

# Investment Policy



<b>Department</b>	Finance
<b>Approved by</b>	Council
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<b>Relevant legislation</b>	Local Government Act 1993 - Section 412 & 625; Trustee Act 1925 – Section 14A(2) and 14C(1) & (2); Local Government (General) Regulation 2021 – Clause 212; Prevailing Ministerial Investment Order.
<b>Related policies/ procedures/guidelines</b>	N/A
<b>Related forms</b>	N/A

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## 1. Background

The Policy provides the framework in which council funds are to be invested. Council developed this policy to ensure it or its representatives exercise care, diligence and skill that a prudent person would exercise in investing council funds.

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## 2. Purpose

This policy's objectives are to preserve capital, provide a framework to help Council optimise its return on investment of surplus funds, in accordance with its prevailing investment strategy, in a prudent and measurable manner, specifically by:

- entering into investment types which comply with prevailing Legislative and Accounting Code requirements;
- the establishment of risk management guidelines based upon overall credit rating of the portfolio, exposure limits to individual institutions and term to maturity limits; and
- the use of appropriate benchmarks for investment performance measurement.

When placing investments, cash flow considerations will be made to the time horizons of Council's liabilities to best match appropriate investments for the funds.

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## 3. Scope

The policy applies to Council funds being invested for either short term or long term. The General Manager, Director Finance and Governance and Executive Manager Finance are responsible persons of council that can make such decisions. The General Manager can delegate the day-to-day management to Council officers and the same must be clearly stated in this Policy and noted in Council's Delegation Register.

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## 4. Content

### 4.1 Risk Appetite Statement

Waverley Council has low to moderate appetite for investment risk.

Acceptance of some investment risk is necessary to adhere to Council's preference for investments in ethically, socially and environmentally beneficial alternatives and the use of growth fund exposure for increased long term returns.

Banks in the non-fossil fuel lending arena predominantly have lower credit ratings than the large highly rated major banks. Likewise, in utilising the NSW TCorp Long Term Growth Fund, Council has accepted that the presence of growth assets in the fund will result in periods of negative returns, for that particular investment, with the goal of higher overall returns over the long term for the portfolio than solely cash and fixed interest exposures.

To manage investment risk, Council has implemented the following Investment Framework which has been developed to provide tighter exposure limits on lower rated institutions than those of higher rated institutions as well as sound limits on the allowed exposure to the NSW TCorp growth asset funds.

In addition, along with Council's internal finance team, Council uses an independent investment adviser to assist with ensuring policy limits are adhered to and investment selections are appropriate for the risk appetite of Council.

## 4.2 Investment Framework

Investments are to comply with three key criteria relating to:

- **Portfolio Credit Framework:** limits the overall credit exposure of the portfolio;
- **Counterparty/Institution Credit Framework:** limits exposure to individual institutions based on their credit ratings, and;
- **Term to Maturity Framework:** limits based upon maturity of securities.

Credit ratings are based upon the Standard & Poor's Investment Rating, or equivalent from Moody's or Fitch ratings agencies, where a Standard & Poor's Investment Rating does not exist.

Rating agencies' comparison table:

Obligor's capacity to repay – Investment Grade Ratings	Standard & Poor's (long-term ratings)	Moody's (long-term ratings)	Fitch (long-term ratings)
Extremely strong	AAA	Aaa	AAA
Very strong	AA+, AA, AA-	Aa1, Aa2, Aa3	AA+, AA, AA-
Strong	A+, A, A-	A1, A2, A3	A+, A, A-
Adequate, but more subject to adverse economic conditions	BBB+, BBB, BBB-	Baa1, Baa2, Baa3	BBB+, BBB, BBB-

### (a) Portfolio Credit Framework

The maximum available limits in each rating category are as follows:

Long Term Credit Ratings	Portfolio Max %
AAA	100%

Long Term Credit Ratings	Portfolio Max %
AA+, AA, AA-	100%
A+, A, A-	70%
BBB+ and BBB	35%
BBB- and lower & Unrated (excluding NSW TCorpIM Funds)	0%
Specific Ministerial Approved Forms of Investment	Portfolio Max %
NSW TCorpIM Funds	30%

(b) Counterparty/Institution Credit Framework

Exposure to individual counterparties/financial institutions will be restricted by their credit rating so that single entity exposure is limited, as detailed in the table below:

Long Term Credit Ratings	Institution Max %
AAA	50%
AA+, AA, AA-	50%
A+, A, A-	30%
BBB+ and BBB	15%
BBB- and lower & Unrated (excluding NSW TCorpIM Funds)	0%
NSW TCorpIM Funds	Product Max %
Any individual NSW TCorpIM Fund	15%

Notes:

- Investments are to be restricted to senior ranked obligations from Australian Authorised Deposit Taking Institutions (ADI's) such as banks, building societies and credit unions that are regulated by, and subject to the prudential standards of, the Australian Prudential Regulation Authority (APRA).
- Managed funds are restricted to the NSW TCorpIM Funds and have been given specific approval under the prevailing Ministerial Investment Order.
- Credit ratings are based upon the Standard & Poor's Investment Rating, or Moody's or Fitch equivalents, where a Standard & Poor's Investment Rating does not exist.
- If any of the Council's investments are downgraded such that they no longer fall within the investment policy limits, they will be divested as soon as practicable having regard to potential losses resulting from early redemption and subject to minimising any loss of capital that may arise from compliance with this provision.

(c) Term to Maturity Framework

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

Term to Maturity Limits		
Portfolio % ≤1 year	Min 30%	Max 100%
Portfolio % >1 year ≤10 years	Min 0%	Max 70%
<i>Portfolio % &gt; 3 years</i>	<i>Min 0%</i>	<i>Max 50%</i>
<i>Portfolio % &gt; 5 years ≤ 10 years</i>	<i>Min 0%</i>	<i>Max 25%</i>

(d) Performance Benchmarks

The benchmark performance index for the portfolio is the **Ausbond Australian Bank Bill Index**.

(e) Investments in ethically, socially and environmentally beneficial alternatives

Council invests in alternatives by observing quadruple bottom line accounting principles over both short-term and long-term outlooks—society, environment, economic/financial, civic leadership/governance—and where financial institutions are offering an equal or better return on investment, and within the prevailing legislation and current Investment Policy risk management guidelines.

More specifically, our response to the Modern Slavery Amendment Act 2021 and a commitment to (including but not limited to): investments that provide for the ethical treatment of both shareholders and stakeholders, support development of co-operative ownership and control of the work place, high quality products and services, local ventures, appropriate technology, ecologically sustainable practices, social and economic justice, peace and non-violence and the use of renewable resources.

And avoiding investments that create pollution (such as fossil fuel industries), that are speculative, that exploit workers, customers and/or the environment, that are engaged in alcohol, tobacco and arms manufacture, that inhibit human rights and that damage non-renewable resources.

While this section describes Council's long term aim, there are still limited investment options in the market that comply with NSW legislation and Council's investment policy guidelines. When making investment decisions, Council may consider institutions that adhere to ESG principles, where:

- The investment complies with Council's Investment Policy, and
- The rate of interest is within 0.05% favourable to Council relative to alternative options available at the time, and
- The credit rating of the investment is comparable to alternative options available at the time.

Any ESG investment considerations will be subject to Council's overall investment strategy objectives of optimising its return on investment of surplus funds in a prudent and measurable manner.'

### 4.3 Delegation Authority

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

The General Manager has in turn delegated the day-to-day management of Council's Investments as per the following:

Depending upon the size of the investment and its maturity profile the following Council officers are approved to authorise transactions. Each authorisation requires approval from **two** Council officers and where the investment is for greater than \$3 million, or for more than 3 years, the General Manager or Director Finance and Governance **must** be one of these officers.

	Short Term (0-1yr)	Medium Term (Over 1yr – 3yrs)	Long Term (Over 3yr– 10yrs max.)
\$0 - \$1m	<ul style="list-style-type: none"> <li>Executive Manager Finance</li> <li>Revenue Coordinator</li> <li>Management &amp; Systems Coordinator</li> <li>Expenditure Coordinator</li> <li>The General Manager or any Director</li> </ul>	<ul style="list-style-type: none"> <li>The General Manager or any Director</li> <li>Executive Manager Finance</li> <li>Revenue Coordinator</li> <li>Management &amp; Systems Coordinator</li> <li>Expenditure Coordinator</li> </ul>	<ul style="list-style-type: none"> <li>General Manager and/or</li> <li>Director Corporate Services (mandatory)</li> <li>Any Director</li> <li>Executive Manager Finance</li> </ul>
>\$1m - \$3m	<ul style="list-style-type: none"> <li>Executive Manager Finance</li> <li>Revenue Coordinator</li> <li>Management &amp; Systems Coordinator</li> <li>Expenditure Coordinator</li> <li>The General Manager or any Director</li> </ul>	<ul style="list-style-type: none"> <li>The General Manager or any Director</li> <li>Executive Manager Finance</li> <li>Revenue Coordinator</li> <li>Management &amp; Systems Coordinator</li> <li>Expenditure Coordinator</li> </ul>	<ul style="list-style-type: none"> <li>General Manager and/or</li> <li>Director Corporate Services (mandatory)</li> <li>Any Director</li> <li>Executive Manager Finance</li> </ul>



	Short Term (0-1yr)	Medium Term (Over 1yr – 3yrs)	Long Term (Over 3yr– 10yrs max.)
> \$3M	<ul style="list-style-type: none"> <li>• General Manager and/or</li> <li>• Director Corporate Services (mandatory)</li> <li>• Any Director</li> <li>• Executive Manager, Finance</li> </ul>	<ul style="list-style-type: none"> <li>• General Manager and/or</li> <li>• Director Corporate Services (mandatory)</li> <li>• Any Director</li> <li>• Executive Manager, Finance</li> </ul>	<ul style="list-style-type: none"> <li>• General Manager and/or</li> <li>• Director Corporate Services (mandatory)</li> <li>• Any Director</li> <li>• Executive Manager Finance</li> </ul>

#### 4.4 Prudent Person Standard/Ethics and Conflicts of Interest

Council's investments are to 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 portfolio to safeguard the portfolio in accordance with the spirit of this Investment Policy, and not for speculative purposes.

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 utilised by Council are required to declare any actual or perceived conflicts of interest. Any commissions paid to the advisor by banks/product providers will be rebated, or otherwise onforwarded, to Council as per ASIC requirements for an independent investment advisor. No part of the Investment Advisory business even if not directly relating to Council's investments is to operate on a brokerage/commission basis unless all brokerage/commission is fully rebated to any and all of its clients, as these can still create a conflict of interest in recommendations to Council.

#### 4.5 Reporting and Reviewing of Investments

All investments must be in the name of Waverley Council and documentary evidence held for each investment and details thereof maintained in an investment Register.

A monthly report will be submitted to Council, providing details of the investment portfolio in terms of performance and counterparty percentage exposure of total portfolio.

## 4.6 General

Due to the dynamic nature of the portfolio, it is possible that from time to time there may be breaches of the investment policy's limits for short periods. Should this occur it will be reported to Council at its next ordinary meeting.

## 4.7 Applicable Legislation

All investments are to be made in accordance with:

- Local Government Act 1993 - Section 412 & 625;
- Trustee Act 1925 – Section 14A(2) and 14C(1) & (2);
- Local Government (General) Regulation 2021 – Clause 212;
- Prevailing Ministerial Investment Order

Refer to Schedule 1 for extracts relating to the above.

Furthermore, Council's investment management is to comply with:

Prevailing Local Government Code of Accounting Practice and Financial Reporting;

- Australian Accounting Standards; and
- Division of Local Government Circulars.

Following are relevant sections and clauses relating to the above.

### **Schedule 1: Extracts of Legislative Requirements**

#### **LOCAL GOVERNMENT ACT 1993 - SECT 412 & 625 Section 412 Accounting records**

- 1) A council must keep such accounting records as are necessary to correctly record and explain its financial transactions and its financial position.
- 2) In particular, a council must keep its accounting records in a manner and form that facilitate:
  - a) the preparation of financial reports that present fairly its financial position and the results of its operations, and
  - b) the convenient and proper auditing of those reports.

#### **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.

#### **TRUSTEE ACT 1925 – SECTIONS 14A(2), 14C (1) & (2)**

##### **14A (2) Duties of trustee in respect of power of investment**

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.

##### **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,
- (2) the liquidity and marketability of the proposed investment during, and on the determination of, the term of the proposed investment,
  - (a) the aggregate value of the trust estate,
  - (b) the effect of the proposed investment in relation to the tax liability of the trust,
  - (c) the likelihood of inflation affecting the value of the proposed investment or other trust property,
  - (d) the costs (including commissions, fees, charges and duties payable) of making the proposed investment,
  - (e) the results of a review of existing trust investments in accordance with section 14A (4).
- (3) 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.

## **LOCAL GOVERNMENT (GENERAL) REGULATION 2021 - CLAUSE 212**

### **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.
- (4) 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.

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## 5. Review

This Policy will be reviewed every year or as required in the event of legislative changes or requirements. The Policy may also be changed as a result of other amendments. Any amendments to the Policy must be way of a Council resolution or with the approval of the General Manager.

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## 6. Definitions

**11am Call Deposits:** Cash invested on an overnight basis with an Australian Authorised Deposit-taking Institution (ADI). Funds can be recalled or re-invested prior to the bank's Real Time Gross Settlement cut-off each day.

### **Ausbond Bank Bill Index**

This Index is the NSW Local Government industry standard benchmark formerly known as the UBS Australia Bank Bill Index. This is the generally accepted benchmark for short term, conservative cash and fixed income investors and allows benchmarking against a notional rolling parcel of thirteen 90 day bank bills with an averaging maturity of 45 days .

### **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.

**ADI issued Senior Debt Bonds:** Interest bearing securities which are high ranking debt obligations of the issuing ADI. Senior bonds are tradeable in the market. They can be either fixed

rate or floating rate interest bearing and are typically issued with 3+ year maturities. Interest is paid at scheduled intervals based on the face value of the bond with repayment of capital paid upon maturity. In the case of a bank failure, senior bond holders rank above subordinated debt holders and shareholders but below covered bond holders and depositors.

**Covered Bonds:** Interest bearing senior ranking debt obligations of an Authorised Deposit-taking Institution (ADI) which have specific bank assets, ie loans, backing the bond. Covered bonds are market traded securities. They can be either fixed rate or floating rate interest bearing and typically are issued with 5+ year maturities. In the case of a bank failure, holders of covered bonds rank ahead of depositors and unsecured senior bond holders having first recourse to the underlying pool of assets backing the bond. If the pool's assets are not sufficient to meet the covered bond's obligations, holders then have recourse to the bank's total assets equal to other senior unsecured bondholders.

**Term Deposits:** interest bearing deposit held at an ADI for a specific contracted period. Term deposits are not tradeable in the market. They typically have a fixed rate for their life, but floating rate term deposits are also available. Prior to the introduction of Covered Bonds into the Australian market, in early 2012, term deposits ranked at the top of an ADI's capital structure.

**Bank Bills and Negotiable Certificates of Deposits (NCDs):** are similar types of interest bearing securities issued/accepted by ADIs, typically short dated. Unlike term deposits, these are tradeable in the market prior to maturity.

#### **Authorised Deposit-Taking Institutions - ADI**

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

#### **T-Corp**

New South Wales Treasury Corporation.

#### **Commonwealth/State/Territory Government Securities (e.g. bonds):-**

These are interest paying securities which are issued by one of the above Australian government bodies and are guaranteed by that issuer. As such, these securities carry the same credit rating as the issuing government body.

#### **Deposits with NSW Treasury &/or Investments in NSW TCorpIM Funds**

The NSW Treasury Corporation Investment Management Funds (TCorplM Funds) comprises a number of pooled managed funds options each set up as a unit trust.

The current cash and fixed income option available through TCorplM is **the Short Term Income Fund**. This fund is designed for investments ranging from 1.5 years out to 3 years and pays back redemptions generally within 24 to 72 hours.

The **Medium Term Growth Fund and Long Term Growth Fund** are diversified funds that invest in a blend of growth assets (e.g. shares & property) and defensive assets (e.g. cash and fixed interest). These funds are designed for investors with longer term time horizons and are able to take additional investment risk in order to generate higher potential returns.

- The Medium Term Growth Fund has growth asset exposure of between 20%-40%. This fund aims to provide a return of CPI + 2%pa over rolling 5 year periods, on an after fees and expenses basis.
- The Long Term Growth Fund has growth asset exposure of between 60%-80%. This fund aims to provide a return of CPI + 3.5%pa over rolling 10 year periods on an after fees and expenses basis.

These funds exhibit a higher degree of volatility in monthly returns relative to cash and fixed floating rate investments and may have periods of negative returns depending upon market conditions.

## **Standard & Poor's Credit Ratings Description**

### **Credit Ratings**

Standard & Poor's (S&P) is a professional organisation that provides analytical services. An S&P rating is an opinion of the general creditworthiness of an obligor with respect to particular debt security or other financial obligation – based on relevant risk factors.

Credit ratings are based, in varying degrees, on the following considerations:

- Likelihood of payment.
- Nature and provisions for the obligation.
- Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganisation or other laws affecting creditors' rights.

The issue rating definitions are expressed in terms of default risk.

### **Long-Term Credit Ratings:**

#### **AAA**

An obligation/obligor rated AAA has the highest rating assigned by S&P. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

#### **AA**

An obligation/obligor rated AA differs from the highest rated obligations only in a small degree. The obligor's capacity to meet its financial commitment on the obligations is very strong.

## **A**

An obligation/obligor rated A is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations/obligor in higher rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

## **BBB**

An obligation/obligor rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to the obligor to meet its financial commitment on the obligation.

## **Plus (+) or Minus (-)**

The ratings from "AA" to "CCC" may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

## **CreditWatch**

Highlights an emerging situation, which may materially affect the profile of a rated corporation and can be designed as positive, developing or negative. Following a full review the rating may either be affirmed or changed in the direction indication.

## **Rating Outlook**

Assesses the potential direction of an issuer's long-term debt rating over the intermediate-to-long term. In determining a Rating Outlook, consideration is given to possible changes in the economic and /or fundamental business conditions. An outlook is not necessarily precursor of a ratings change or future CreditWatch action. A "Rating Outlook – Positive" indicates that rating may be raised. "Negative" means a rating may be lowered. "Stable" indicates that ratings are not likely to change. "Developing" means ratings may be raised or lowered.



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## REVISED MINISTERIAL INVESTMENT ORDER

A revised Investment Order pursuant to section 625 of the *Local Government Act 1993* has been issued. The Minister for Local Government signed the revised Order on 12 January 2011 and it was published in the NSW Government Gazette on 11 February 2011. It replaces the Order dated 31 July 2008. The revised Order is attached to this circular.

Changes to the Investment Order include:

- the removal of the ability to invest in the mortgage of land (part (c) of the Investment Order dated 31 July 2008)
- the removal of the ability to make a deposit with the Local Government Financial Services Pty Ltd (part (f) of the order dated 31 July 2008)
- the addition of "Key Considerations" in the revised Investment Order, which includes a comment that a council's General Manager, or any other staff, with delegated authority by a council to invest in funds on behalf of the council must do so in accordance with the council's adopted investment policy.

Councils are reminded that on 25 May 2010 the Division of Local Government issued Investment Policy Guidelines (Circular to Councils 10-11 refers). It is expected that all councils will by now have adopted an Investment Policy in accordance with the Guidelines.



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