



LACHLAN SHIRE COUNCIL

INVESTMENT

POLICY

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Further Information: Lachlan Shire Council			☎ 02 6895 1900	✉ Email: council@lachlan.nsw.gov.au		
Version: 10	ADOPTED: 21/02/2024	RESOLUTION: 2024/10	Commencement Date: 2006	Last Review Date: February 2024	Next Review Date: February 2025	Content Manager Ref: D24/ 3578

1. INTRODUCTION

The Lachlan Shire Council Investment Policy has been developed to establish investment risk management guidelines to be adopted in investment of surplus funds that are not immediately required for any other purpose.

2. OBJECTIVES

1. To provide a framework for the investing of surplus Council funds at the most favourable rate of interest available. There needs to be due consideration given to the risk and security of investments ensuring Council's liquidity requirements are being met.
2. Whilst exercising the power to invest consideration must be given to the preservation of capital, liquidity and the return on investment:
 - a) Preservation of capital is the principal objective of the investment portfolio. Investments are to be placed in a manner that seeks to ensure the security and the safeguarding of the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters as set out on pages 3-5 of the policy.
 - b) Investments should be allocated to ensure there is sufficient liquidity to meet all reasonably anticipated cash flow requirements, as and when they fall; to avoid incurring the significant costs associated with the early redemption of an investment.
 - c) Investments are expected to achieve a market average rate of return within the parameters set out under Risk Management Guidelines and Benchmarking in this policy document.

3. BACKGROUND

Interest on Council investments has represented a significant contribution to the total income of Council and it is essential that Council has clear policy guidelines as to how funds can be invested. This policy aims to clearly state the institutions with which Council can invest, the maximum proportion of funds that may be placed with individual organisations and the types of investments entered into.

4. LEGISLATIVE REQUIREMENTS

All investments are to comply with the following:

- Local Government Act 1993;
- Local Government (General) Regulation 2021;
- Trustee Act 1925;
- Government Sector Finance Act 2018;
- Ministerial Investment Order;
- Banking Act 1959 (Cwth);
- Local Government Code of Accounting Practice and Financial Reporting;
- Australian Accounting Standards; and
- Office of Local Government Circulars.

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5. DELEGATION OF AUTHORITY

Authority for implementation of the Investment Policy is delegated to the General Manager in accordance with the Local Government Act 1993. All investments must comply with various legislation and as prescribed by the current Office of Local Government Ministerial Investment Order.

The Responsible Accounting Officer in accordance with the General Manager's delegation is responsible for the day to day management of Council's Investments. The Manager - Finance, with the approval of the Responsible Accounting Officer makes investments on Council's behalf.

6. PRUDENT PERSON STANDARD

Council investments will be managed with the care, diligence and skill that a prudent person would exercise. Investments permitted under section 6 of the *Government Sector Finance Act 2018* are deemed by the *Trustee Act 1925* to be investments that satisfy the prudent person test.

As Trustees of public monies, Officers are to manage Council's investment portfolio to safeguard the portfolio in accordance with the spirit of this Investment Policy, **and not for speculative purposes.**

7. APPROVED INVESTMENTS

Investments are limited to those allowed by the most current Ministerial Investment Order that has been issued by the NSW Minister for the Office of Local Government:

- 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 binds 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) In accordance with the *Government Sector Finance Act 2018*, any government issued security such as a deposit with the New South Wales Treasury Corporation or investments in managed funds of the New South Wales Treasury Corporation. This does not permit Council to invest in managed funds with any other organisation.

All investment instruments (excluding short term discount instruments) referred to above include both principal and investment income.

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8. PROHIBITED INVESTMENTS

In accordance with any current Ministerial Investment Order, this investment policy **prohibits** but is not limited, to any investment carried out for speculative purposes, including:

- a) Derivative based instruments;
- b) Principal only investments or securities that provide potentially nil or negative cash flow; and
- c) Standalone securities issued that have underlying futures, options, forward contracts and swap of any kind
- d) Investing in managed funds with any organisation other than NSW Treasury Corporation.

9. RISK MANAGEMENT GUIDELINES

9.1. Credit Quality, Diversification and Term to Maturity Constraints

Investments are to comply with three key criteria relating to:

- 1) Portfolio Credit Framework – limit the overall credit exposure of the portfolio;
- 2) Institution Credit Framework – limit exposure to individual institutions; and
- 3) Term to Maturity Framework – limits based upon maturity terms of securities.

9.2. Credit Ratings

Credit Ratings are opinions about credit risk. They can express a forward-looking opinion about the capacity and willingness of an entity to meet its financial commitments as they come due, and also the credit quality and the relative likelihood that the issuer may default.

9.3. Portfolio Credit Framework

The portfolio credit guidelines are based upon the Standard & Poor's (S&P) credit ratings system, or equivalent. The maximum available limits in each rating category are as follows:

Long Term Credit Rating	Direct Securities Maximum
AAA	100%
AA or Major Bank [^]	100%
A	60%
BBB	40%
Unrated	20%

For the purpose of this Policy, "Major Bank" is currently defined as Authorised Deposit-taking Institutions (ADI) or senior guaranteed principal and interest ADI securities issued by the major Australian banking groups:

- Australia and New Zealand Banking Group Limited

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- Commonwealth Bank of Australia
- National Australia Bank Limited
- Westpac Banking Corporation

This includes ADI subsidiaries whether or not explicitly guaranteed or branded (such as St George).

Council may ratify an alternative definition from time to time. Standard & Poor’s credit 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.

9.4. Institution Credit Framework

Exposure to individual counterparties/financial institutions will be restricted by their S&P rating or equivalent, as follows:

Long Term Credit Rating	Direct Securities Maximum
AAA	30%
AA or Major Bank^	25%
A	20%
BBB	15%
Unrated	5%

9.5. Term to Maturity Framework

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

Overall Portfolio Term to Maturity Limits		
	Minimum	Maximum
Portfolio % < 1 Year	20%	100%
Portfolio % >1 Year < 3 Years	0%	70%
Portfolio % > 3 Years < 5 Years	0%	50%
Portfolio % > 5 Years	0%	25%

10. INVESTMENT ADVISOR

Should Council engage an investment advisor, the 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, except as fully rebated to Council, promptly.

11. MEASUREMENT

Should Council invest in Floating Rate Notes (FRN's) the market value is to be assessed at least once a year to coincide with annual reporting.

12. BENCHMARKING

The performance of the investment portfolio shall be compared as follows to the:

- a) Reserve Bank of Australia's Official Cash Rate; and the
- b) Direct Investments –AusBond Bank Bill Index

13. REPORTING AND REVIEW OF INVESTMENTS

The Responsible Accounting Officer (RAO) or their delegate shall be responsible for reconciling the investment register on a monthly basis and ensuring sufficient records are maintained, including:

- 1) The source and amount of money invested;
- 2) Particulars of the security or form of investment in which the money was invested;
- 3) The term of the investment, and
- 4) The rate of interest to be paid in respect of the money invested.

A monthly report shall be provided to Council, detailing the investment portfolio in terms of performance (benchmarking), investment institution and amount of each investment.

14. REVIEW OF INVESTMENT POLICY

This policy shall be reviewed annually and any amendments, if necessary, shall be approved by a resolution of Council.

Greg Tory

GENERAL MANAGER

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