

Policy owner	Chief Financial Officer
Department	Chief Operating Officer
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Policy statement/Objectives

The purpose of this policy is to provide a framework for Investment of Kiama Municipal Council's funds with a view to minimising the risk of loss of capital or interest, to ensure that liquidity requirements are observed and after having regard to these two prime objectives, seeking to achieve the best rate of return available.

While exercising the power to invest, consideration is to be given to the preservation of capital, liquidity and the return of investment. The objectives of this policy are:

- Preservation of capital is the principal objective of 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 sufficient 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.
- Notwithstanding the preceding objectives, investment consideration is encouraged in local or regional community enterprises that foster the local and regional economy and in particular enterprises that are community based cooperatives and those that are considered to be ethical wherever practical.

Scope

This policy applies to all officers within Kiama Municipal Council delegated to invest Council's surplus funds.

References

- Local Government Act 1993
- Local Government (General) Regulation 2021
- Ministerial Investment Order 2011
- Local Government Code of Accounting Practice and Financial Reporting
- Australian Accounting Standards
- Office of Local Government Circulars
- The Trustee Amendment (Discretionary Investments) Act (1997) – Section 14
- Aged Care Act 1997
- Aged Care Prudential Standards Policy

Consultations

- Finance Team

Definitions

Term	Definition
Act	Local Government Act 1993
ADI	An Authorised Deposit-taking Institution (ADI) is a corporation that is authorised under the Banking Act 1959 (C'wlth) to take deposits from customers.

Term	Definition
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.
BBSW	The Bank Bill Swap Reference Rate (BBSW) is the midpoint of the nationally observed best bid and offer for ASX Prime Bank eligible securities. The BBSW is calculated daily. Floating rate securities are most commonly reset quarterly to the 90-day BBSW
Council funds	Surplus monies that are invested by Council in accordance with section 625 of the Act.
Debenture	A debenture is a document evidencing an acknowledgement 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.
FRN	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.
Grandfathered	Investments held by Council that were previously allowed under the Minister’s Order but were grandfathered when the NSW State Government issued the Ministerial Order dated 12/1/2011.
LGGR	Local Government (General) Regulation 2021 (NSW)
OLG	NSW Office of Local Government
RAO	Responsible Accounting Officer of a council means a member of the staff of the council designated by the chief executive officer, or if no such member has been designated, the chief executive officer. (LGGR, clause 196)
TCorp	New South Wales Treasury Corporation

Variation and review

The Policy will be reviewed at regular twelve monthly intervals, or when changes in regulation or market conditions necessitate a review.

The Investment Policy may also be changed as a result of other amendments that are to the advantage of Council and in the spirit of this policy. Any amendment to the Investment Policy must be by way of Council resolution.

Council reserves the right to review, vary or revoke this Policy.

Review history

Date reviewed	Date adopted / endorsed	Brief detail of amendments
November 2023	14 December 2023 This Policy was adopted at the conclusion of public exhibition	Scheduled review and change of template.

Date reviewed	Date adopted / endorsed	Brief detail of amendments
	as no submissions were received.	
August 2021	17 August 2021	Scheduled review
July 2020	21 July 2020	Scheduled review
June 2018	26 June 2018	Scheduled review
September 2016	20 September 2016	Scheduled review
February 2015	10 February 2015	Scheduled review
15 May 2012	15 May 2012	N/A

POLICY

1. Delegation of authority

Authority for implementation of the Investment Policy is delegated by Council to the Chief Executive Officer in accordance with the *Local Government Act 1993*.

The Chief Executive Officer may delegate the day-to-day management of Council's investment portfolio to the Responsible Accounting Officer or senior staff, subject to regular reviews. An Officer's 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.

2. 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.

3. 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 chief executive officer.

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

4. Approved investments

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

All investments must be denominated in Australian Dollars. Authorised new investments as from 12 January 2011 are limited to the following, as per the attached Ministerial Investment Order.

- Any public funds or securities issued by or guaranteed by, the Commonwealth, any State or the Commonwealth or a Territory
- Any debentures or securities issued by a Council (within the meaning of the Local Government Act 1993 (NSW))

- Interest bearing deposits with, or any debentures or bonds issued by, an authorised deposit-taking institution (ADI) (as defined in the Banking Act 1959 (Cwth)), but excluding subordinated debt obligations
- 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
- A deposit with the New South Wales Treasury Corporation or investments in a TCorp IM Fund of the New South Wales Treasury Corporation.

Council officers making decisions on investments should take all reasonable care to ensure that such investments are not made with companies whose activities would bring Council into disrepute or would conflict with its proclaimed policies on health, sustainability and ethical governance.

5. Prohibited investments

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

- 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.

This policy also prohibits the use of leveraging (borrowing to invest) of an investment.

6. Risk Management Guidelines

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

Preservation of capital – the requirement for preventing losses in an investment portfolio's total value (considering the time value of money)

Diversification – the requirement to place investments on a broad range of financial institutions or government authorities so as not to be overexposed and to reduce credit risk

Credit risk – the risk that a party council has invested in fails to pay the interest and or repay the principal of an investment

Market risk – the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices, or benchmark returns will unexpectedly overtake the investments return

Liquidity risk – the risk that Council will have insufficient funds to meet its financial commitments in a timely manner, also an investor is unable to redeem the investment at a fair price within a timely period

Maturity risk – the risk relating to the length of exposure and risk to market volatilities.

Rollover Risk - the risk that income will not meet expectations or budgeted requirement because interest rates are lower than expected in future.

Investment portfolio parameters are risk-management tools used to manage credit risk by diversifying the portfolio to avoid a narrow concentration of investments. Investment credit risk parameters are based on credit rating bands as published by the credit rating agencies (eg. S&P, Moodys or Fitch).

Council will use Standard and Poors (S&P) long term credit ratings (or Moodys and Fitch equivalents). The S&P ratings are broadly defined as follows:

Rating	Description	Maximum % of total investment portfolio
AAA	Extremely strong capacity to repay	100%
AA+, AA, AA-	A very strong capacity to repay	100%
A+, A, A-	A strong capacity to repay	70%
BBB+, BBB-, BBB	Adequate protection and adequate capacity to pay	30%
NR	Not Rated	0%

7. Direct investments

Council's direct investments will be with Authorised Deposit-taking Institutions as authorised by the Australian Prudential Regulation Authority.

8. Counterparty limits

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

Limits do not apply to Federal or NSW-guaranteed investments, which are uncapped. It should be noted that the NSW government does not guarantee the capital value or unit price of the TCorp IM Managed Funds.

Long term credit rating	Maximum exposure
AAA	100%
AA category or Major Banks	40%
A+ to A-	30%
BBB+, BBB, BBB- (Local ADIs)	15%
Government	30%
CCC	0%
Not Rated	0%

The individual counterparty limit guidelines to be adopted will be based on the Standard & Poor's (S&P) long-term credit ratings system criteria or if not rated by S&P the Moody's or Fitch rating equivalents.

Major Bank: The ADI deposit or senior guaranteed principal and interest ADI securities issued by the major Australian Banking Groups:

- Australia and New Zealand Banking Group Limited (ANZ)
- Commonwealth Bank of Australia (CBA)
- National Australia Bank Limited (NAB)
- Westpac Banking Corporation (WBC).

Including ADI subsidiaries (such as Bank of Western Australia Ltd) whether or not explicitly guaranteed, and brands (such as St George).

9. Term to maturity framework

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

Overall portfolio term to maturity limits		
Description	Maturity	Maximum %
Short term	Portfolio % < 1 year	100%
Short to medium term	Portfolio % > 1 yr < 3 yr	40%
Medium term	Portfolio % > 3 yr < 5 yr	30%
Long term	Portfolio % > 5 years	30%

10. Accounting for premiums and discounts

From time to time financial assets may be acquired at a discount or premium to their face value. Any such discount or premium is to be taken into account in line with relevant Australian Accounting Standards.

11. 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
- The Custodian conducts regular reconciliation of records with relevant registries and/or clearing systems
- The Institution or Custodian recording and holding the assets will be:
 - The custodian nominated by TCorp for investment in the TCorpIM Funds
 - Austraclear or,
 - An institution with an investment grade issued by Standards and Poor's or Moody's rating or,
 - An institution with adequate insurance, including professional indemnity insurance and other insurance considered prudent and appropriate to cover its liabilities under any agreement.

12. Investment advisor

Kiama Council's investment advisor must be approved by Council and licensed by the Australian Securities and Investment Commission with the exception of NSW TCorp. 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, unless such remuneration is rebated 100% to Council.

13. Benchmarking

Performance benchmarks need to be established and should be based on sound and consistent methodology.

Investment	Performance Benchmark
Investment Portfolio with maturity up to 5 years	Bloomberg AusBond Bank Bill Index [^]
Investment Portfolio with maturity exceeding 5 years	Funds internal benchmarks

[^]The most commonly used benchmark for fixed interest investors including the local government industry. Bloomberg calculates a family of indices each day. The AusBond Bank Bill Index is an index representing the performance of a notional parcel of bills averaging 45 days.

Each day the term to maturity of each bill, and hence the index as a whole, reduces by one day until the shortest bill matures. The face value of the maturing bill is then reinvested in a new bill with a term to maturity of 13 weeks and the term to maturity of the index as a whole lengthens by approximately seven days.

14. 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.

For audit purposes, certificates must be obtained from the financial institutions confirming the amounts of investments held on the Council's behalf 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 on a monthly basis.

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.

The Chief Executive Officer shall establish a system of internal controls governing the administration and management of Council's investment portfolio, which shall be reviewed annually by the Independent External Auditor to Council. The controls shall be designed to prevent and control losses of Council assets arising from fraud, error, misrepresentation, unanticipated market changes, conflicts of interest or imprudent actions.

15. Environmentally and Socially Responsible Investments (SRI)

Where financial institutions are offering equivalent investment returns with a similar credit rating, and the investment fits within the provisions of this Investment Policy, preference will be given to placing funds with institutions identified as being socially, ethically and environmentally responsible. Without compromising the risk and return profile of the investment portfolio, Council gives preference to Socially Responsible Investments (SRI) which can transparently demonstrate:

- the rate of return on investment is greater than or equal to the rates of other Authorised Deposit-Taking Institutions which comply with Council's investment policy and are available at the time.
- the avoidance of placing funds in industries that are considered unethical in the investment product
- that the financial institution and product are otherwise compliant with Council's policy.

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.

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:

15.1.1. 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.

15.1.2. 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.

Council will look to avoid investments in socially and/or environmentally harmful activities including the list below:

15.1.3. 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.

15.1.4. 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.

Related Forms/Documents

Nil.

Attachments

Appendix 1	Local Government Act 1993 – Investment Order dated 12 January 2011
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Authorisation

Name: Council Resolution No: 23/366OC

Date: 14 December 2023

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.

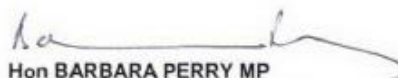
All councils should by resolution adopt an investment policy that is consistent with this Order and any guidelines issued by the Chief Executive (Local Government), Department of Premier and Cabinet, from time to time.

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 12th day of January 2011


Hon BARBARA PERRY MP
Minister for Local Government