



## **JUNEE SHIRE COUNCIL**

# **INVESTMENT POLICY**

Policy No:	FIN-DFA-005
Re-adopted by Council:	16 July 2024
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Review Date:	July 2026
Responsible Officer:	Chief Financial Officer
Functional Director:	Chief Financial Officer
Area:	Finance and Administration

The Investment Policy provides guidance for the management of Council's cash and investment portfolio.

This policy applies to all managers and employees who actively manage Council's cash and investments or have the responsibility for employees who actively manage Council's cash and investments.

In addition, this policy covers the monitoring, reporting and accounting requirements for investments.

## **1. POLICY STATEMENT**

This Policy provides an operational framework for the investment of Junee Shire Council's surplus funds.

When exercising the power to invest, consideration is to be given to the preservation of capital, liquidity and the return of investment. Council has several primary objectives for its investment portfolio:

- Compliance with legislation, regulations, the prudent person tests of the Trustee Act and best practice guidelines.
- The preservation of the amount invested.
- To ensure there are sufficient liquid funds to meet all reasonably anticipated cash flow requirements; and
- To generate investment income that exceeds the performances benchmarks identified later in this document.

## **2. LEGISLATIVE AND REGULATORY REFERENCES**

All investments are to comply with the following:

- Local Government Act (1993)
- Local Government (General) Regulation (2005)
- Ministerial Investment Order
- Trustee Act 1925
- Local Government Code of Accounting Practice and Financial Reporting
- Australian Accounting Standards
- Office of Local Government Investment Policy Guidelines; and
- Office of Local Government Circulars

## **3. DELEGATION OF AUTHORITY**

Authority for implementation of the Investments 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 (RAO) and the Manager of Finance and Business Services.

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

#### **4. PRUDENT PERSON STANDARD**

The investment 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.

#### **5. ETHICS AND CONFLICTS OF INTEREST**

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.

Independent advisors are also required to declare that they have no actual or perceived conflicts of interest.

#### **6. AUTHORISED INVESTMENTS**

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

- Commonwealth / State / Territory Government securities eg. bonds;
- Interest bearing deposits / senior securities issued by an eligible authorised deposit-taking institution (ADI);
- Bills of Exchange (<200 days duration) guaranteed by an ADI;
- Debentures issued by an NSW Council under the Local Government Act (1993);
- Deposits with T-Corp &/or Investments in T-Corp Managed Funds; and
- Existing investments grandfathered under the Ministerial Order.

#### **7. PROHIBITED INVESTMENTS**

The Investment Policy prohibits the following types of investment:

- Derivative based instruments;
- Principal only investments or securities that provide potentially nil or negative cash flow;
- Stand-alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind; and
- Mortgage of land

This policy also prohibits any investment with speculative purposes, including the use of leveraging (borrowing to invest) for an investment. However, nothing in the policy shall prohibit the short-term investment of loan proceeds where the loan is raised for non-investment purposes and there is a delay in the expenditure of loan funds.

## 8. RISK MANAGEMENT GUIDELINES

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

- Portfolio Credit Framework – to limit overall credit exposure of the portfolio
- Counterparty Credit Framework – to limit exposure to individual counterparties / institutions
- Investment Horizon Framework – limits based upon maturity of securities

## 9. PORTFOLIO CREDIT FRAMEWORK

The portfolio credit guidelines to be adopted will reference the Standard & Poor's (S&P) ratings system criteria and format, however, references in the previous Minister's Orders also recognised Moody's and Fitch Ratings and any of the three ratings may be used where available.

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

The maximum holding limit in each rating category for Council's portfolio shall be:

S&P Long Term Rating*	S&P Short Term Rating*	Maximum %
AAA (incl. government guaranteed deposits)	A-1+	100%
AA+		
AA		
AA-		
A+	A-1	100%
A		
A-	A-2	75%
BBB+		
BBB		
BBB-	A-3	40%
Unrated**	Unrated**	25%

\* or Moody's / Fitch equivalents

\*\* Investments with S&P Long Term Rating below A, or S&P Short Term Rating below A-1 are to be restricted to ADI regulated by, and subject to the prudential standards of the Australian Prudential Regulation Authority (APRA).

Given the need for high levels of liquidity, maximum holding limits are assessed at the time of investment for compliance purposes.

If any of Council's investments are downgraded such that they no longer fall within the Investment Policy, they will be divested as soon as practicable.

The short-term credit rating limit will apply in the case of discrepancies between short-term and long-term ratings.

## 10. COUNTERPARTY CREDIT FRAMEWORK

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.

Limits do not apply to Federal or NSW-guaranteed investments, which are uncapped.

This table does not apply to any grandfathered managed fund investment where it is not possible to identify a single counterparty exposure.

S&P Long Term Rating*	S&P Short term Rating*	Maximum %
AAA (incl. government guaranteed deposits)	A-1+	50%
AA+		
AA		
AA-		
A+	A-1	50%
A		
A-		
BBB+	A-2	40%
BBB		
BBB-	A-3	30%
Unrated**	Unrated**	25%

\* Investments with S&P Long Term Rating below A, or S&P Short Term Rating below A-1 are to be restricted to ADI regulated by, and subject to the prudential standards of the Australian Prudential Regulation Authority (APRA).

Given the need for high levels of liquidity, maximum holding limits are assessed at the time of investment for compliance purposes.

If any of Council's financial counterparties are downgraded such that they no longer fall within the Investment Policy, they will be divested as soon as practicable.

The short-term credit rating limit will apply in the case of discrepancies between short-term and long-term ratings.

## 11. INVESTMENT HORIZON LIMITS

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

"Horizon" represents the intended minimum term of the investment; it is open for the investment decision to define a target date for sale of a liquid investment.

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

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 expenditure forecasts.
- Known grants, asset sales or similar one-off inflows.
- Seasonal patterns to Council's surplus funds.

Horizon Description	Maturity Timeframe	Minimum Allocation	Maximum Allocation
Working Capital Funds	0-3 months	20%	100%
Short-Term Funds	3-12 months		
Short-Medium Term Funds	1-2 years	0%	20%
Medium-Term Funds	2-5 years	0%	15%
Long-Term Funds	5-10 years	0%	0%

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

## 12. INVESTMENT ADVISOR

Council's investment advisor must be licensed by the Australian Securities and Investment Commission. 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 the investment policy.

Independence includes receiving no commissions or other benefits in relation to the investments being recommended or reviewed, except as fully rebated to Council, promptly.

### 13. PERFORMANCE BENCHMARKS

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.

<b>Investment</b>	<b>Performance Benchmark</b>	<b>Time Horizon</b>
Cash-at-call accounts, short-dated bills, deposits issued by financial institutions or appropriate term.	AusBond Bank Bill Index (BBI)	3 months or less
Term Deposits of appropriate remaining term, FRN's nearing maturity	AusBond Bank Bill Index (BBI)	3 months to 12 months
Term Deposits with a maturity date between 1 and 2 Years, FRN's	AusBond Bank Bill Index (BBI)	1 to 2 years
FRN's, Bonds, Term deposits with a maturity date between 2 and 5 years	AusBond Bank Bill Index (BBI)	3 years (M/T Growth)
TCorp Balanced Growth Funds	Fund's Internal Benchmark	3+ Years (M/T Fund) 5+ Years (L/T Fund)

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.

### 14. ACCOUNTING

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 breakdown of its duly calculated investment returns into realised and unrealised capital gains and losses, and interest return.

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.

## **15. 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 conducts regular reconciliation of records with relevant registries and/or clearing systems; and
- The Institution or Custodian recording and holding the assets will be:
  - The Custodian nominated by TCorp for their Managed Funds
  - Austraclear
  - An institution with an investment grade Standard and Poor's, Moody's or Fitch 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.

## **16. REPORTING**

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.

For audit purposes, certificates must be obtained from the banks/fund managers/custodian confirming the amounts of investment held on Council's behalf as at the end of the Financial Year.

All investments are to be appropriately recorded in Council's financial records and reconciled at least on a monthly basis.

Pursuant to the Local Government (General) Regulation 2005 (clause 212), Council will provide a monthly report to Council on investments. The monthly report to Council will include:

- The total value of the portfolio.
- A complete schedule of all investments within the total portfolio.
- Full disclosure of all investments by type, current credit rating and face value.
- Net investment income for the month.
- Certification that investments accord with the Act, Regulations and Council's Investment Policy.

## **17. REVIEW OF POLICY**

In accordance with the Local Government Code of Accounting Practice & Financial Reporting, Council will undertake a review of its Investment Policy every two years.

If there are any significant changes to the Act, Regulations, Issued Guidelines, or if the market changes to a degree that warrants an earlier examination, the Investment Policy will be reviewed and brought back to Council for its consideration.



## 18. DEFINITIONS

Term	Definition
Act	Local Government Act 1993
Authorised Deposit-taking Institutions	Authorised Deposit-Taking Institutions (ADIs) are corporations that are authorised under the Banking Act 1959 (Cwth) to take deposits from customers.
AusBond Bank Bill Index	The AusBond Bank Bill Index is the leading benchmark for the Australian fixed income market. It is interpolated from the RBA Cash rate, one month and three month Bank Bill Swap rates and is the widely used benchmark for local councils.
Bank Bill Swap Rate	The Bank Bill Swap reference rate (BBSW) is the average of midrate 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.
Bill of Exchange	A bill of exchange is 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.
Council Funds	Surplus monies that are invested by Council in accordance with section 625 of the Act.
Conflict of Interest	A conflict of interest can be pecuniary (involving financial gain or loss) or non-pecuniary (based on animosity, friendship or family connection). A conflict of interest can also arise from avoiding personal losses as well as gaining personal advantage, financial or otherwise. Conflicts of interest can be actual, perceived, or potential.
Counterparty	Both a legal and financial term that refers to the other individual or institution to an agreement or contract.
Covered Bonds	A senior, secured, dual-recourse bond instrument issued by an ADI. The underlying assets of a covered bond stay on the balance sheet of the ADI issuing the bond. Therefore, if the ADI becomes insolvent, investors holding the bonds may still receive their scheduled interest payments from the underlying assets of the bonds (high-quality assets such as prime mortgages), as well as the principal at the bond's maturity. Due to the extra layer of protection, covered bonds typically have a "AAA" rating.
Credit Risk	The risk that a party or guarantor to a transaction will fail to fulfil its obligations. In the context of this document, it relates to the risk of loss due to the failure of an institution/entity with which an investment is held to pay the interest and/or repay the principal of an investment.
Debenture	A debenture is a document evidencing an acknowledgment of a debt, which a company has created for the purposes of raising capital. Debentures are issued by companies in return for medium and long-term investment of funds by lenders.

Term	Definition
Derivative Based Instruments	Financial contracts, or financial instruments, whose values are derived from the value of something else (known as the underlying). The underlying on which a derivative is based can be an asset (eg. Commodities, equities (stocks), residential mortgages, commercial real estate, loans, bonds), and index (eg. interest rates, exchange rates, stock market indices, consumer price index (CPI) – see inflation derivatives). Credit derivatives are based on loans, bonds or other forms of credit. The main types of derivatives are: forwards (which is traded on an exchange are known as futures); options and swaps.
Financial Instrument	Any contract that gives rise to a financial asset of one entity, and a financial liability or equity instrument of another entity.
Floating Rate Notes	A 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 – most commonly quarterly.
Interest Rate Risk	The risk that the fair value or future cash flows of an investment will fluctuate because of changes in market interest rates.
Investment Portfolio	A collection of investments.
Investment Policy	The Investment Policy provides the general investment goals and objectives of Council and describes the strategies that must be employed to meet these objectives. Specific information on matters such as asset allocation, risk tolerance, and liquidity requirements are also included.
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).
Major Banks	<p>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:</p> <ul style="list-style-type: none"> <li>• Australia and New Zealand banking Group Limited (ANZ)</li> <li>• Commonwealth Bank of Australia (CBA)</li> <li>• National Australia Bank Limited (NAB)</li> <li>• Westpac Banking Corporation (Westpac)</li> </ul> <p>including ADI subsidiaries such as Bankwest whether or not explicitly guaranteed, and brands (such as St George).</p> <p>Similarly, with other ADI groups (such as Bendigo &amp; Adelaide Bank) who own multiple banking licences, rating categories are based on the parent bank even if the subsidiary is not explicitly rated.</p> <p>Council may ratify an alternative definition from time to time.</p>
Market Risk	The risk that fair value or future cash flows of an investment will fluctuate due to changes in market prices, or benchmark returns will unexpectedly overtake the investment’s return.
Preservation of Capital	An investment strategy with the primary goal of preventing losses in an investment portfolio’s total value.

<b>Term</b>	<b>Definition</b>
Rating Agencies	<p>Includes Credit Rating Agencies such as Standard and Poor's (S&amp;P), Moody's and Fitch who are professional organisations that provide opinion on the general credit worthiness of an obligor with respect to particular debt security or other financial obligations. Credit ratings are based, in varying degrees, on the following considerations:</p> <ul style="list-style-type: none"> <li>• Likelihood of payment</li> <li>• Nature and provisions of the obligation</li> </ul> <p>Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganisation or other laws affecting creditor rights. 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.</p>
Speculative Deal	A deal which involves deliberately taking a higher risk, in the hope of making an extraordinary gain.
TCorp	New South Wales Treasury Corporation
Term Deposits	Non-tradeable investments offered by ADIs with varying maturity dates and a rate set at the outset. Interest is normally payable upon maturity or if the term is longer than 12 months, annually from the investment date. Penalties apply if the funds are withdrawn before maturity and a notice period of 31 days is usually required.
Yield	The annual rate of return on an investment.

## 19. REVISION HISTORY

<b>Revision number</b>	<b>Minute No</b>	<b>Date adopted</b>
0	05.06.05	21 June 2005
1	08.08.10	19 August 2010
2	12.03.11	14 March 2011
3	14.06.15	23 June 2015