

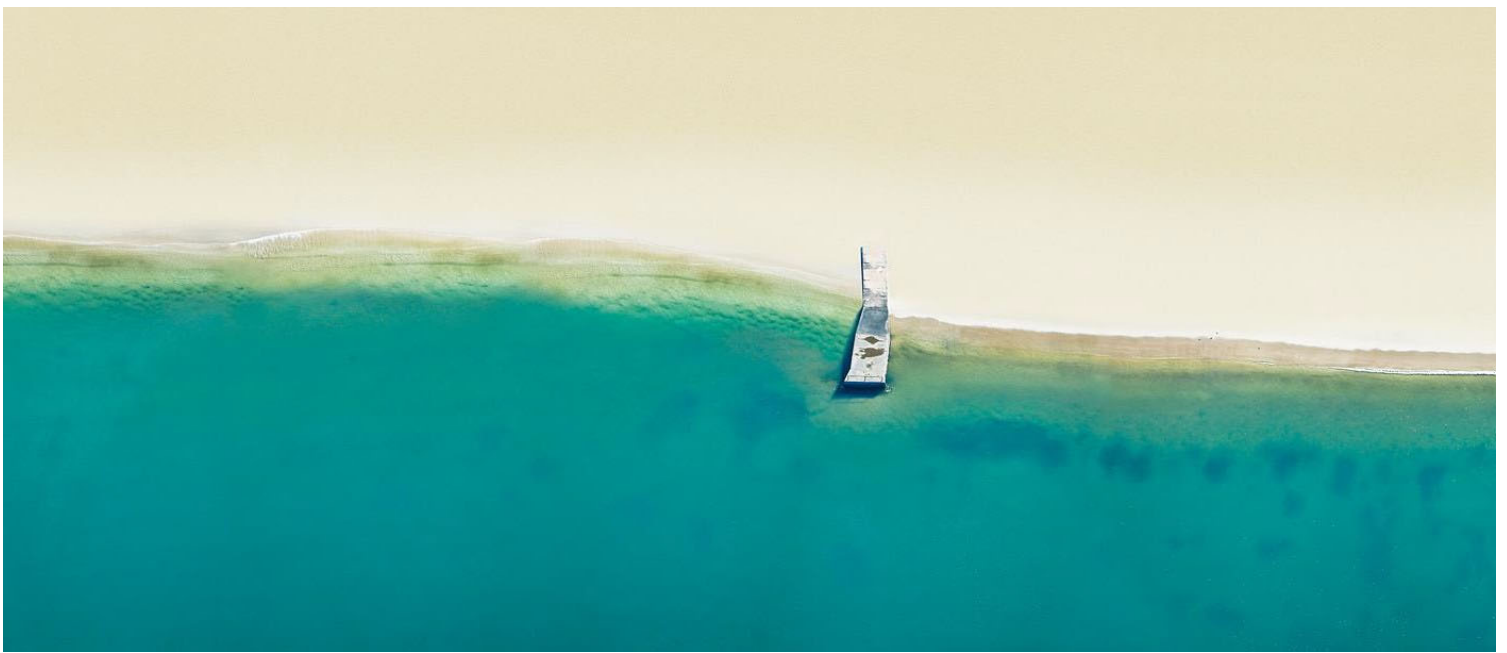


Bayside Council

Serving Our Community

Investment Policy

18 January 2024



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Investment Policy

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1 Introduction

1.1 Purpose

The Cash Investment Policy seeks to establish a framework within which investment principles are to apply to optimise the investment of Bayside Council (Council) surplus funds.

1.2 Definitions

Refer Appendix 5 for list of terms

2 Policy Statement and Scope

2.1 Policy Statement

This Policy recognises the legislative requirements and obligations for the investment of Council's surplus funds. In the event of inconsistencies with this Policy, Council will comply with investment regulations and directions from the Office of Local Government.

2.2 Scope

This Policy applies to investments made by Council in accordance with its legislative obligations and delegations of authority.

3 Principles

3.1 Policy Objectives

Preservation of capital invested is the principal objective of the investment portfolio. Investments are to be placed in a manner that safeguards the investment portfolio. This includes managing credit and interest rate exposure risk within identified thresholds and parameters.

Other objectives include:

- to maximise the return to Council in line with all requirements of the policy;
- to comply with the legislative requirements and regulations relevant to the management of Council's investments;
- to ensure sufficient liquidity to meet all reasonably anticipated cash flow requirements;
- to establish a framework for monitoring investments. Investments are expected to achieve a market average rate of return in line with Council's risk tolerance;
- to confirm delegations and other relevant governance matters in relation to Council's investments.

"Maximising" within policy constraints and having regards to current plans and liquidity needs is the role of strategy.

3.2 Legislative & Regulatory Framework

All investments are to comply with the following:

- Local Government Act 1993 Section 625 and 412;
- Prevailing Ministerial Investment Order dated 12 January 2011;
- NSW Local Government (General) Regulation 2021 – Clause 212;
- The Trustee Amendment (Discretionary Investments) Act 1997 – Section 14;
- Office of 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

Authorised Investments

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

- Commonwealth / State / Territory Government securities e.g. bonds;
- Interest bearing deposits / senior securities issued by an eligible ADI;
- Bills of Exchange, (< 200 days duration) guaranteed by an ADI;
- Debentures issued by a NSW Council under Local Government Act (1993);
- Investments with NSW Treasury Corporation (T-Corp) &/or Investments in a T-Corp Managed Funds;
- Term Deposits guaranteed for the full term by the Australian Federal Government (Refers to Term Deposits that would not otherwise comply with this policy).

Prohibited Investments

This 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.
- Leveraging (borrowing to invest) of an investment.
- Foreign Currency investments.

3.3 Delegated Authority

Authority for the implementation of the Investment Policy is delegated by Council to the General Manager in accordance with the Local Government Act 1993. The General Manager may in turn sub delegate the day-to-day management of Council's investment portfolio to the Responsible Accounting Officer or other officers through Council's delegated authority process.

Council officers will have the appropriate level of skills and knowledge to undertake the investment functions of Council and not engage in activities that conflict with the proper implementation and management of Council's Investment Policy.

3.4 Prudent Person Standard

The investment portfolio 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.

Investments that are placed within this policy framework will be considered to be compliant with the prudent person standard.

3.5 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. Disclosure of any conflict of interest should be made in accordance with the Code of Conduct.

Where appointed, independent investment consultants are also required to declare that they have no actual or perceived conflicts of interest.

3.6 Risk Management Framework

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

- **Preservation of Capital** – the requirement for preventing losses in an investment portfolio's total value.
- **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.
- **Diversification** – the requirement to place investments in a broad range of products so as not to be over exposed to a particular sector of the investment market.
- **Liquidity Risk** – the risk an institution runs out of cash, is unable to redeem investments at a fair price within a timely period, and thereby Council incurs additional costs (or in the worst case is unable to execute its spending plans).
- **Market Risk** – the risk that fair value or future cash flows will fluctuate due to changes in market prices, or benchmark returns will unexpectedly overtake the investment's return.
- **Maturity Risk** – the risk relating to the length of term to maturity of the investment. The longer the term, the greater 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.

3.7 Investment Advisor

Council may engage an independent investment advisor. This advisor will be licensed by the Australian Securities and Investment Commission.

The advisor must be independent and 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 policy. This includes

receiving no commissions or other benefit in relation to the investment being recommended or reviewed.

Council's investment advisor will not receive any commission, brokerage or trailers, unless rebated to Council (as the beneficiary) in full.

Each appointment of an independent investment advisor will be for a period up to three (3) years.

4 Approved Investments

4.1 Principles

Council must at all times only invest surplus funds in accordance with the latest Minister's Order – Forms of Investment as further restricted to prohibit the investment in the products of branches of foreign banks (ADIs), and investments in those ADIs which do not hold an investment grade credit rating (at least BBB- equivalent).

In the event of any conflict between this policy and any legislative instrument or direction from the Minister or Office of Local Government, these instruments will prevail over the policy.

However, any regulatory change that renders a formerly-compliant investment outside policy will not necessarily impose a forced disposal. Subject to grandfathering rules, Council will seek advice and resolve how to deal with such investments. Investment guidelines and parameters

4.2 Limits

This section provides criteria for:

- Limits on a single financial institution;
- Limits on term of direct investments;
- Minimum credit ratings of investments, and allocation to rating bands.

4.3 Strategy

A separate investment strategy will consider Council's current investment portfolio, its financial position and financial commitments, current legislative constraints, the global investment environment, and specifies investment goals for the forthcoming year. This shall address the following risks:

- Preservation of Capital: Preventing losses in an investment portfolio's total value
- Credit Risk: The risk that a party or guarantor to a transaction will fail to fulfil its obligations – a failure of an investee institution/entity to pay interest and/or principal on schedule, or effects of exposure to other parties such as brokers or custodians
- Diversification: Avoiding over-exposure to a particular issuer or sector of the investment market
- Liquidity Risk: The risk that Council, or an institution, runs out of cash – as a result of which, Council is unable to redeem investments at a fair price within a timely period, and thereby Council incurs additional costs (or in the worst case is unable to execute its spending plans)

- Market Risk: Fair value or future cash flows will fluctuate due to changes in market prices, or that benchmark returns will unexpectedly overtake the investment's return

4.4 General investment criteria – all investments

- Investments must be denominated in Australian dollars;
- Investments must be held in the name of Bayside City Council.
- The Custodian nominated by TCorp for its Managed Funds.

4.5 Credit ratings

Creditworthiness of investments is primarily determined using industry standard credit ratings, but also has regard to the term and seniority of the investment as well as the external support expected for ADI deposits and the secured assets backing covered bonds.

The primary creditworthiness of investments will be assessed with reference to the Standard & Poor's (S&P) long term credit and fund ratings and Moody's and Fitch equivalents. Reporting will be carried out on S&P ratings where available, and any implications for policy compliance noted.

The S&P ratings are broadly defined as follows:

Rating band	Description
AAA	Extremely strong capacity to repay
AA+, AA, AA- (AA Rated)	A very strong capacity to repay
A+, A, A- (A Rated)	A strong capacity to repay
BBB+, BBB, BBB- (BBB Rated)	Adequate protection and adequate capacity to pay
Non-investment grade: BB+, BB, BB	Less vulnerable to non-payment, however adverse economic conditions could lead to inadequate capacity to meet financial obligations.
CCC	Vulnerable to non-payment and requires positive economic conditions to meet its financial obligations

Investments with credit ratings downgraded to an extent that they no longer comply will be assessed as soon as practicable, having regard to the risks of default and prevailing market liquidity as well as break costs and any constraints on redemption. Where the recommendation is to retain the investment, Council will be notified of the circumstances and the reason for the recommendation.

Where an investment has a "split rating" (different rating bands for different agencies), they can only be purchased where they comply with policy under the lowest rating. However, when considering the compliance of existing investments and the need for divestment, the highest rating may be considered. As such, no breach of policy results from a single downgrade.

The following credit rating parameters apply to Council's investment portfolio:

Type of investment/credit rating	Maximum % of portfolio
Government (Federal & State) bonds/debentures/securities	100%
AAA Rated	100%
AA Rated, or Major Bank ^{^^}	100%
A Rated	50%
BBB Rated (Refer to note below)	30%

^{^^} 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
- Commonwealth Bank of Australia
- National Australia Bank Limited
- Westpac Banking Corporation

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

It is a requirement of the Investment Policy that, with the exception of federal and state government bonds, debentures and securities, investments may only be made with Australian Prudential Regulation Authority (APRA) regulated Approved Deposit taking Institutions (ADI's) with a minimum credit rating of BBB- or higher.

The Australian Prudential Regulation is listed under definitions and further references.

Credit ratings on institutions can be verified in real time at the three agencies' websites as follows:

www.standardandpoors.com
www.moodys.com
www.fitchratings.com

4.6 Diversification

Council will invest across a range of different issuers and investments to reduce risk, as no single type of investment consistently performs better than another. However, investments other than deposits need to demonstrate a clear advantage.

Decisions made regarding the composition of Council's investment portfolio must ensure adequate levels of diversification are maintained at all times.

The table below specifies the maximum proportion of Council's investment portfolio which may be held with an individual institution:

Type of investment/credit rating range	Maximum % of total portfolio with single institution
Government (Federal & State) bonds/debentures/securities	100%
AAA Rated	100%
AA Rated or Major Bank	60%
A Rated	40%
BBB Rated	5%

4.7 Investment duration

Decisions made regarding the composition of Council's investment portfolio must ensure adequate levels of liquidity are maintained at all times.

This section contains parameters regarding the maximum duration of the investments into certain maturity bands, as shown in the table below.

Investment duration	Minimum % of total investment portfolio	Maximum % of total investment portfolio
0 – 12 months	50%	100%
1 – 3 years	0%	50%
3 – 7 years	0%	25%

Decisions made regarding the duration of investments must also take into account the relative creditworthiness of each investment. This section also sets parameters regarding the duration of investments, as shown in the following table:

Investment duration	Minimum credit rating range
0 – 2 years	BBB Rated or greater
2 – 3 years	A Rated or greater
3 – 7 years	AA Rated or Major Bank or greater

5 Performance Benchmarking

The performance of each investment will be assessed against the benchmarks listed in the following table.

Investment	Performance Benchmark	Time Horizon
11 am Account, short dated bills, deposits issued by financial institutions of appropriate term.	Official RBA/Cash Rate	3 months or less
Term Deposits of appropriate remaining term, FRN's nearing maturity.	Ausbond Bank Bill Index (BBI)	3 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 7 Years. Grandfathered Income Funds.	Ausbond Bank Bill Index (BBI)	2 to 7 years

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.

6 Monitoring and Reporting

Reporting & Reviewing Requirements (Accounting)

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

For audit purposes, certificates must be obtained from the banks/fund managers/custodian confirming the amounts of investment held on Council's behalf at 30 June each year and reconciled to the Investment Register.

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.

Council will comply with appropriate accounting standards in valuing its investments and quantifying its investment returns

7 Review of Investment Policy and investments

Annual review

The Code of Accounting Practice & Financial Reporting requires Council to review the Investment Policy annually or in the event of legislative change or as a result of significantly changed economic/market conditions.

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

Any amendment to the Investment Policy must be by Council resolution.

Internal review

Investment reports are reviewed internally and reported to Council monthly.

External audit

Council's external auditor is required to review Council's investments as part of the audit of the Annual Financial Reports.

8 Document control

8.1 Review

This policy is to be reviewed annually per the Code of Accounting Practice & Financial Reporting, or in-line with any material change to or new legislation, or as result of significantly changed economic/market conditions.

The Director City Performance may approve non-significant and/or minor editorial amendments that do not change the policy's effectiveness – giving due consideration to the internal controls.

8.2 Related documents

- Statutory delegations
- Administrative delegations
- Financial delegations

[Procedures that support this policy, may be approved by the General Manager and/or Director City Performance from time to time.]

8.3 Version history

Version	Release Date	Author	Reason for Change
1.0	12/06/2019 (Council)	Manager Finance	New document
2.0	18/01/2024 (Executive) and 22/02/2024 (Director City Performance)	Manager Finance	Update policy document following review with investment adviser. Approved by Executive on 18/01/2024 and approved for publication by Director City Performance on 22/02/2024.

Appendix 1 – How may councils invest?

Local Government Act 1993 - Section 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.

Note: See Gazette No 152 of 24.11.2000, p 12041.

- (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.

Appendix 2 – Discretionary Investments

The Trustee Amendment (Discretionary Investments) Act 1997 Sections 14A (2), 14C (1) & (2);

Section 14A - Duties of trustee in respect of power of investment

- (1) This section has effect subject to the instrument (if any) creating the trust.
- (2) A trustee must, in exercising a power of investment:
 - (a) if the trustee's profession, business or employment is or includes acting as a trustee or investing money on behalf of other persons, exercise the care, diligence and skill that a prudent person engaged in that profession, business or employment would exercise in managing the affairs of other persons, or
 - (b) If the trustee is not engaged in such a profession, business or employment, exercise the care, diligence and skill that a prudent person would exercise in managing the affairs of other persons.

Note: Some Acts deem investments under the Acts to be investments that satisfy the prudent person test. See, for example, section 39 of the Public Authorities (Financial Arrangements) Act 1987.

- (3) A trustee must exercise a power of investment in accordance with any provision of the instrument (if any) creating the trust that is binding on the trustee and requires the obtaining of any consent or approval with respect to trust investments.
- (4) A trustee must, at least once in each year, review the performance (individually and as a whole) of trust investments.

Section 14C - Matters to which trustee is to have regard when exercising power of investment

- (1) Without limiting the matters that a trustee may take into account when exercising a power of investment, a trustee must, so far as they are appropriate to the circumstances of the trust, if any, have regard to the following matters:
 - (a) the purposes of the trust and the needs and circumstances of the beneficiaries,
 - (b) the desirability of diversifying trust investments,
 - (c) the nature of, and the risk associated with, existing trust investments and other trust property,
 - (d) the need to maintain the real value of the capital or income of the trust,
 - (e) the risk of capital or income loss or depreciation,
 - (f) the potential for capital appreciation,
 - (g) the likely income return and the timing of income return,
 - (h) the length of the term of the proposed investment,
 - (i) the probable duration of the trust,

- (j) the liquidity and marketability of the proposed investment during, and on the determination of, the term of the proposed investment,
 - (k) the aggregate value of the trust estate,
 - (l) the effect of the proposed investment in relation to the tax liability of the trust,
 - (m) the likelihood of inflation affecting the value of the proposed investment or other trust property,
 - (n) the costs (including commissions, fees, charges and duties payable) of making the proposed investment,
 - (o) the results of a review of existing trust investments in accordance with section 14A (4).
- (2) A trustee may, having regard to the size and nature of the trust, do either or both of the following:
- (a) obtain and consider independent and impartial advice reasonably required for the investment of trust funds or the management of the investment from a person whom the trustee reasonably believes to be competent to give the advice,
 - (b) pay out of trust funds the reasonable costs of obtaining the advice.
- (3) A trustee is to comply with this section unless expressly forbidden by the instrument (if any) creating the trust.

Appendix 3 – Reports on council investments

Local Government (General) Regulation 2021 – Clause 212 Reports on council investments

- (1) The responsible accounting officer of a council:
 - (a) must provide the council with a written report (setting out details of all money that the council has invested under section 625 of the Act) to be presented:
 - (i) if only one ordinary meeting of the council is held in a month, at that meeting, or
 - (ii) if more than one such meeting is held in a month, at whichever of those meetings the council by resolution determines, and
 - (b) must include in the report a certificate as to whether or not the investment has been made in accordance with the Act, the regulations and the council's investment policies. The report must be made up to the last day of the month immediately preceding the meeting.

Note: Section 625 of the Act says how a council may invest its surplus funds (Appendix 1)

Appendix 4 – Policy and Records

Local Government Code of Accounting Practice and Financial Reporting

Section 11.3.4

Councils must maintain a separate record of money it has invested under 625 of the LGA.

The record must specify:

- (a) the source and amount of money invested; and
- (b) particulars of the security or form of investment in which the money is invested; and
- (c) if appropriate, the rate of interest to be paid, and the amount of money that the council has earned, in respect of the money invested.

Section 11.3.5

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”*.

For an extensive list of matters a prudent person would be expected to consider, reference is made to Section 4 of the NSW Local Government Investments Best Practice Code

Appendix 5 - Definitions

Act

Local Government Act, 1993.

Ausbond Bank Bill Index

In 2014, Bloomberg acquired the UBS Australia Bond Indices. The benchmark index formerly referred to as UBSA BBI was rebranded as Ausbond Bank Bill Index. Bloomberg calculates a daily Bank Bill Index representing the performance of a notional rolling parcel of bills averaging 45 days.

Austraclear

Austraclear is a clearing and settlement facility, licensed by the Australian Securities and Investments Commission and subject to certain financial stability standards administered by the Reserve Bank of Australia.

Australian Prudential Regulation Authority – APRA

APRA (Australian Prudential Regulation Authority) is the prudential regulator of the Australian financial services industry. APRA enforces prudential standards and practices (e.g. capital adequacy and other risk management issues) of banks, credit unions, building societies, insurance companies and friendly societies.

Authorised Deposit-Taking Institutions ADI

Authorised Deposit-Taking Institutions (ADIs) are corporations that are authorised under the Banking Act 1959 (Cwth) to take deposits from customers.

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 average of mid-rate 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.

Council Funds

Surplus monies that are invested by Council in accordance with section 625 of the Act

Credit Rating

Credit Rating refers to a short or long term summary assessment of the credit worthiness of a debt issuer or of a specific issue.

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.

Direct Deposits

Direct Deposits refer to investments made by Council (or on behalf of Council) directly with financial institutions.

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.

LGGR

Local Government (General) Regulation 2021 (NSW).

Minister’s Order

Refers to the Order of the Minister for Local Government relating to Investments made by Councils. Last Minister’s Order was dated 12 January 2011.

Negotiable Certificate of Deposit – NCD

Is a short term investment in an underlying security being a negotiable certificate of deposit (NCD) where the term of the security is usually for a period of 185 days or less (sometimes up to 2 years). NCDs are generally discount securities, meaning they are issued and on-sold to investors at a discount to their face value.

OLG

NSW Office of Local Government, Department of Premier and Cabinet

Responsible Accounting Officer – RAO

Responsible Accounting Officer of a council means a member of the staff of the council designated by the General Manager, or if no such member has been designated, the General Manager. (LGGR, clause 196)

T-Corp

New South Wales Treasury Corporation.