



**Policy Owner:** Director Corporate Services

**Category:** Strategic

**Direction:** 5. Our Civic Leadership

## 1. STATEMENT OF INTENT

- 1.1 This Policy provides a framework for the optimum investment of North Sydney Council's funds at the most favourable rate of interest available to it at the time, whilst having due consideration of risk, liquidity and security of its investments.
- 1.2 This Policy recognises the legislative requirements and obligations for the investments of Council's funds. Council will comply with investment regulations and directions of the NSW Office of Local Government - where inconsistent, this Policy is read subject to these.
- 1.3 While exercising the power to invest, consideration is to be given to the preservation of capital, liquidity, and the return of investment.
- 1.4 Council's objectives for its investment portfolio are:
  - a) compliance with legislation, regulations, the 'prudent person tests' of the *Trustee Amendment (Discretionary Investment) Act 1997* and best practice guidelines;
  - b) compliance with specific conditions within any loan agreement or other contract;
  - c) the preservation of the amount invested;
  - d) to ensure there is sufficient liquid funds to meet all reasonably anticipated cash flow requirements; and
  - e) to generate income from the investment that exceeds the performance benchmarks.

## 2. ELIGIBILITY

- 2.1 Council's Investment Strategy under this Policy includes:
  - a) Council's cash flow expectations and the implications for deviations from a long-term liquidity profile;

- b) Diversification - an allocation of investment assets, credit quality, counterparty exposure and term to maturity profile;
- c) Market conditions and the appropriate responses - particularly relative positioning within policy limits;
- d) Relative return outlook, risk-reward considerations, assessment of the market cycle and hence constraints on risk; and
- e) Appropriateness of overall investment types for Council's portfolio.

### 3. DEFINITIONS

Terms used in this Policy have the following meanings:

- 3.1 Act - *Local Government Act 1993*.
- 3.2 AusBond Bank Bill Index (BBI) - represents the performance of a notional rolling parcel of bills averaging 45 days and is the widely used benchmark for local governments.
- 3.3 ADI - Authorised Deposit-Taking Institutions (ADIs) are corporations that are authorised under the *Banking Act 1959* to take deposits from customers.
- 3.4 Bank Bill Swap (BBSW) Reference Rate - the average of mid-rate bank-bill quote from brokers on the BBSW Panel. The BBSW is calculated daily. Floating rate securities are most commonly reset quarterly to the 90-day BBSW.
- 3.5 Bill of Exchange - 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.
- 3.6 Council Funds - surplus monies that are invested by Council in accordance with Section 625 of the Act.
- 3.7 Debenture - is a document evidencing an acknowledgment of a debt, which a company has raised for the purposes of raising capital. Debentures are issued by companies in return for medium and long-term investment of funds by lenders.
- 3.8 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; usually quarterly.
- 3.9 LGGR - *Local Government (General) Regulation 2021*.

- 3.10 OLG - NSW Office of Local Government.
- 3.11 Other Eligible Investments - in TCorp OM funds, TCorp term deposits and bonds issued by TCorp or another Australian state government central borrowing authority.
- 3.12 RAO - Responsible Accounting Officer of a council means the responsible officer designated by the General Manager, or if no such role has been designated, the General Manager (LGGR, Clause 196).
- 3.13 T-Corp - New South Wales (NSW) Treasury Corporation. A child agency of The Treasury of NSW. It is the central financing authority for the NSW public sector. It provides financial services for, or for the benefit of, the NSW government, public authorities and other public bodies.

## 4. PROVISIONS

### 4.1 Prudent Person Standard

- 4.1.1 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 portfolio in accordance with the spirit of this Investment Policy, and not for speculative purposes.

### 4.2 Ethic and Conflicts of Interest

- 4.2.1 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.
- 4.2.2 Independent advisors are also to declare that they have no actual or perceived conflicts of interest and receive no inducements in relation to Council's investments.
- 4.2.3 Third Party suppliers and dealers - staff will structure Council's affairs to be economical in its investment management costs. Staff will favour direct dealing in its fixed interest. Where intermediated it will, where possible, favour arrangements that result in a rebate of brokerage.

At times, it will be advantageous to deal with third parties that are remunerated on a transaction rather than retainer basis. Staff will engage such suppliers where it is to Council's advantage and having regard to the "best execution" test in this Policy. Specifically, staff will consider:

- a) administrative costs;
- b) access to higher interest rates where additional return exceeds direct transaction costs;
- c) access to ADIs that would not normally have an institutional direct channel;
- d) limited access or initial public offerings deals, or other secondary market opportunities that are only available from specific sources; and
- e) costs of other distribution channels that do not involve transaction remuneration.

Staff will ensure that:

- a) suppliers used are appropriately licensed, reputable and capable;
- b) funds and identification data are sufficiently secured;
- c) third party arrangements do not materially worsen Council's credit risks by creating exposure to the dealer as counterpart; and
- d) remuneration arrangements are reasonable and transparent, whether paid by Council or by the issuer directly.

#### 4.3 Authorised Investments

4.3.1 All investments must be denominated in Australian Dollars. Authorised investments are limited to those allowed by the Ministerial Investment Order and include:

- a) Commonwealth, State and Territory Government securities e.g. bonds;
- b) Debentures issued by a NSW council under the Act;
- c) Interest bearing deposits/senior securities issued by an eligible ADI excluding subordinated debt obligations;
- d) Bills of Exchange, (< 200 days duration) guaranteed by an ADI; and
- e) Deposits with TCorp and/or investments in T-Corp IM Funds.

#### 4.4 Prohibited Investments

4.4.1 This Policy prohibits the following types of investment<sup>1</sup>:

- a) derivative based instruments;
- b) principal only investments or securities that provide potentially nil or negative cash flow;

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<sup>1</sup> Prohibited investments are not limited to the three types listed and extend to any investment carried out for speculative purposes.

- c) standalone securities issued that have underlying futures, options, forwards contracts and swaps of any kind; and
- d) mortgage of land.

4.4.2 This Policy also prohibits the use of leveraging (borrowing to invest) of an investment. Nothing in the Policy shall prohibit the short-term investment of loan proceeds where a loan is raised for appropriate purposes and there is a delay spending the funds for those purposes.

#### 4.5 Risk Management Guidelines

4.5.1 Potential investments will be assessed against the following key criteria:

- a) Preservation of Capital - the requirement for preventing losses in an investment portfolio's total value;
- b) Credit Risk - the risk that a party or guarantor to a transaction will fail to fulfil its obligations. In the context of this Policy it relates to the risk of loss due to the failure of an institution to pay the interest and/or repay the principal of an investment it holds;
- c) 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;
- d) Liquidity Risk - the risk an investor runs out of cash, is unable to redeem investments at a fair price within a timely period, and thereby incurs additional costs (or in the worst case is unable to execute its spending plans);
- e) Market Risk - the risk that fair value or future cash flows will fluctuate due to changes in market prices, or benchmark returns will unexpectedly overtake the investment's return.
- f) 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.
- g) Rollover risk - the risk that income will not meet expectations or budgeted requirement because interest rates are lower than expected in future.

4.5.2 In a low inflation/interest rate environment staff shall not make fixed rate investments with a tenor exceeding 12 months unless the proposed investment is endorsed by the General Manager.

#### 4.6 Procedure for placing an Investment

4.6.1 Staff will seek a minimum three quotes from institutions before placing an investment.

4.6.2 Before placing or rolling-over any investment the delegated officer must seek and document the concurrence of another delegated officer.

#### 4.7 Council's Investment Advisor

4.7.1 Council's investment advisor is appointed by the General Manager and must be licensed by the Australian Securities and Investment Commission (ASIC). The Advisor must be independent and must confirm in writing that they have 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 this Policy. This includes receiving no commissions or other benefits in relation to the investments being recommended or reviewed.

#### 4.8 Accounting

4.8.2 Council will comply with appropriate accounting standards in valuing its investments and quantifying its investment returns.

In addition to recording investment income according to accounting standards, published reports may show a break-down of its duly calculated investment returns into realised and unrealised capital gains and losses, and interest.

4.8.3 Other relevant issues will be considered in line with relevant Australian Accounting Standards, such as discount or premium, designation as held-to-maturity or on a fair value basis, and impairment.

#### 4.9 Safe Custody Arrangements

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

- a) Council must retain beneficial ownership of all investments;
- b) adequate documentation is provided, verifying the existence of the investments at inception, in regular statements and for audit;
- c) the Custodian conducts regular reconciliation of records with relevant registries and/or clearing systems; and
- d) the Institution or Custodian recording and holding the assets will be:

- the custodian nominated by T-Corp IM Funds;
- Austraclear;
- an institution with an investment grade Standard and Poor's or Moody's rating; or

- an institution with adequate insurance, including professional indemnity insurance and other insurances considered prudent and appropriate to cover its liabilities under any agreement.

#### 4.10 Credit Quality Limits

4.10.5 The portfolio credit guidelines will reference the Standard and Poor's ratings system - however, references to the Minister's Order also recognised Moody's and Fitch ratings and any of the three ratings may be used where available.

In the event of disagreement between agencies as to the rating ("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.

The primary control of credit quality, however, is the prudential supervision and government support and explicit guarantees of the ADI sector, not ratings.

In cases where a loan agreement or other contract imposes a credit quality limit more conservative than this policy, Council's contractual obligations will prevail. The more conservative limit will be applied in each case.

4.10.6 The maximum holding limit in each rating category and the target credit quality weighting for Council's portfolio shall be:

<b>Long Term Rating Range (or Moody's equivalent)</b>	<b>Maximum Holding</b>
AAA Category	100%
AA Category or Major Banks*	100%
A Category	60%
BBB Category	35%
Unrated ADIs	10%

*\* For the purposes of this Policy, Major Banks are defined as the Authorised Deposit-Taking Institution (ADI) deposit 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 (such as Bank of Western Australia Ltd) whether or not explicitly guaranteed, and brands (such as St George).*

Council may ratify an alternative definition from time to time.

#### 4.11 Counterparty Limits

4.11.7 Exposure to individual counterparties/financial institutions will be restricted by their rating so that single entity exposure is limited, as detailed in the table below. It excludes any government guaranteed investments.

4.11.8 The following table does not apply to any grandfathered managed fund or structured investment, where it is not possible to identify a single counterparty exposure.

<b>Individual Institution or Counterparty Limits</b>		
<b>Long Term Rating Range (or Moody's equivalent)</b>	<b>Short Term Credit Ratings</b>	<b>Limit</b>
AAA Category <sup>2</sup>	A-1+	40%
AA Category or Major Banks	A-1+	30%
A Category	A-1	15%
BBB Category	A-2	10%
Unrated Category <sup>3</sup>	Unrated	5%

#### 4.12 Term to Maturity Limits

4.12.9 Council's investment portfolio shall be structured around the time horizon of investment to ensure that liquidity and income requirements are met.

Once the primary aim of liquidity is met, Council will ordinarily diversify its maturity profile as this will ordinarily be a low-risk source of additional return as well as reducing the volatility of Council's income. Council retains the flexibility to invest as short as required by internal requirements or the economic outlook.

4.12.10 The factors and/or information used by Council to determine minimum allocations to the shorter durations include:

- Council's liquidity requirements to cover both regular payments as well as sufficient buffer to cover reasonably foreseeable contingencies;
- medium-term financial plans and major capital projects forecasts;

<sup>2</sup> 100% Commonwealth Government and Government-guaranteed deposits are included in this category, but without any upper limit applying to the government as counterparty.

<sup>3</sup> This category includes unrated ADIs such as some Credit Unions and Building Societies where falling outside deposit guarantees for at least part of the investment term.



- known grants, asset sales or similar one-off inflows; and
- seasonal patterns to Council's investment balances.

Investment Horizon Description	Investment Horizon - Maturity Date	Minimum Allocation	Maximum Allocation
Working capital and short term funds	12 months	30.0%	100.0%
Short-Medium term funds	1-2 years	0%	70.0%
Medium term funds	2-5 years	0%	50.0%
Long term funds	5-10 years	0%	25.0%

Within these broad ranges, Council relies upon assumptions of expected investment returns and market conditions that have been examined with its investment advisor.

#### 4.13 Performance Benchmarks

4.13.11 The performance of each investment will be assessed against the benchmarks listed in the table below. It is Council's expectation that the performance of each investment will be greater than or equal to the applicable benchmark by sufficient margin to justify the investment taking into account its risks, liquidity and other benefits of the investment.

Council will seek information about both current and historical reward for the investments contemplated in its Investment Strategy - where insufficient, it will hold cash and not impose a minimum outperformance obligation. To do so mandates risk-seeking at times of minimal reward.

It is also expected that Council will take due steps to ensure that any investment, notwithstanding a yield above the benchmark rate (taking into account term), is executed at the best pricing reasonably possible.

Investment	Performance Benchmark	Time Horizon
11 am Account, short dated bills, deposits issued by financial institutions of appropriate term.	Official RBA Cash Rate	3 months or less
Term Deposits of appropriate remaining term, FRNs nearing maturity.	AusBond Bank Bill Index (BBI)	3 months to 12 months
Term Deposits with a maturity date between 1 and 2 years, FRNs	AusBond Bank Bill Index (BBI)	1 to 2 years
FRNs, Bonds, Term deposits with a maturity date between 2 and 5 years. Grandfathered Income Funds.	AusBond Bank Bill Index (BBI)	2 to 5 years

Investment	Performance Benchmark	Time Horizon
T-Corp Hour IM Funds	Fund's Internal Benchmark	3 years (M/T growth) 5+ years (L/T growth)

## 5. RESPONSIBILITY/ACCOUNTABILITY

### 5.1 Delegation of Authority

5.1.12 Authority to implement this Policy is delegated by Council to the General Manager in accordance with the *Local Government Act 1993*.

5.1.13 The General Manager has in turn delegated the day-to-day management of Council's investments to the Director Corporate Services and the Responsible Accounting Officer who must ensure adequate skill, support and oversight.

5.1.14 Officers' delegated authority to manage Council's investments shall be recorded and they are required to acknowledge they have received a copy of this Policy and understand their obligations in this role.

5.2 Documentary evidence must be held for each investment and details maintained in an investment register. The documentary evidence must provide Council legal title to the investment.

5.3 For audit purposes, certificates must be obtained from the banks/fund managers/custodian confirming the amounts of investment held in Council's behalf at 30 June each year.

5.4 A monthly report will be provided to Council. The report will detail the investment portfolio in terms of holdings and impact of changes in market value since the previous report. The monthly report will also detail the investment performance against the applicable benchmark, investment income earned versus budget year to date and confirm compliance of Council's investments within legislative and policy limits. Council may nominate additional content for reporting.

5.5 This Policy will be reviewed annually and as required in the event of legislative change or as a result of significantly changed economic/market conditions. The Policy may also be changed as a result of other amendments that are to the advantage of Council. Any amendment to this Policy must be by Council resolution.

## 6. RELATED POLICIES/DOCUMENTS/LEGISLATION

The Policy should be read in conjunction with the following Council policies and documents:

- Asset Accounting and Capitalisation Policy
- Asset Management Policy
- Financial Management Policy
- Long Term Financial Plan within Resourcing Strategy
- Open Government Policy

The Policy should be read in conjunction with the following documents/legislation:

- Any loan agreement or contract that imposes conditions on the credit quality of Council's cash and investments
- Australian Accounting Standards
- Banking Act 1959
- Investment Order (Office of Local Government)
- Investment Policy Guidelines (Office of Local Government)
- Local Government Act 1993
- Local Government (General) Regulation 2021
- Local Government Code of Accounting Practice and Financial Reporting
- Office of Local Government Circulars (various)
- Trustee Amendment (Discretionary Investment) Act 1997 - Section 14

Version	Date Approved	Approved by	Resolution No.	Review Date
1	16 February 2009	Council	61	2012/13
2	6 July 2009	Council	441	2010/11
3	30 May 2011	Council	326	2011/12
4	18 February 2013	Council	61	2014/15
5	17 August 2015	Council	280	2015/16
6	25 June 2018	Council	214	2020/21
7	27 November 2023	Council	314	2024/25