socially harmful activities are considered to be:

- abuse of Human Rights and Labour Rights
- involvement in bribery/corruption
- production or supply of armaments
- manufacture of alcohol, tobacco or gambling products

## **2.6 Local investment**

Where local financial institutions (whose central operations are within the Wingecarribee Shire) offer equivalent investment returns and the investment is compliant with legislation and the objectives and parameters of this Policy, preference will be given to placing funds with these institutions.

## **2.7 Investment strategy**

An Investment Strategy will run in conjunction with the Investment Policy. The Investment Strategy will be reviewed with an independent investment advisor every six months. The Investment Strategy will outline:

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

## **2.8 Investment advisor**

Council's 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 or reviewing, including that they are not receiving any commissions or other benefits in relation to the investments being recommended or reviewed.


## **2.9 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 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 monthly.



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.

## **2.10 Safe Custody arrangements**

Where necessary, investments may be held in safe custody on Council's behalf, as long as the following criteria are met:

- Council must retain beneficial ownership of all investments;
- Adequate documentation is provided, verifying the existence of the investments at inception, in regular statements and for audit;
- The custodian recording and holding the assets will be:
  - The custodian nominated by TCorp for their managed funds; or
  - Austraclear.

## **3. Scope**

This Policy applies to Councillors and staff with delegated authority to act upon Council's cash investments.

## **4. Responsibilities**

Responsibilities for the implementation of this Policy are shared as follows.

### **4.1 Councillors**

Councillors shall monitor the implementation of this Policy through the monthly investment report.

### **4.2 Executive**

The Executive shall:

- Ensure the implementation of this Policy as delegated by Council in accordance with the *Local Government Act 1993*.
- To delegate the management of Council's investment portfolio to the Chief Financial Officer or other staff through the delegated approval process.

### **4.3 Chief Financial Officer**

The Chief Financial Officer shall:

- provide guidance to Councillors, Executive and other Council staff as to the content and implementation of this Policy;
- ensure the timely review of this Policy;
- oversee the management of Council's investment portfolio ensuring compliance with this Policy; and
- Submit monthly report to Council on the performance of Council's investment portfolio.

### **4.4 Council staff**

Council staff with delegated authority to invest council funds shall:

- be required to acknowledge they have received a copy of the Policy and understand their obligations in this role.
- Invest council funds in accordance with legislation and this Policy.



## 5. Performance Measures

The performance of Council's investment portfolio will be measured against:

- Bloomberg AusBond Bank Bill index.

## 6. Definitions

Define any specific terms relating to the policy that may not be obvious to a member of the public or other external stakeholder. Include any acronyms and their meanings. The following table should be used:

<b>Authorised Deposit Taking Institution (ADI)</b>	A financial institution licensed by the Australian Prudential Regulatory Authority (APRA) to carry on banking business, including accepting deposits from the public. This includes banks, credit unions and building societies.
<b>Bank Bill Swap Rate (BBSW)</b>	The bank bill index rate is a short-term interest rate used as a benchmark for the pricing of Australian dollar derivatives and securities.
<b>Bond</b>	Represents a promise by a borrower to pay a lender the principal and interest on a loan.
<b>Credit risk</b>	The risk that an issuer of debt securities may default on its obligations.
<b>Floating Rate Note (FRN)</b>	Is a debt instrument with a variable interest rate.
<b>Interest rate risk</b>	The potential for investment losses that result from a change in interest rates.
<b>Investment portfolio</b>	The total pool of Council's cash investments
<b>Liquidity risk</b>	Refers to the marketability of an investment and whether it can be bought or sold quickly enough to meet debt obligations.
<b>Market risk</b>	The risk that general market conditions will cause the value of the investment to fluctuate.
<b>Maturity risk</b>	The risk relating to the duration of an investment. The longer the investment term to maturity, the greater the length of exposure and risk to market volatilities.
<b>Preservation of capital</b>	Refers to an investment strategy with the primary goal of preventing losses in an investment portfolio's total value.
<b>Prudent person</b>	Someone who will manage the investment portfolio in a skilful, diligent and careful manner. They exercise due care in making decisions and act in moderation.
<b>Securities</b>	Instruments issued by companies, financial institutions and the government as a means of borrowing money and raising new capital.
<b>Term Deposit</b>	A deposit with an Authorised Deposit Taking Institution that has a fixed return and investment horizon.
<b>Preservation of capital</b>	Refers to an investment strategy with the primary goal of preventing losses in an investment portfolio's total value.



## 7. Related Material

### 7.1 Related Legislation

The following legislative materials are related to this Policy:

- Australian Accounting Standards;
- Investment Policy Guidelines 2010;
- Local Government Act 1993;
- Local Government (General) Regulation 2005;
- Local Government Code of Accounting Practice and Financial Reporting (latest update);
- Prevailing Ministerial Investment Order;
- Office of Local Government Circulars

### 7.2 Related Policies, Procedures and General Manager Practice Notes

The following document is related to this Policy:

- Investment Strategy

## 8. Non-compliance with this Policy

Where non-compliance with the Policy occurs relating to parameters which have been set, the portfolio must be managed back in accordance with the Policy limits as soon as practicable. This will depend on market liquidity, valuation of investments and risks of default.

Any suspected non-compliance regarding a perceived conflict of interest of a delegated officer will be dealt with in accordance with Council's Code of Conduct.

## 9. Document Control

### 9.1 Version Control

Version	Adoption Date	Notes
1.0	12 July 2017	Initial adoption of document
2.0	17 August 2022	Adoption following public exhibition period MN 2022/180. In accordance with the Ministerial Investment Order dated 12 January 2011, all councils are required to adopt an Investment Policy which is consistent with the Order and Investment Policy Guidelines issued by the Office of Local Government.

### 9.2 Superseded Documents

The following documents are superseded by this Policy:

Document Title	Adoption Date	Notes
Investment Policy	12 July 2017	Council engaged an independent investment advisor from 1 November 2021.



## 10. Attachments

1. Local Government Act 1993 – Investment Order.

Approved by:

**WINGECARRIBEE SHIRE COUNCIL**

17 August 2022

## 10.1 Attachment 1 – Local Government Act 1993 – Investment Order.

### 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