

<b>Policy title</b>	Investment Policy
<b>Responsible manager(s)</b>	Director Commercial and Corporate Services
<b>Contact officer(s)</b>	Director Commercial and Corporate Services
<b>Directorate</b>	Commercial and Corporate Services
<b>Approval date</b>	31 July 2018
<b>Outcome area</b>	9. Innovative and proactive leadership
<b>Strategy</b>	9.2 Provide strong leadership and work in partnership to strategically plan for the future and progress toward the community vision.
<b>Delivery Program/ Operational Plan</b>	9.2.4 Responsibly manage Council's finances and maintain Fit for the Future status

### Purpose

Eurobodalla Shire Council's policy is designed to ensure that Council's investments reflect the preference to reduce risk and comply with current NSW Local Government investing policy guidelines, 'best practice' and the current Ministerial Order.

This policy is a requirement of the *Local Government Code of Accounting Practice and Financial Reporting* issued by the Office of Local Government (OLG) pursuant to section 412 of the *Local Government Act 1993 (NSW)* (LG Act) as set out below:

*"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."*

The *Trustee Amendment (Discretionary Investments) Act 1997* (NSW) section 14A(2) provides further guidance on a "prudent person": *"A prudent person is expected to act with considerable duty of care, not as an average person would act, but as a wise, cautious and judicious person would."*

The Accounting Code defines "investments" as: *"money that is not, for the time being, required by the council for any other purpose"*.

Both the policy and investing practices of the Council must comply with Section 625 of the *Local Government Act 1993* as set out below:

**"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."*

The Ministerial Investment Order as at 12 January 2011 was current at the date of adopting this policy and is included in this document (see [Appendix 1](#)).

In formulating this policy the Council has also considered the 'Investment Policy Guidelines' issued by the OLG in May 2010. While it is the belief of the Council that these guidelines are not binding, it is also the Council's belief that they represent best practice and should be incorporated within the adopted investment policy.

## Policy aims

This policy aims to ensure that:

- Council has appropriate working capital funds available to carry out its strategic plans as outlined in its delivery program and operational plan (or management plan);
- Long term core investments are limited or avoided in favour of a focus on working capital investments so that funds are readily available if required;
- A reasonable level of funds are immediately accessible in the event of a disaster or unexpected failure of infrastructure;
- Council is able to meet its liability commitments as they fall due;
- Legally-restricted funds are appropriately accounted for and invested so as to earn reasonable income towards their purposes. Legally restricted funds include trusts, developer contributions, unexpended grants, Crown reserves etc.; and
- All statutory requirements are met.

## Policy statement

<b>1</b>	<p><b>Application</b></p> <p>This policy applies to the investment of Eurobodalla Shire Council's surplus funds.</p>
<b>2</b>	<p><b>Legislation</b></p> <p>Eurobodalla Shire Council will comply with Section 625 of the <i>Local Government Act (NSW) 1993</i>; <i>The Trustee Amendment (Discretionary Investments) Act 1997 (NSW) section 14A(2)</i>; <i>Local Government Code of Accounting Practice and Financial Reporting and Investment Policy Guidelines</i> dated May 2010 (issued by the OLG).</p>
<b>3</b>	<p><b>Australian Currency</b></p> <p>All investments must be denominated in Australian Dollars and comply with the Minister's determination.</p>
<b>4</b>	<p><b>Order of Priorities</b></p> <p>The order of priorities is firstly the preservation of capital, and second, the maintenance of liquidity. In this context 'liquidity' refers to the speed and ease with which an asset can be converted to cash.</p>
<b>5</b>	<p><b>Acceptable Risk Criteria For Financial Instruments</b></p> <p>Credit risk refers to the risk of ultimately not being able to redeem the funds. The average credit risk of the portfolio should reflect the conservative approach that a 'prudent person' would take to investing. This approach should be reinforced by investing in term deposits and remote risk investments.</p>
<b>5.1</b>	<p><b>Remote risk</b></p> <p>Up to 100% of all invested funds may be invested in deposits issued by or guaranteed by, the Commonwealth, any State of the Commonwealth or a Territory. Investments held in the State and Territories must be diversified.</p> <ul style="list-style-type: none"> <li>• Low liquidity risk           0% - 100%</li> <li>• Medium liquidity risk       0% - 70%</li> <li>• High liquidity risk           0% - 50%</li> </ul>

<b>5.2</b>	<p><b>Near risk-free</b> - Up to 100% of all invested funds in AAA to AA rated institutions and up to 40% in A rated institutions.</p> <p>Investments in this category must be issued by Australian authorised banks. Up to 100% of all invested funds can be invested in institutions with a Standard and Poor's (S&amp;P) rating equal to "A-1+" short term and in the "AAA" or "AA" (+ through -) category long term and up to 40% in institutions with a Standard and Poor's (S&amp;P) rating equal to "A" (+ through -) or with an equivalent Moody's or Fitch rating equivalents. Noting that "senior debt" and like investments with banks meeting the above criteria is permitted within this risk category.</p> <ul style="list-style-type: none"> <li>• Low liquidity risk                      0% - 100%</li> <li>• Medium liquidity risk                    0% - 50%</li> <li>• High liquidity risk                        0% - 30%</li> </ul>																																																								
<b>5.3</b>	<p><b>Some limited risk</b> - Up to 30% of all invested funds (Limited to two counterparties)</p> <ul style="list-style-type: none"> <li>• Low liquidity risk                      0% - 100%</li> <li>• Medium liquidity risk                    0% - 20%</li> <li>• High liquidity risk                        0% - 10%</li> </ul> <p>Authorised banks with an S&amp;P rating equal or better than "A-2" short term or "BBB+" category long term or with an equivalent Moody's or Fitch Rating equivalents. These investments will be limited to two counterparties being the Bank of Queensland or Bendigo Adelaide Bank.</p>																																																								
<b>5.4</b>	<p><b>Investment Parameters</b></p> <p>The maximum holding in each rating category for Council's portfolio shall be:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">S&amp;P Long Term Category</th> <th style="text-align: center;">S&amp;P Short Term Category</th> <th style="text-align: center;">Maximum %</th> <th style="text-align: center;">Risk Rating</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">AAA (Government guaranteed deposits)</td> <td style="text-align: center;">A-1+</td> <td style="text-align: center;">100%</td> <td style="text-align: center;">Remote Risk</td> </tr> <tr> <td style="text-align: center;">AAA to AA</td> <td style="text-align: center;">A-1+</td> <td style="text-align: center;">100%</td> <td style="text-align: center;">Near Risk Free</td> </tr> <tr> <td style="text-align: center;">A</td> <td style="text-align: center;">A-1 to A-2</td> <td style="text-align: center;">40%</td> <td style="text-align: center;">Near Risk Free</td> </tr> <tr> <td style="text-align: center;">BBB+</td> <td style="text-align: center;">A-2</td> <td style="text-align: center;">30%</td> <td style="text-align: center;">Some Limited Risk</td> </tr> <tr> <td style="text-align: center;">BBB</td> <td style="text-align: center;">A-2</td> <td style="text-align: center;">Nil</td> <td></td> </tr> <tr> <td style="text-align: center;">ADI/Unrated</td> <td></td> <td style="text-align: center;">Nil</td> <td></td> </tr> </tbody> </table> <p>The percentage per institution will restrict amount invested in one Bank as shown below:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">S&amp;P Long Term Category</th> <th style="text-align: center;">S&amp;P Short Term Category</th> <th style="text-align: center;">Maximum % per Institution</th> <th style="text-align: center;">Risk Rating</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">AAA (Government guaranteed deposits)</td> <td style="text-align: center;">A-1+</td> <td style="text-align: center;">100%</td> <td style="text-align: center;">Remote Risk</td> </tr> <tr> <td style="text-align: center;">AAA to AA</td> <td style="text-align: center;">A-1+</td> <td style="text-align: center;">40%</td> <td style="text-align: center;">Near Risk Free</td> </tr> <tr> <td style="text-align: center;">A</td> <td style="text-align: center;">A-1 to A-2</td> <td style="text-align: center;">20%</td> <td style="text-align: center;">Near Risk Free</td> </tr> <tr> <td style="text-align: center;">BBB+</td> <td style="text-align: center;">A-2</td> <td style="text-align: center;">20%</td> <td style="text-align: center;">Some Limited Risk</td> </tr> <tr> <td style="text-align: center;">BBB</td> <td style="text-align: center;">A-2</td> <td style="text-align: center;">Nil</td> <td></td> </tr> <tr> <td style="text-align: center;">ADI/Unrated</td> <td></td> <td style="text-align: center;">Nil</td> <td></td> </tr> </tbody> </table>	S&P Long Term Category	S&P Short Term Category	Maximum %	Risk Rating	AAA (Government guaranteed deposits)	A-1+	100%	Remote Risk	AAA to AA	A-1+	100%	Near Risk Free	A	A-1 to A-2	40%	Near Risk Free	BBB+	A-2	30%	Some Limited Risk	BBB	A-2	Nil		ADI/Unrated		Nil		S&P Long Term Category	S&P Short Term Category	Maximum % per Institution	Risk Rating	AAA (Government guaranteed deposits)	A-1+	100%	Remote Risk	AAA to AA	A-1+	40%	Near Risk Free	A	A-1 to A-2	20%	Near Risk Free	BBB+	A-2	20%	Some Limited Risk	BBB	A-2	Nil		ADI/Unrated		Nil	
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<b>6</b>	<p><b>Unacceptable investments</b></p> <p>Any investment that falls outside the Minister’s order or not included in this policy.</p>
<b>7</b>	<p><b>Safe custody arrangements</b></p> <p>It will not be acceptable for title to Council’s investments to be held by other organisations unless the following criteria are met:</p> <ul style="list-style-type: none"> <li>• There is adequate documentation confirming the existence of the investments</li> <li>• The institution recording and holding the assets is “ASX Limited”, or “ANZ Nominees”, or has an S&amp;P rating equal or better than “A-1+” short term and “A” long term (“strong”) or with an equivalent Moody’s rating of “P1” short term and “A2” long term or Fitch Rating equivalents.</li> </ul> <p><i>(Where Council’s assets are held in safe custody by an institution, Council may be exposed to the creditworthiness of that institution.)</i></p>
<b>8</b>	<p><b>Other Forms of Investment</b></p> <p>Internal loans are acceptable subject to any legal requirements noting that Ministerial approval is, at the time of adopting this policy, required for internal investing/borrowing arrangements to or from externally restricted funds, however such arrangements must not compromise liquidity or compliance with industry standards for financial ratios.</p> <p>Interest-free loans to community organisations and the like are covered by separate Council policies.</p>

### Implementation

Requirements	Responsibility
<p><b>1 Staff</b></p> <p>Under supervision of the Responsible Accounting Officer council staff will be responsible for ensuring that policies are implemented appropriately within their work area.</p>	<p>Divisional Manager Finance Asset Accountant Asset Officer</p>
<p><b>2 Complaints and requests</b></p> <p>Complaints and requests received regarding the Investment Policy or investments will be recorded on Council’s Records Database and handled in accordance with the Customer Service or Complaints Policy.</p>	<p>Council officers Public Officer</p>
<p><b>3 Consultation</b></p> <p>At least every three years, arrange a full comprehensive review of Council’s policy and investing activities by an appropriately qualified (e.g. ASIC) adviser with the costs to be met by interest earnings and seek appropriate advice on other occasions as required. The Audit, Risk and Improvement committee should meet quarterly to review the investing environment and strategy.</p>	<p>Director Corporate and Commercial Services</p> <p>Audit, Risk and Improvement Committee (ARIC)</p>

## Review

This policy will be reviewed every 4 years. It may also be reviewed and updated as necessary if legislation requires it; or when Council's related policies, functions, structure or activities change; or when technological advances or new systems change the way that Council manages investment.

The policy may be revoked at the expiration of twelve months after the declaration of the poll for the next general NSW local government election, unless Council updates or revokes it sooner.

**Note:** *The next general local government election is expected to be held in September 2020.*

Reviews of the effectiveness of this policy could include the following:

Performance indicator	Data source(s)
Complaints	Council records
Customer Feedback Survey Responses	Surveys
Internal or external audit	Audit
Interest exceeds the Average Bank Bill Swap Rate by 25 Basis Points	Report

## Governance

This policy should be read in conjunction with any related legislation, codes of practice, relevant internal policies, and guidelines.

### *Related legislation and policies*

Name	Link
<i>Local Government Act 1993</i>	<a href="http://www.austlii.edu.au/au/legis/nsw/consol_act/lga1993182">www.austlii.edu.au/au/legis/nsw/consol_act/lga1993182</a>
Trustee Amendment (Discretionary Investments) Act 1997	<a href="http://www.legislation.nsw.gov.au/sessionalview/sessional/act/1997-102.pdf">www.legislation.nsw.gov.au/sessionalview/sessional/act/1997-102.pdf</a>
Ministerial Investment Order 12 January 2011 Appendix A	<a href="http://www.olg.nsw.gov.au/sites/default/files/OLG%20-%20Code%20Update%2025%20-%20Appendices.pdf">www.olg.nsw.gov.au/sites/default/files/OLG%20-%20Code%20Update%2025%20-%20Appendices.pdf</a>
<i>OLG Local Government Code of Accounting Practice and Financial Reporting 2009</i>	<a href="http://www.olg.nsw.gov.au/strengthening-local-government/supporting-and-advising-councils/accounting-practice">www.olg.nsw.gov.au/strengthening-local-government/supporting-and-advising-councils/accounting-practice</a>
<i>OLG Investment Policy Guidelines</i>	<a href="http://www.olg.nsw.gov.au/sites/default/files/Investment-Policy-Guidelines-May-2010.pdf">www.olg.nsw.gov.au/sites/default/files/Investment-Policy-Guidelines-May-2010.pdf</a>

### *Related external references*

Name	Link
Office of Local Government (OLG)	<a href="http://www.olg.nsw.gov.au/">www.olg.nsw.gov.au/</a>

### *Supporting documents*

Name	Link
OLG Circular re: Revised Ministerial Order (17 Feb 2011)	<a href="http://www.olg.nsw.gov.au/sites/default/files/11-01_0.pdf">www.olg.nsw.gov.au/sites/default/files/11-01_0.pdf</a>

*Definitions*

Word/Term	Definition
Prudent Person	A prudent person is expected to act with considerable duty of care, not as an average person would act, but as a wise, cautious and judicious person would.
Credit Risk	The risk of ultimately not being able to redeem the funds.
Investments	Money that is not, for the time being, required by the council for any other purpose

*Change history*

Version	Approval date	Approved by	Minute	File	Change
1	22 Sep 2011	Council		E05.9513 E06.0355	Policy commenced
2	10 Sep 2013	Council	13/272	E05.9513 E06.0355 E13.7095	Report O13/56 Updated formatting, review date, references and links
3	12 May 2015	Council	15/31	E05.9513 E06.0355	Report FBD 15/034 - updated to reflect changes in banking
4	13 Jun 2017	Council	17/181	E05.9513 E06.0355 E16.0297	Reviewed, minor formatting updates
5	12 Dec 2017	Council	17/393	E00.4623	Investment review
6	27 Mar 2018	Council	18/6	E00.4623	Report CCS18/012 – amended policy adopted
7	31 July 2018	Council	18/030	E00.4623	Report CCS18/030 – amended policy adopted

*Internal use*

Responsible officer		Director Commercial and Corporate Services		Approved by	Council
File no	E06.0355 E05.9513	Council report	CCS18/030	Approved date	31 Jul 2018
Min no	18/182	Review date	Sep 2020	Pages	8

**APPENDIX 1 – Ministerial Investment Order 12 Jan 2011**

Extracted on 25/03/13 from:

[www.nsw.gov.au/sites/default/files/Government\\_Gazette\\_11\\_February\\_0.pdf](http://www.nsw.gov.au/sites/default/files/Government_Gazette_11_February_0.pdf)

**NEW SOUTH WALES GOVERNMENT GAZETTE No. 14      pp597-598**  
**OFFICIAL NOTICES 11 February 2011**  
**LOCAL GOVERNMENT ACT 1993**  
**Investment Order**  
**(Relating to Investments by Councils)**

I, the Hon. BARBARA PERRY, M.P., 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 these investments made before the date of this Order and does not apply to any restructuring or switching of investments or any reinvestment 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 12th day of January 2011.

The Hon. BARBARA PERRY, M.P.,  
Minister for Local Government