



## Council Policy

# Investment Policy

Version 17

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### Introduction

#### Purpose

The purpose of Council's Investment Policy is to provide a framework for the investment of funds at Lake Macquarie City Council.

This policy aims to ensure Council's investments are managed in a prudent and appropriate manner in accordance with legislative requirements. The policy details Council's overall investment objectives and guiding principles, identifies who the policy applies to, and provides guidance for compliance with the policy's goals and procedures.

#### Scope

All Council officers, including those with delegated authority to act on Council's behalf in relation to investments, are required to act in accordance with this policy at all times

### Policy statement

#### 1 Funds for investment

Investments are maintained to meet specific business objectives. These objectives include:

- strategic purposes consistent with the Council's long-term strategic plan
- holding short-term investments for working capital requirements
- holding investments that are necessary to carry out Council operations consistent with annual long-term plans.

Lake Macquarie City Council recognises that as a responsible public authority, any investments that it does hold should be low-risk. It also recognises that lower risk generally means lower returns.

#### 2 Legislative requirements

Council makes all investments in accordance with:

- *Local Government Act 1993* - section 412 and 625
- *Local Government Act 1993* – Prevailing Ministerial Investment Order
- *The Trustee Amendment (Discretionary Investments) Act 1997* – sections 14A(2), 14C(1) and (2)
- *Local Government (General) Regulation 2021* – Reg 212
- Department of Premier and Cabinet Division of Local Government – Investment Policy Guidelines – May 2010
- Local Government Code of Accounting Practice and Financial Reporting
- Australian Accounting Standards.

#### 3 Delegation of authority

Council, in accordance with the *Local Government Act 1993*, delegates authority for implementation of the Investment Policy to the Chief Executive Officer.

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

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Officers that are delegated authority to manage Council's investments shall be recorded and the officers required to acknowledge they have received a copy of this policy and understand their obligations when investing funds on behalf of Council in accordance with this policy.

### 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 portfolio to safeguard the portfolio in accordance with the spirit of this Investment Policy, and not for speculative purposes.

### 5 Ethics and conflict 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.

Council's investments are primarily restricted to Australian Authorised Deposit Taking Institutions (banks, building societies, credit unions) that are governed by the Australian Prudential Regulatory Authority.

### 6 Approved investments

All investments must be denominated in Australian dollars. Authorised investments are limited to those allowed by the current Ministerial Investment Order, issued by the NSW Minister for Local Government which include:

- Commonwealth/State/Territory Government securities, for example, bonds;
- interest bearing deposits/senior securities issued by an eligible Authorised Deposit-taking Institution (ADI);
- Bills of Exchange (fewer than 200 days duration) guaranteed by an ADI;
- debentures issued by a NSW council under the *Local Government Act 1993*;
- investments with TCorp and/or investments in TCorp managed funds.

Council may also invest in property investments incorporating land, buildings, a portfolio of ground leases and land held for strategic purposes.

### 7 Responsible investments – environmental, social and governance considerations

Responsible investing is an approach to investing, which explicitly acknowledges the importance of environmental, social and governance (ESG) factors in investment decision-making processes.

Council will take a negative screening approach, which systematically excludes specific industries, sectors, companies, practices, countries or jurisdictions that do not align with the responsible investing goals. Council requires its investment advisor to incorporate ESG factors into its investment advice to Council. These ESG considerations must:

- specifically exclude investments:
  - in entities directly involved in the manufacture of tobacco products or cluster munitions
  - in entities directly involved in gambling
  - in entities that do not commit to the requirements of the *Modern Slavery Act*
  - which would breach any sanctions regime under the Autonomous Sanctions Laws without prior authorisation from the Department of Foreign Affairs and Trade
- take into account the carbon footprint of investments.

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For investments issued by or guaranteed by the Australian Commonwealth, State and Territory Governments, Council will rely on the relevant governance related legislation and/or stewardship policies from related treasury corporations of the governments.

### 8 Property investments

Council purchases property for a variety of reasons, some being for a current or future redevelopment and others purely as a source of income generation – to make a return on invested funds. In all instances, prior to recommending the purchase of an investment property, due diligence is undertaken, and concludes with the identification of an appropriate investment return.

Any purchase or disposal of property investments requires Council approval, and must be in accordance with Council's Acquisition and Divestment of Land Policy. Council recognises there are risks associated with holding investment property. To minimise risk, the property portfolio is reviewed annually. Council seeks professional advice regarding its property investments when appropriate to do so.

### 9 Land and buildings

Council owns land and buildings for the purposes of providing services and parks and reserves. In addition, other land is held for strategic purposes. These holdings of land and buildings are not considered to be investments for the purpose of this policy.

### 10 Prohibited investments

In accordance with any current 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; and
- standalone 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.

### 11 Investment advisor

Council's investment advisor must be appointed in line with Council's Procurement Policy and licensed by the Australian Securities and Investment Commission. The investment 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. Council's investment advisor will be appointed for up to five years, via a competitive process under Council's Procurement Policy framework.

Council's investment 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 from the product providers in relation to the investments being recommended or reviewed.

Council's investment advisor must provide an annual report to Council's Chief Financial Officer on Council's investment portfolio, including:

- performance of the short and long-term pools (refer to benchmarking below)
- comparison of the performances against the benchmarks
- the incorporation of ESG factors of Council's investment portfolio.

## 12 Risk Management Framework

Investments are to comply with the following three-part Risk Management Framework:

- **Overall Portfolio Credit Framework:** limits overall credit exposure of the portfolio.
- **Institutional Credit Framework:** limits exposure to individual institutions based on their credit rating.
- **Term to Maturity Framework:** limits exposures based upon maturity of securities and credit ratings of investments.

### 12.1 Overall Portfolio Credit Framework

To control the credit quality on the entire portfolio, the following credit framework limits the percentage of the total portfolio exposed to particular credit rating categories.

Long Term Credit Ratings	Portfolio Max %
AAA	100%
AA+, AA, AA-	100%
A+, A	100%
A-	40%
BBB+ and BBB Total	35%
<i>BBB+</i>	up to 35%
<i>BBB</i>	up to 15%
BBB- and lower & Unrated (excluding NSW TCorpIM Funds)	0%
Specific Ministerial Approved Forms of Investment	Portfolio Max%
NSW TCorpIM Funds	100%

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

### 12.2 Institutional Credit Framework

Council's exposure to an individual institution will be restricted by the institution's credit rating, with the exception of the NSW TCorpIM funds, which do not have credit ratings.

Long Term Credit Ratings	Institution Max %
AAA	50%
AA+, AA, AA-	50%
A+ A	40%
A-	20%



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BBB+	10%
BBB	5%
BBB- and lower & Unrated (excluding NSW TCorpIM Funds)	0%

NSW TCorp IM Funds	Max %
TCorpIM Cash Fund	30%
TCorpIM Short Term Income Fund	10%
TCorpIM Medium Term Growth Fund	20%
TCorpIM Long Term Growth Fund	10%

Credit ratings are based upon the Standard & Poor's (S&P) Investment Rating, or equivalent, where a S&P Investment Rating does not exist.

If any of Council's investments are downgraded or policy limits are raised, such that they no longer fall within the investment policy limits, they will be divested as soon as practicable after consultation with its investment advisor, 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.

Where growth in investments, resulting from strong investment returns, or the total value of all investments decreases, either causing an institutional Credit Framework limit to be exceeded, the exceeding investments may be retained until maturity. However, no further investment may be made in the institution (which has exceeded the limit) while the institution exceeds the limit. Such investments must be reviewed annually.

### 12.3 Term to Maturity Framework

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

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

Overall Portfolio Term to Maturity Limits		
Portfolio % ≤ 1 year	Min 20%	Max 100%
Portfolio % > 1 year ≤ 10 years	Min 0%	Max 80%
Portfolio % > 3 years	Min 0%	Max 50%
Portfolio % > 5 years ≤ 10 years	Min 0%	Max 25%
AA+, AA, AA- rating: 5 yrs maximum		
A+, A, A-, BBB+ rating: 3 yrs maximum		
BBB rating: 12 months maximum		

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### 13 Performance benchmarks

For measuring performance, Council will split its investment portfolio into two pools:

- a long-term pool, which incorporates TCorp's growth funds
- a short-term pool which incorporates all other investments.

The benchmark marked to market performance index is the Bloomberg AusBond Bank Bill Index and the official 11am Cash Rate. The short-term fund is expected to exceed the performance benchmark. The long-term pool is expected to exceed the benchmark by 2-3.5 per cent when measured over a five year period.

### 14 Reporting

The Chief Financial Officer will provide a monthly report to Council, detailing the investment portfolio in terms of performance and rate of return on the overall portfolio for the period, and will detail the purchase price, face value, current (market) value, credit rating and coupon/yield for each individual investment.

For audit purposes, the Chief Financial Officer will obtain certificates from the banks or fund managers confirming the amounts of investment held on Council's behalf at 30 June each year.

### Objectives

The Lake Macquarie City Council investment objective is to provide the most favourable return to Council available to it at the time whilst having due consideration of risk and security for that investment type and ensuring Council's liquidity requirements are being met.

When investing funds, Council has three primary objectives:

1. Preservation of capital. 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.
2. Manage Council's liquidity. 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.
3. Maximise returns within Council's risk appetite as outlined in this policy. Investments are expected to achieve a market average rate of return in line with the Council's risk tolerance.

### Review and Evaluation

This Investment Policy will be reviewed at least once a year or as required in the event of legislative changes.

Any breach of this policy will be notified to Council and TCorp at the earliest opportunity following the breach.

## Controlled Document Information

### Authorisation Details

<b>Folder No:</b>	F2005/02220	<b>TRIM Record No:</b>	D11388056
<b>Audience:</b>	External - This document applies to all staff. It establishes the framework for investing, covering how Council will make investment decisions, monitor the portfolio and report on the portfolio.		
<b>Department:</b>	Financial Services	<b>Officer:</b>	Coordinator Financial Accounting - Judith Lauder
<b>Key focus area(s):</b>	Diverse Economy		
<b>Review Timeframe:</b> Max < 4 years	1 year	<b>Next Scheduled Review Date:</b>	24 March 2025
<b>Authorisation:</b>	Council		
<b>Authorisation - Council Adoption Date:</b>	25 March 2024		

### Related Document Information, Standards & References

<b>Related Legislation:</b>	(Legislation Name) Local Government Act 1993 - Section 412 & 625; Local Government Act 1993 – Investment Order (of the Minister) Circular No: 08/48 gazetted on 15 August 2008; The Trustee Amendment (Discretionary Investments) Act 1997 - Sections 14A (2), 14C (1) & (2). Local Government (General) Regulation 2005 – Clause 212 Local Government Code of Accounting Practice and Financial Reporting Australian Accounting Standards Department of Premier and Cabinet Division of Local Government – Investment Policy Guidelines – May 2010	(Relationship/Context)
<b>Related Policies:</b>	(Policy Name)	(Relationship/Context)
<b>Related Procedures, Guidelines, Forms, WHS Modules/PCD's, Risk Assessments, Work Method Statements:</b>	(Document Name)	(Relationship/Context)
<b>Standards, COP's &amp; Other References</b>	(Standard, COP or Other References)	(Relationship/Context)

### Definitions

Term / Abbreviation	Definition
TCorp	Treasury Corporation – the investment and borrowing corporation of NSW Treasury
ESG	Environment, social and governance

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ADI	Authorised Deposit-taking Institutions
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### Consultation (update for each version created)

<b>Key Departments, Teams, Positions, Meetings:</b>	Chief Financial Officer, Internal Auditor, Coordinator Financial Accounting, Treasury Officer, Executive, Audit Risk and Improvement Committee, Prudential Investment Advisors, Property & Business Development Department
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### Version History

Version No	Date Changed	Modified By	Details and Comments
2	9/11/2006	J Roberts	<p>Amendment to the Term to Maturity Framework Amendment to <i>Term to Maturity Framework Table</i></p> <p>The section of the amended table headed <i>Overall Portfolio Term to Maturity Limits</i> replaces a paragraph preceding the old table in which we described the same information in words.</p> <p>Included a description of Authorised Deposit Taking Institutions.</p> <p>Updated the <i>Forms of Investment</i> description in the <i>BBB</i> Category of the two <i>Credit Framework</i> tables from '<i>Licensed Banks only, as per legislation</i>', to '<i>Licensed Banks, Building Societies &amp; Credit Unions, as per legislation</i>'. This reflects the recent trend of building societies receiving credit ratings (in the <i>BBB</i> category) from Standard &amp; Poor's.</p> <p>Replaced the Performance Benchmarks table with a sentence providing the same information.</p>
3	11/5/2009	J Parker	<p>Update the reference to legislation to include the latest Ministerial Investment Order issued following the Review of NSW Local Government Investments ("Cole Report"), specifically the Local Government Act 1993 – Order (of the Minister) Circular No: 08/48 gazetted on 15 August 2008.</p> <p>Removal of references to investments with "Non Authorised Deposit taking Institutions" from Term to Maturity Framework. Non ADIs largely referred to structured securities such as mortgage backed securities and collateralised debt obligations which are no longer eligible investments under legislation.</p>
4	3/8/2010	N Spencer	<p>'Policy Objectives' section updated.</p> <p>'Authority for Investment' title changed to 'Legislative Requirements'.</p> <p>'Local Government Code of Accounting Practice and Financial Reporting' and 'Australian Accounting Standards' added to Legislative Requirements section and date of Ministerial Order changed to be most recent rather than specific date.</p> <p>'Delegation of Authority' section added.</p> <p>'Prudent Person Standard' section added.</p> <p>'Ethics and Conflict of Interest' section added.</p> <p>'Approved Investments' section added.</p> <p>'Prohibited Investments' section added.</p> <p>'Investment Advisor' section added.</p> <p>'Reporting' section: details to be included in monthly investment report updated.</p> <p>Amendment to 'Review of and Variation to Investment Policy'.</p>
	6/8/2010	W Jack	<p>Review of Policy</p>
5	15/9/11	N Spencer	<p>Added further details of Property and Land and Buildings investments under 'Approved Investments' section.</p>
6	3/10/12	N Spencer	<p>Document reviewed and no changes required. New version created in line with procedure and new template.</p>
7	1/8/13	N Spencer	<p>Document reviewed and no changes required. New version created in line with procedure and new template.</p>
8	16/7/14	N Spencer	<p>Document reviewed and no changes required. New version created in line</p>

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			with procedure and template.
9	14/9/15	J Roberts	Document reviewed and no changes required. New version created in line with procedure and template.
10	26/9/16	N Spencer	Document reviewed and no changes required. New version created in line with procedure and template.
11	20/9/2017	D Graham	Major Update: Replaced objectives Replaced whole section on Investment Guidelines with Risk Management Framework sections and tables. Included TCorp in tables. Added responsible investing section. Updated to new template.
12	18/10/2018	D Graham	Document reviewed and changes to the overall portfolio credit framework percentage limits which incorporates TCorp Guidelines. Updated to new template.
13	9/9/2019	D Graham	Document reviewed and changes to the overall portfolio credit framework percentage limits which incorporates TCorp requirements. Updated to new template.
14	30/9/2020	D Graham	<ul style="list-style-type: none"> <li>• Update to new template</li> <li>• Removal of reference to Internal Borrowing</li> <li>• Additional requirement to exclude investments in entities that do not commit to requirements of the Modern Slavery Act.</li> <li>• Inclusion of requirement for authorised officers to acknowledge they have received a copy of the policy and understand their obligations</li> <li>• Inclusion of commitment to notify Council, TCorp and OLG if policy is breached</li> <li>• Other minor wording and typographical corrections</li> </ul>
15	25/10/2021	D Graham	<ul style="list-style-type: none"> <li>• Document reviewed and changes to the overall portfolio credit framework percentage limits with regard to TCorp.</li> <li>• Sentence added allowing investments to exceed Institutional Credit Framework Limits where the exceeding results from the capital grown of the investment or a decrease in total investments.</li> </ul>
16	31/10/2022	B Lategan	Document reviewed, only minor formatting changes and updates to version numbers and dates.
17	30/1/2024	B Lategan	Document reviewed with updates required for version control, as well as minor changes to sections below to simplify wording and/or update legislative reference: <ul style="list-style-type: none"> <li>• Updated Introduction – Purpose</li> <li>• Updated Policy Statement 1. Funds for investment</li> <li>• Updated Policy Statement 2. Legislative requirements</li> </ul>