



## 1. Intent of Policy

Oberon LGA Investment 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:

### **Section 625 of the Act refers to how a council may 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."*

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 (*Appendix 1*).

## 2. Scope of Policy

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 operation plan (or management plan);
- Long term core investments are limited 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.

## 3. Guidelines

### 3.1 Application

This policy applies to the investment of Oberon LGA's surplus funds.

### 3.2 Legislation

Oberon LGA will comply with Section 625 of the *Local Government Act (NSW) 1993*; *The Trustee Amendment (Discretionary Investments) Act 1997 (NSW)* section 14A(2); *Local Government Code of Accounting Practice and Financial Reporting* and *Investment Policy Guidelines* dated May 2010 (issued by the OLG).

### 3.3 Australian Currency

All investments must be denominated in Australian Dollars and comply with the Minister's determination.

### 3.4 Order of Priorities

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.

### 3.5 Acceptable Risk Criteria for Financial Instruments

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. As part of councils investment process staff need to ensure the best possible interest yield is secured while also ensuring the interest exceeds the Average Bank Bill Swap Rate by 25 Basis Points.

**3.5 (a) Remote/Risk Free [AAA]**

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.

- Low liquidity risk 0% - 100%
- Medium liquidity risk 0% - 70%
- High liquidity risk 0% - 50%

**3.5 (b) Near risk free [AA and A]**

Up to 100% of all invested funds in S&P AA rated institutions and up to 85% in S&P A rated institutions. Investments in this category must be issued by Australian authorised banks.

- Low liquidity risk 0% - 100%
- Medium liquidity risk 0% - 60%
- High liquidity risk 0% - 40%

**3.5 (c) Limited risk [BBB+ and BBB]**

Up to 65% of all invested funds in S&P BBB+ rated institutions and up to 55% in S&P BBB rated institutions. Investments in this category must be issued by Australian authorised banks.

- Low liquidity risk 0% - 100%
- Medium liquidity risk 0% - 50%
- High liquidity risk 0% - 30%

**3.5 (d) Some risk [ADI/Unrated]**

Up to 20% of all invested funds

- Low liquidity risk 0% - 100%
- Medium liquidity risk 0% - 40%
- High liquidity risk 0% - 20%

**3.5 (e) Investment Parameters**

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

<b>S&amp;P Long Term Category</b>	<b>S&amp;P Short Term Category</b>	<b>Portfolio Limit</b>	<b>Risk Rating</b>
AAA	A-1+	100%	Remote/Risk Free
AA+	A-1+	100%	Near Risk Free
AA	A-1+	100%	Near Risk Free
AA-	A-1+	100%	Near Risk Free
A+	A-1	85%	Near Risk Free
A	A-1	85%	Near Risk Free
A-	A-2	40%	Near Risk Free
BBB+	A-2	30%	Limited Risk
BBB	A-2	20%	Limited Risk
BBB-	A-3	10%	Limited Risk
ADI/Unrated	A-3	10%	Some Risk

The value \$M per institution will restrict the amount invested in any one individual institution as show below:

<b>S&amp;P Long Term Category</b>	<b>S&amp;P Short Term Category</b>	<b>Maximum \$M</b>	<b>Risk Rating</b>
AAA	A-1+	\$5M	Remote/Risk Free
AA	A-1+	\$5M	Near Risk Free
A	A-1 to A-2	\$3M	Near Risk Free
BBB+	A-2	\$2.5M	Limited Risk
BBB	A-2	\$1.5M	Limited Risk
ADI / Unrated	-	\$500,000	Some Risk

Investments of the Council should be for amounts not greater than A\$500,000 and only with institutions that have the Australian Government guarantee of \$250,000.

If a merger of institutions results in Council being over the maximum limits above, Council will have twelve (12) months from the merger to rectify the investments to return back within the limits.

### **3.6 Unacceptable Investments**

Any investment that falls outside the Minister's order or not included in this policy.

### **3.7 Safe Custody Arrangements**

It will not be acceptable for title to Council's investments to be held by other organisations unless the following criteria are met:

- There is adequate documentation confirming the existence of the investments.
- The institution recording and holding the assets is ASX Listed, or a properly registered investment nominee institution.

*(Where Council's assets are held in safe custody by an institution, Council may be exposed to the creditworthiness of that institution.)*

### **3.8 Other Forms of Investment**

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 in relation to loans between General, Water and Sewer Funds within Councils operational Structure. However, such arrangements must not compromise liquidity and comply with industry standards for financial ratios. Interest-free loans to community organisations and the like are covered by separate Council policies.

### **3.9 Monthly Reporting**

The monthly report to Council will include:

- A complete schedule of all Councils Investments
- Investment Income received in the current reporting year
- Indicative Market Valuations
- If appropriate, the rate of interest to be paid
- The total value of Council's portfolio
- Certification that the investments are in accord with the Act and regulations, and
- Council's Investment Policy.

#### 4. Implementation

##### **General Manager Delegation**

Authority for implementation of the Investment Policy is delegated by Council to the General Manager in accordance with the Local Government Act 1993.

Requirements	Responsibility
<b>4.1 Staff</b> Under supervision of the Responsible Accounting Officer council staff will be responsible for ensuring that policies are implemented appropriately within their work area.	Corporate Services Director, CFO, Management Accountant
<b>4.2 Complaints and requests</b> Complaints and requests received regarding the Investment Policy or investments will be recorded on Council's Records Database and handled in accordance with Councils Handling Complaints Policy 2101.	Council Officers, Public Officer
<b>4.3 Consultation</b> At least every four years, arrange comprehensive review of Council's policy and investing activities by an appropriately qualified (e.g. ARIC) 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 review the investing environment and strategy quarterly	Corporate Services Director, Audit, Risk and Improvement Committee (ARIC)

#### 5. Review

This policy will be comprehensively reviewed every 4 years, by an appropriately qualified adviser. However, council is to perform a yearly overview to address any impending impacts as a result of any changes in the financial market.

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 local government election is being held in September 2021. Reviews of the effectiveness of this policy have included:

Performance indicator	Data Source
Internal or external audit	Audit
Interest exceeds the Average Bank Bill Swap Rate by 25 Basis Points	Report

## 6. 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
Local Government Act 1993	<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>
OLG Code of Accounting Practice and Financial Reporting 2009	<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>
OLG Investment Policy Guidelines	<a href="http://www.olg.nsw.gov.au/sites/default/files/Investment-PolicyGuidelines-May-2010.pdf">www.olg.nsw.gov.au/sites/default/files/Investment-PolicyGuidelines-May-2010.pdf</a>

### *Related external references*

Name	Link
Office of Local Government	<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*

<b>Word/Term</b>	<b>Definition</b>
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

Approving Authority	Oberon Council
Contact	Finance Manager
Approval	<p>21 February 2012 Resolution # 6210212 Policy Commenced</p> <p>16 July 2013 Resolution #22160713 Restriction Non ADI issued security reduced from \$1m to \$500k</p> <p>18 February 2019 Resolution # Reviewed to bring policy in line with current related legislation, codes of practice and relevant guidelines</p> <p>21 April 2020 Resolution #04 210420 and #11 210420 Revised page 3 investment institution ratings and where Council is to place investments</p> <p>16 June 2020 Resolution #06 160620 Revised page 4 to state that “investments n ADI unrated institutions should be limited to \$250,000 per institution” and “the unrated institutions the maximum amount is per investment not per institution”</p> <p>17 August 2021 Resolution 17 170821 Revised investment limits on page 4 to allow larger investments with AAA, AA, A, BBB+ and ADI/unrated due to amounts of funds available for investment and the limited organisations within the rating levels</p> <p>18 October 2022 Resolution 12 181022 Added clause to assist in the event of a merger, changed the limits for individual institutions and changed the portfolio holdings percentages</p>
Issue Date to Staff	January 2023
Revision Date	June 2023