
NARROMINE SHIRE COUNCIL
ORDINARY MEETING BUSINESS PAPER – 17 JULY 2024
REPORTS TO COUNCIL – FINANCE & CORPORATE STRATEGY

1. INVESTMENT REPORT AS AT 30 JUNE 2024

Author	Director Finance & Corporate Strategy
Responsible Officer	Director Finance & Corporate Strategy
Link to Strategic Plans	CSP – 4.3 A financially sound Council that is responsible and sustainable DP - 4.3.1.5 Provide monthly cash balances and detailed quarterly financial reports to Council.

Executive Summary

Council's investments are made in accordance with legislative requirements and are certified as such by the Responsible Accounting Officer. This report details Council's investments as at 30 June 2024.

Report

Under the Local Government Act 1993 and Local Government (General) Regulation 2021, the Responsible Accounting Officer is required to report on Council's Investment portfolio on a monthly basis. The report must be made up to the last day of the month immediately preceding the meeting.

The management of Council's Investments is delegated by the General Manager to the Director of Finance and Corporate Strategy.

Council's investments are made in accordance with the Local Government Act 1993, Local Government (General) Regulation 2021, Ministerial Investment Order issued February 2011, the Office of Local Government's Guidelines and Council's Investment Policy.

Council's investment portfolio is managed through term deposits and the current interest rates range from 4.92% to 5.35%. During June, Council's total cash and investments decreased by \$607K from \$24,674M to \$24,067M. This is due to the transfer of funds from the investments to the cheque account for cash flow purposes. Council's investment portfolio as at 30 June 2024 is attached as **Attachment No. 1**.

Financial Implications

The 2023/24 Budget estimates the total annual Investment Revenue as \$882,289 which represents an estimated return of 4.42% and is split proportionally across General, Water and Sewer Funds and changes on a monthly basis in accordance with cash flow requirements.

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1. INVESTMENT REPORT AS AT 30 JUNE 2024 (Cont'd)

Legal and Regulatory Compliance

- Local Government Act, 1993 – Section 625
- Local Government (General) Regulation, 2021 – Clause 212
- Council Investment Policy 2023
- Ministerial Investment Order – 12 January 2011

Risk Management Issues

Council's risk management strategy is to diversify the allocation of funds across different financial institutions and government authorities based on credit ratings as per the Investment Policy. The investment portfolio is regularly reviewed in order to maximise investment performance and minimise risk.

Certification – Responsible Accounting Officer

I hereby certify that the investments listed in the report have been made in accordance with Section 625 of the Local Government Act 1993, clause 212 of the Local Government (General) Regulation 2021 and Council's Investment Policy.

Attachments

- 1 Investment Portfolio as at 30 June 2024

RECOMMENDATION

1. That the report regarding Council's Investment Portfolio be received and noted;
2. That the certification of the Responsible Accounting Officer is noted and the report adopted.

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2. INVESTMENT POLICY

Author	Director Finance & Corporate Strategy
Responsible Officer	Director Finance & Corporate Strategy
Link to Strategic Plans	CSP – 4.3.1 – Operate and manage Council in a financially sustainable manner that meets all statutory and regulatory compliance and Council policies.

Executive Summary

Council's Investment Policy has been reviewed and is presented for Council's consideration and endorsement.

Report

The Investment Policy is a governing document that guides the investment process. The objective of this policy is to provide a framework to ensure Council's surplus funds are invested in an accountable and responsible manner.

The Office of Local Government issued investment policy guidelines in 2010 that apply to all Councils in New South Wales. The objectives of the guidelines are to:

- Assist Councils in investing funds in a prudent and appropriate manner;
- Outline legislation associated with the investment of surplus funds;
- Assist Councils in preparing a suitable investment policy;
- Outline key issues when investing funds;
- Define duties and obligations of the Council and Council Officers;
- Outline requirements for internal control procedures; and
- Establish proper reporting and monitoring procedures.

The policy has been reviewed and no changes to the policy are suggested at this stage.

Financial Implications

Operational Plan and Budget 2024-25.

Legal and Regulatory Compliance

- Local Government Act, 1993 – Section 625
- Local Government (General) Regulation, 2021 – Clause 212
- Ministerial Investment Order – 12 January 2011

Risk Management Issues

Council's risk management strategy is to diversify the allocation of funds across different financial institutions and government authorities based on credit ratings as per the Investment Policy. The investment portfolio is regularly reviewed in order to maximise investment performance and minimise risk.

2. INVESTMENT POLICY (Cont'd)

Attachments

- Investment Policy (***Attachment No 2***)

RECOMMENDATION

That the Investment Policy attached to the report be endorsed.

Barry Bonthuys
Director Finance & Corporate Strategy
Responsible Accounting Officer

Attachment 1 - Investments as at 30 June 2024

Financial Institution	Bank Rating	Investment Type/Maturity Date	Investment Rating	Current Rate	Term	Amount (\$)	Comment
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Cash & At Call							
Commonwealth Bank	AA-	Business Online Saver - at call - Interest - Special rate 4.25%	A-1+	4.25%	N/A	4,067,163.74	S&P Short Term
TOTAL						4,067,163.74	
Percentage of Total Portfolio						16.90%	
Average Investment Yield						4.25%	

Term Deposits							
NAB	AA-	Term Deposit - 01/08/2024	A-1+	5.20%	240 Days	2,000,000.00	S&P Short Term
Commonwealth Bank	AA-	Term Deposit - 06/09/2024	A-1+	4.92%	242 Days	3,000,000.00	S&P Short Term
Commonwealth Bank	AA-	Term Deposit - 02/10/2024	A-1+	4.98%	242 Days	2,000,000.00	S&P Short Term
NAB	AA-	Term Deposit - 04/11/2024	A-1+	5.10%	244 Days	3,000,000.00	S&P Short Term
NAB	AA-	Term Deposit - 04/12/2024	A-1+	5.05%	244 Days	2,000,000.00	S&P Short Term
Commonwealth Bank	AA-	Term Deposit - 06/01/2025	A-1+	5.05%	241 Days	3,000,000.00	S&P Short Term
NAB	AA-	Term Deposit - 31/01/2025	A-1+	5.15%	245 Days	2,000,000.00	S&P Short Term
NAB	AA-	Term Deposit - 25/02/2025	A-1+	5.35%	239 Days	3,000,000.00	S&P Short Term
TOTAL						20,000,000.00	
Percentage of Total Portfolio						83.10%	
Average Investment Yield						5.10%	

Total Investment Portfolio **24,067,163.74**



INVESTMENT POLICY

Document Version Control			
Responsible Department	Prepared By	Resolution No.	Review Period
Finance	Director Finance & Corporate Strategy	2022/117	1 Year – June 2023
Finance	Director Finance & Corporate Strategy	2023/122	1 Year – June 2024
Finance	Director Finance & Corporate Strategy	2024/XXX	1 Year – June 2025

PURPOSE OF POLICY

The purpose of this policy is to provide a framework for investment of Council's funds. The policy establishes a series of limits within which Council officers must operate in the planning, and process, of investing Council monies. In setting these limits Council is determining the general level of risk that is acceptable for monies managed on trust for the community of Narromine.

INVESTMENT OBJECTIVE

To provide a framework for the investing of Council's funds at the most favorable rate of interest available to it at the time whilst having due consideration of risk and security for that investment type and ensuring that its liquidity requirements are being met.

While exercising the power to invest, consideration is to be given to the preservation of capital, liquidity, and the return of investment.

- Preservation of capital is the principal objective of the investment portfolio. Investments are to be placed in a manner that seeks to ensure security and safeguarding the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters.
- Investments are to be allocated to ensure there is sufficient liquidity to meet all reasonably anticipated cash flow requirements, as and when they fall due, without incurring the risk of significant costs due to the unanticipated sale of an investment.
- Investments are expected to achieve a market average rate of return in line with Council's risk tolerance.

LEGISLATIVE CONSTRAINTS ON INVESTMENT

All investments are to comply with the following:

- Ministerial Investment Order - Attachment 1 issued 12/01/2011;
- Local Government (General) Regulation 2021 -Attachment 2;
- Local Government Act 1993 - Attachment 3;
- Revised Ministerial Order Circular 11-01 – Attachment 4 issued 17/02/2011;
- Revised Ministerial Order Circular 17-29 – Attachment 5 issued 10/10/2017;
- Local Government Code of Accounting Practice and Financial Reporting;
- Australian Accounting Standards;
- Office of Local Government Circulars; and
- Trustee Act 1925

DELEGATION OF AUTHORITY

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

The General Manager can delegate the day-to-day management of Council's Investments to the Director of Finance and Corporate Strategy who will manage the function with assistance from the relevant Finance Staff.

Officers with delegated authority to manage Council's investments shall be recorded and required to acknowledge they have received a copy of this policy and understand their obligations in this role.

PRUDENT PERSON STANDARD

The investments 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 portfolios in accordance with this Investment Policy, and not for speculative purposes.

ETHICS AND CONFLICTS OF INTEREST

Officers shall refrain from personal activities that would conflict with the proper execution and management of Council's investment portfolio. This policy requires officers to disclose any conflict of interest to the General Manager.

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

APPROVED INVESTMENTS

Officers' delegated authority to manage Council's Investments is limited to investments allowed by the Ministerial Investment Order and include:

- Commonwealth/State/Territory Government security eg bonds;
- Interest bearing deposits issued by an authorised deposit-taking institution;
- Bills of exchange, (< 200 days duration), guaranteed by an authorised deposit-taking institution;
- Debentures issued by NSW Local Government;
- NSW Treasury Corporation

PROHIBITED INVESTMENTS

This investment policy prohibits 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
- Stand alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind.

This policy also prohibits the use of leveraging (borrowing to invest) of an investment or investments that are themselves leveraged.

RISK MANAGEMENT GUIDELINES

The following key criteria must be considered prior to placing investments;

- **Preservation of Capital** – the requirement for preventing losses in an investment portfolio's capital value;
- **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;
- **Credit Risk** – the risk that a product that Council has invested in fails to pay the interest and or repay the principal of an investment.
- **Market Risk** - the risk that the fair value or future cash flows (Market Value) of an investment will fluctuate due to changes in market prices;
- **Liquidity Risk** - the risk an investor is unable to redeem the investment at a fair price within a timely period;
- **Maturity Risk** – the risk relating to the length of term to maturity of the investment. The larger the term, the greater the length of exposure and risk to market volatilities.

COUNCIL'S ATTITUDE TO RISK

All Narromine Shire Council's investments must be made subject to the following minimum constraints:

- All investments must be of "investment grade" credit rating which implies that there is a **better than** "adequate" or "satisfactory" capacity to meet obligations.
- All investments should be dealt through reputable institutions with a Long-Term Credit rating as per Table 1.
- All investments must be for a period no longer than the period over which the underlying liability could reasonably be expected to arise.
- Where there is no identified underlying liability the term to maturity of the investments must not exceed 10 years.
- The investment portfolio must be managed in such a way that Council is able to meet its cash flow obligations at all times.
- Real returns must be reasonably matched so as to be compatible with the rising cost of the infrastructure or assets the investment is to fund.
- Preservation of the capital component of all investments must be the highest priority.

INVESTMENT GUIDELINES/STRATEGY

I. Quotations on Investments

Not less than three (3) quotations shall be obtained from authorised institutions when an investment is proposed and will be authorised by two signatories.

II. Assessment of Cashflow

Investments should be placed for a term which best suits the cashflow requirements of Council but for no longer than the period forecasted in the Long Term Financial Plan, currently 10 years.

III. Preservation of Capital

a) Credit Risk

There are two types of Credit Ratings; Short-term credit ratings and Long-term credit ratings. N.B. The credit rating is as determined by Standard and Poor's, Fitch and Moody's.

Short-term credit ratings are an indication of the institutions capacity to meet short term financial commitments, i.e. less than 12 months.

Long-term credit ratings are an indication of the institutions capacity to meet financial commitment over the long term, i.e. greater than 12 months and generally apply to the rating of the institution.

b) Diversification Risk

The following tables represent the maximum allowable investment with any one Financial Institution.

Table 1:

Long Term Credit Rating	Short Term Credit Rating	Portfolio Limit (under 12 month investments)	Counterparty Limit (under 12 month investments)	Portfolio Limit (12 months + investments)	Counterparty Limit (12 months + investments)	Max Tenor
AAA	A-1+	100%	100%	100%	30%	N/A
AA+ to AA-	A-1+	100%	100%	100%	100%	5 years
A+ to A	A-1+	100%	30%	100%	30%	3 years
A-	A-1+	40%	20%	40%	20%	3 years
TCorpIM Funds		100%	100%	100%	100%	N/A

Where an institution is unrated (i.e. a Credit Union) but has a local presence (i.e. Narromine Shire), after careful consideration of the financial capacity of the institution, investments will be placed within the limitation of the Rating of A + or -, and only for periods less than 12 months.

Investments in TCorpIM Funds are diversified in terms of both counterparties and assets.

INVESTMENT ADVISOR

Council from time to time may seek independent advice from an approved and licenced Investment Advisor as per the Office of Local Government Guidelines about the investment strategy and/or specific investments. This advice must be in writing.

The investment advisor must be approved by Council and licensed by the Australian Securities and Investment Commission. The advisor must be an independent person who has no actual or potential conflict of interest in relation to investment products being recommended and is free to choose the most appropriate product within the terms and conditions of the investment policy.

The independent advisor is required to provide written confirmation that they do not have any actual or potential conflicts of interest in relation to the investments they are recommending or reviewing, including that they are not receiving any commissions or other benefits in relation to the investments being recommended or reviewed.

The NSW Government has provided a waiver to allow Council to engage NSW Treasury Corporation (TCorp) in the provision of investment advice. This waiver is necessary as TCorp is not licensed by ASIC.

THE INVESTMENT STRATEGY FOR THIS REVIEW PERIOD

An Investment Strategy will run in conjunction with the investment policy. The investment strategy will be reviewed as required in the event of legislative changes and will outline:

- Council's cash flow expectations as determined by the Delivery Program;
- Optimal target allocation of investment types, credit rating exposure and term to maturity exposure; and
- Appropriateness of overall investment types for Council's portfolio.

Given the uncertainty and concern surrounding the security of Investments in the wake of the fallout of the Global Financial Crisis, Council's Investment Strategy for the 2024/25 Financial Year is based on a conservative approach.

Council's main priority is the preservation of Capital and therefore will only invest in cash back investments.

BENCHMARKING

Performance benchmarks need to be established and should be based on sound and consistent methodology. Council's investments will be benchmarked against the following indicators.

INVESTMENT	PERFORMANCE BENCHMARK
Cash	11am cash rate
Direct Investments	AFMA BBSW Rate: Average mid – 90 days

AFMA – Australian Financial Markets Association

BBSW – Bank Bill Swap

REPORTING REQUIREMENTS

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.

Certificates must be obtained from the financial institutions confirming the amounts of investments held on Council's behalf as at 30 June each year and reconciled to the Investment Register.

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

A monthly report will be provided to Council. The report will detail the investment portfolio in terms of performance, percentage exposure of total portfolio, maturity date and changes in market value.

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

Attachment 1

LOCAL GOVERNMENT ACT 1993 – INVESTMENT ORDER

(Relating to investments by councils)

I, the Hon. Barbara Perry MP, Minister for Local Government, in pursuance of section 625(2) of the *Local Government Act 1993* and with the approval of the Treasurer, do, by this my Order, notify for the purposes of section 625 of that Act that a council or county council may only invest money (on the basis that all investments must be denominated in Australian Dollars) in the following forms of investment:

- (a) any public funds or securities issued by or guaranteed by, the Commonwealth, any State of the Commonwealth or a Territory;
- (b) any debentures or securities issued by a council (within the meaning of the *Local Government Act 1993* (NSW));
- (c) interest bearing deposits with, or any debentures or bonds issued by, an authorised deposit-taking institution (as defined in the *Banking Act 1959* (Cwth)), but excluding subordinated debt obligations;
- (d) any bill of exchange which has a maturity date of not more than 200 days; and if purchased for value confers on the holder in due course a right of recourse against a bank which has been designated as an authorised deposit-taking institution by the Australian Prudential Regulation Authority;
- (e) a deposit with the New South Wales Treasury Corporation or investments in an Hour-Glass investment facility of the New South Wales Treasury Corporation;

All investment instruments (excluding short term discount instruments) referred to above include both principal and investment income.

Transitional Arrangements

- (i) Subject to paragraph (ii) nothing in this Order affects any investment made before the date of this Order which was made in compliance with the previous Ministerial Orders, and such investments are taken to be in compliance with this Order.
- (ii) Paragraph (i) only applies to those investments made before the date of this Order and does not apply to any restructuring or switching of investments or any re-investment of proceeds received on disposal or maturity of such investments, which for the avoidance of doubt must comply with this Order.

Key Considerations

An investment is not in a form of investment notified by this order unless it also complies with an investment policy of council adopted by a resolution of council.

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

The General Manager, or any other staff member, with delegated authority by a council to invest funds on behalf of a council must do so in accordance with the council's adopted investment policy.

Councils have a fiduciary responsibility when investing. Councils should exercise the care, diligence and skill that a prudent person would exercise in managing the affairs of other persons.

When exercising the power of investment councils should consider, but not be limited by, the risk of capital or income loss or depreciation, the likely income return and the timing of income return, the length of the term of the proposed investment, the liquidity and marketability of the proposed investment, the likelihood of inflation affecting the value of the proposed investment and the costs (including commissions, fees, charges and duties payable) of making the proposed investment.

Dated this 12th day of January 2011


Hon BARBARA PERRY MP
Minister for Local Government

Attachment 2

LOCAL GOVERNMENT (GENERAL) REGULATION 2021 - REG 212

Reports on council investments 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.
- (2) The report must be made up to the last day of the month immediately preceding the meeting.

Note: [Section 625](#) of [the Act](#) specifies the way in which a council may invest its surplus funds.

Attachment 3

LOCAL GOVERNMENT ACT 1993 - SECT 625

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 Gazettes No 152 of 24.11.2000, p 12041; No 94 of 29.7.2005, p 3977; No 97 of 15.8.2008, p 7638 and No 160 of 24.12.2008, p 13140.

(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 or an entity within the meaning of that section is not an investment for the purposes of this section.

Attachment 4



Circular No. 11-01
Date 17 February 2011
Doc ID. A232163

Contact Finance Policy Section
02 4428 4100
dlg@dlg.nsw.gov.au

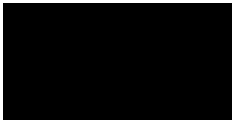
REVISED MINISTERIAL INVESTMENT ORDER

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.



Ross Woodward
Chief Executive, Local Government
A Division of the Department of Premier and Cabinet

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Attachment 5

Circular Details	Circular No 17-29 / 10 October 2017 / A524071
Previous Circular	10-11
Who should read this	Councillors / General Managers / Finance Staff
Contact	Policy Team – 02 4428 4100 or olg@olg.nsw.gov.au
Action required	Information

Investment Policy Guidelines – Interim TCorp Waiver

What's new or changing

- The NSW Government has provided a waiver to certain provisions within OLG's Investment Policy Guidelines to allow councils to engage NSW Treasury Corporation (TCorp) in the provision of investment advice.

What this will mean for your council

- Councils can now seek investment advice from TCorp as part of their financial and strategic planning processes.

Key points

- Section 5 of OLG's Investment Policy Guidelines requires councils to seek advice only from advisors licensed by the Australian Securities and Investments Commission, to obtain written confirmation that no actual or potential conflicts of interest exist, and to undertake separate reference checks of advisors.
- Those requirements have now been waived to the extent that councils wish to engage TCorp to provide advice about investments.
- The waiver applies only to TCorp and recognises its unique position as a public sector financial services provider. TCorp has in place a robust Conflicts Management Policy, which will apply to any advisory services provided to councils, and is accountable to NSW Treasury.
- Councils are reminded of their fiduciary responsibility when investing, and should exercise the care, diligence and skill that a prudent person would exercise in managing the affairs of other persons.
- OLG will undertake a broader review and update of the Ministerial Investment Order and Investment Guidelines in the coming months. OLG will consult with councils as part of that process.

Where to go for further information

- The Investment Policy Guidelines are available from the 'Resources' page of OLG's website at www.olg.nsw.gov.au.



Tim Hurst
Acting Chief Executive

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