TWEED SHIRE COUNCIL

# Investment

**Version 1.3**

**For Adoption by Council**
**at its meeting on**
**Tuesday 16 June 2009**
**Minute No: XX**

| | |
|---|---|
| Division: | Technology & Corporate Services |
| Section | Financial Services |
| File Reference: | |
| Historical Reference: | **1.2 Adopted 11 March 2008**<br>1.1 Adopted 13 November 2007<br>1.0 Adopted 19 October 2005 |

THIS PAGE IS BLANK

THIS PAGE IS BLANK

# Investment

## Contents



**Attachments: Schedules 1 to 5**

## 1) Policy Objective

To provide a framework to help Council optimise its return on investment of surplus funds in a prudent and measurable manner. Specifically:

- Achieve or exceed budgeted investment revenue while preserving Council's capital.
- Establishment of Risk Management Guidelines based upon credit rating, limited exposure to individual institutions and term to maturity limits.
- Use of appropriate benchmark for investment performance measurement.
- The use of investment types which comply with Legislative Requirements including the revised Investment Order dated 31 July 2008.

## 2) Legislative Requirements

- Local Government Act 1993, Section 412 & 625.
- Local Government Act 1993 – Order (of the Minister) pursuant to section 625 of the Local Government Act 1993.
- 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 Local Government Circulars.

  Refer to Schedule 3 for extracts of legislation.

## 3) Risk Management Guidelines

Investments obtained are to have regard to with six key criteria relating to:

i) **Preservation of Capital:** the requirement for preventing losses in an investment portfolio's total value, inclusive of both principal and income.

ii) **Diversification/Credit Risk Guidelines:** limit overall credit exposure of the portfolio.

iii) **Market Risk:** the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices

iv) **Counterparty Credit Framework:** limit exposure to individual counterparties/institutions.

v) **Maturity Framework:** limits based upon maturity of securities.

vi) **Leveraging Risk:** the magnification of an investor's risk and return that occurs when the investor takes on financial leverage through an investment product.

## 4) Diversification/Credit Risk Guidelines

To control the credit quality on the entire portfolio, the following credit framework limits the percentage of the portfolio exposed to any particular credit rating category (refer to Schedule 2 for rating definitions):

| Overall Portfolio Credit Limits | | | |
|---|---|---|---|
| **Long-Term Credit Ratings** | **Short-Term Credit Ratings** | **Direct Investments Maximum** | **Managed Funds Maximum** |
| AAA Category | A-1+ | 100% | 100% |
| AA Category | A-1 | 100% | 100% |
| A Category or below | A-2 | 60% | 80% |
| BBB Category or below | A-3 | 20% | - |
| Unrated | Unrated | 10% | 10% |

Note: Percentage limits are based upon Council's average core portfolio balance

## 5) Authorised Investments

Counterparty Credit Framework

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

| Individual Counterparty Limits | | | |
|---|---|---|---|
| **Long-Term Credit Ratings** | **Short-Term Credit Ratings** | **Direct Investments Maximum** | **Managed Funds Maximum** |
| AAA Category | A-1+ | 25% | 50% |
| AA Category | A-1 | 20% | 45% |
| A Category or below | A-2 | 15% | 40% |
| BBB Category or below | A-3 | 10% | - |
| Unrated | Unrated | 5% | 10% |

- Investments with counterparties below A Category (Long Term) and below A-1 (Short Term) are to be restricted to **Authorised Deposit Taking Institutions** (ADIs = banks, building societies and credit unions) regulated by, and subject to the prudential standards of, the Australian Prudential Regulation Authority (APRA).

- Investments with the non-rated LGFS and NSW T-Corp will be regarded in terms of the respective investments' "shadow rating" as advised by those institutions.

- The short-term credit rating limit will apply in the case of discrepancies between short and long-term ratings.

- In the event that a credit rating of a security or of the company/body issuing the security falls below the required minimum, as set out in the Minister's Order, Council will make all necessary arrangements to withdraw deposits as soon as practical.

- Percentage limits are based upon Council's average core portfolio balance.

- All investments must be denominated in Australian dollars.

## 6) Term to Maturity Framework

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

| Overall Portfolio Term to Maturity Limits | |
|---|---|
| **Portfolio % <1 year** | 100% max; 40% min |
| **Portfolio % >1 year** | 60% |
| **Portfolio % >3 years** | 35% |
| **Portfolio % =5 years** | 25% |

- To provide adequate liquidity all tradeable securities purchased will have, subject to market conditions, the ability to be liquidated within five working days.

- Percentage limits are based upon Council's average core portfolio balance.
- The term to maturity of any of Council's investments may range from "at call" to five (5) years at final legal maturity.

## 7) Performance Benchmark

The performance benchmark for Tweed Shire Council's investment portfolio is the industry standard UBS 90 day Bank Bill Index.

## 8) Investment Strategy

An Investment Strategy will run in conjunction with the investment policy. The Strategy will be formulated annually with quarterly reviews. The Strategy will outline:

- Council's cash flow expectations
- Optimal target allocation of investment types, credit rating exposure, and term to maturity exposure
- Appropriateness of overall investment types for Council's portfolio
- Determine the investment portfolio level for the forthcoming year
- Council will seek independent investment advice where necessary when preparing an investment policy
- Manufacturers and distributors of investment products are excluded from acting as investment advisors to Council
- The Investment Strategy will fully comply with legislative requirements and Council's investment policy.

## 9) Approved Investments

- Commonwealth/State/Territory Government security eg bonds
- Interest bearing deposits issued by an authorised deposit taking institution (ADI)
- Debentures issued by NSW Local Government
- Land mortgages (<60% of land value)
- Deposits with Local Government Investment Services Pty Limited
- Deposits with NSW Treasury &/or Investments in TCorp's Hour Glass Facility
- Investments grandfathered under the previous Ministerial Investment Order

## 10) Prohibited Investments

- 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
- The use of leveraging (borrowing) for investment
- Subordinated debt instruments

## 11) Review of Investment Policy

- The policy will be reviewed annually and submitted to Council if any amendments.
- Good corporate governance requires Council to arrange a review of its investments by an independent external entity to verify that:
    - (i) new investment types/products comply with Council's investment policy
    - (ii) the valuation of investments against set benchmarks are least monthly
    - (iii) investments have been placed in accordance with Council's investment policy

## Schedules

Schedule 1 – Investment Instrument Descriptions
Schedule 2 – Standard's & Poor's Ratings Description
Schedule 3 – Copies of Relevant Legislation
Schedule 4 – Summary of new Ministerial Investment Order changes
Schedule 5 – New Ministerial Investment Order dated 18 August 2008

## Schedule 1 - Investment Instrument Description

11am call deposits

Cash invested on an overnight basis. Funds can be recalled or re-invested before 11am on the following business day.

Term Deposit

Funds invested with a financial institution at a predetermined rate that applies to the duration of the deposit. The principal is held on deposit for a fixed term with interest payable at maturity. It is not a tradeable security and the investor is penalised when funds are prepaid.

Bank Bill

Bank-accepted bills are bills of exchange drawn by a company or individual (borrower) usually for periods between 30 and 180 days. The bill is accepted by the bank, which in turn accepts the liability for payment at maturity. It is a short-term investment issued at a discount to the face value and is of a very high credit standing, consequently trades at the lowest yields of all commercially issued bills.

Negotiable Certificate of Deposit (NCD)

These are short-term bearer securities issued by banks for up to 180-days. They are sold at a discount to face value and are highly liquid discount securities; representing the bank's debt, therefore trade at similar yields to bank bills. Creditworthiness of the bank will determine where the bank's NCD trades, relative to the BBSW.

Promissory Note (PN) / Commercial Paper (CP)

A negotiable instrument evidencing an unsecured obligation (promise) the issuer has to repay a certain amount of money at a future date, usually for up to six months. CP is a highly liquid discount security that is traded on a yield to maturity basis. To be marketable, a credit rating must be obtained from a ratings agency e.g. Standard & Poor's. Major issuers include industrial corporations, securitised vehicles and finance companies. It has a higher risk of default than a bank and hence trades at a higher yield.

Floating Rate Note (FRN)

The FRN is a longer-term debt security issued for a fixed period of time but has a variable (floating) coupon on a monthly or quarterly basis. The coupon reflects current interest rates, which is determined as a margin over the BBSW rate set. FRN's appeal to investors who are reluctant to commit funds to fixed interest investments for longer periods in times of fluctuating interest rates. Typical issuers are banks, corporates, financial institutions and securitised vehicles.

Residential Mortgage Backed Securities (RMBS)

RMBSs are specific type of securitised asset (investment products that convert an income stream of multiple receivables into a security paying regular coupon payments). RMBSs are backed by a pool of residential mortgages. These securities are structured into different classes with varying security characteristics. The majority of RMBS are “pass-through’s” where the cash flows (principal and interest) received from the underlying mortgages that make up the pool are passed directly through to the holders of the RMBS.

Asset Backed Securities (ABS)

Another form of securitised asset backed by assets other than residential mortgages. Such alternative assets include automobile loan receivables, commercial mortgages, equipment lease receivables, and credit card receivables. ABS can be either fixed or floating rate securities.

Fixed Interest Securities (Bonds)

Securities issued by Commonwealth, State or corporate institutions that pay a fixed rate of interest (coupon) and mature at a fixed point in time. The interest (coupon) is paid at regular intervals (semi-annually, but can be paid monthly, quarterly, or annually). These securities are generally issued for a period of greater than one year.

Collateralised Debt Obligations (CDO)

While nearly every CDO structure can be slightly different, a “plain vanilla” structure typically has 75 – 150 underlying entities (a range of global companies diversified by industry sector) with credit ratings ranging from BBB to AAA. The CDO itself is then split into various “tranches” each with different amounts of subordination (i.e. collateral) which results in the higher subordinated tranches receiving higher credit ratings from the rating agencies. When an underlying entity has a credit event a portion of the subordination is eroded. CDOs are highly leveraged instruments which can have large fluctuations in their mark-to-market valuations, and very possibly their credit rating, when an underlying entity has encountered a “credit event”, such as bankruptcy. Depending on the particular structure, the security can typically sustain between 6 - 8 credit events before the investor’s capital is in jeopardy.

Pooled Managed Funds

- **Sector Specific Funds**
  These funds invest in one particular asset sector. Council’s Cash Plus and Cash Enhanced Fund are examples of Sector Specific Funds as they predominately invest in a range of short dated cash-type securities with the aim of outperforming the UBS 90 day Bank Bill Index benchmark. They are designed to enhance returns on short-term holdings as an alternative to short-dated bank bill and term deposit portfolios. They provide easy access to holdings and can be redeemed within 24 to 48 hours.

- **Diversified Funds**
  These funds invest in a pre-determined range of asset classes including cash, fixed interest, property, and Australian & international shares. The weighting among the various asset classes will differ depending upon the type of diversified fund chosen, e.g. Conservative Funds (TCorp's Medium Term Growth) have a higher weighting in cash and fixed interest than Balanced Funds (TCorp's Long Term Growth) that have higher weightings in growth assets such as property and shares.

## Schedule 2 - Standard & Poor's 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 of 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.

Short-Term Obligation Ratings are:

**A-1**
This is the highest short-term category used by S&P. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.

**A-2**
A short-term obligation rated A-2 is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.

**A-3**
A short-term obligation rated A-3 exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

Long-Term Ratings are:

**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.

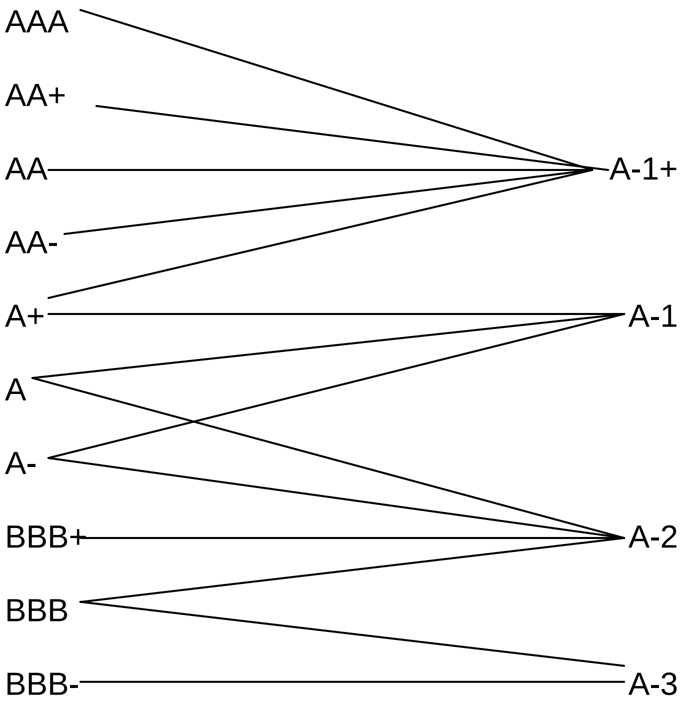
**Plus (+) or Minus (-):** The ratings from "AA" to "BBB" may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

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 indicated.

A 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 a 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.

## S & P Ratings Correlations

The standard correlation of short-term ratings with long-term ratings is shown below:



## Schedule 3 - Excerpts 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.

(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.

**Investment Guidelines**

**(These were initially introduced in "Forms of Investment - Minister's Order and Investment Guidelines" Circular to Councils no.00/16 dated 28/3/00. Points below are amended to reflect subsequent repeals/enactments of regulations referred to in the Guidelines).**

- Councils must comply with clause 212 of the Local Government (General) Regulation 2005 that provides for reporting on council investments by the responsible accounting officer.

- The Code of Accounting Practice and Financial Reporting require councils to maintain a separate record of money it has invested under section 625 of the Act. The record must specify:

(a) the source and the 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 to the money invested.

- A council or entity acting on its behalf should exercise the care, diligence and skill that a prudent person would exercise in investing council funds. A prudent person is expected to act with considerable duty of care, not as an average person would act, but as a wise, cautious and judicious person would. (Ref: Trustee Amendment (Discretionary Investments) Act 1997 section 14 A (2)).

- A council should develop an investment strategy as part of its overall financial plan. The strategy should, as a minimum consider the desirability of diversifying investments and the nature and risks associated with the investments. (For guidance see: Trustee Amendment (Discretionary Investments) Act 1997 section 14 c (1) "matters to which trustee is to have regard when exercising power of investment").

- A council should at least once in each year, review the performance (individually and as a whole) of council investments and review its investment strategy.

- An investment adviser or investment dealer acting on behalf of a council should be licensed by the Australian Securities and Investment Commission. Ref: www.asic.gov.au

- Where a council invests in banks; building societies and credit unions it should know that these institutions are regulated as authorised deposit taking institutions by the Australian Prudential Regulation Authority (APRA) under the Banking Act 1959 Ref. www.apra.gov.au Note, however, that whilst APRA has power to require financial institutions to observe prudential standards (such as appropriate capitalisation, liquidity and governance) and to intercede if it believes that depositors', policyholders' or members' interests are at risk, it provides no guarantee of the performance of the financial institution.

- Credit ratings are a guide or standard for an investor, which indicate the ability of a debt issuer or debt issue to meet the obligations of repayment of interest and principal. Credit rating agencies such as Moody's and Standard and Poor's make these independent assessments based on a certain set of market and non-market information. Ratings in no way guarantee the investment or protect an investor against loss. Prescribed ratings should not be misinterpreted by councils as an implicit guarantee of investments or entities that have such ratings. Even given this challenge, ratings provide the best independent information available.

- In the event that a credit rating of a security or the credit rating of the company or body issuing the security falls below the required minimum, as set out in the Minister's Order, a council must make all the necessary arrangements to withdraw the deposit as soon as practicable.

- Note that in choosing a NSW Treasury Corporation hour-glass investment the choice of the facility should be based on the nature of the underlying commitments for which the council is holding funds. For example, funds required in the short term must be invested with a short-term profile rather than with exposure to more volatile asset classes such as property and shares.

**The Trustee Amendment (Discretionary Investments) Act 1997 – 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,

(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.

**Local Government (General) Regulation 2005 - 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.

(2) 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.

**Schedule 4:**

Important changes to the revised Ministerial investment Order (refer Schedule 5) dated 31 July, 2008:

1. Principal and investment income are to be included in the definition of investment instruments. Listed after Item (g) in the new Ministerial Order.
2. Credit ratings are no longer the sole determinant of an investment's suitability. Removal of investments and specific credit ratings listed under items (k) and (l) of the previous Ministerial Order dated 15 July 2005. i.e. Item (k) allowed investment in “any securities which are issued by a body or company with a Moody's Investors Service Inc. credit rating of Aaa As1 Aa2 A1 or A2 or a Standard and Poor's Investors Service Inc. credit rating of AAA AA+ AA AA- A+ A A1+ or A1 or a Fitch Rating credit rating of AAA AA+ AA AA- A+ or A.” Item (l) included “any securities which are given a moody's Investors Service Inc credit rating of Aaa Aa1 Aa2 Aa3 A1 A2 or Prime-1 or a Standard and Poor's Investors Service Inc. credit rating of AAA AA+ AA AA- A+ or A.
3. Removal of item (g) in the previous Ministerial Order, which identified purchase of land as a form of investment. This removal does not preclude Council from acquiring land for the purpose of exercising any of its functions under s186(1) of the Local government Act 1993.
4. Amendment of item (a) of the Order to include “any public funds or securities issued or guaranteed by the Commonwealth, any State or Territory of the Commonwealth”
5. Restricting mortgage of land to first mortgages over the land with a Loan to Value ratio of no greater than 60%. Item (c.) of the new Ministerial Order.
6. Item (d) of the new Ministerial Order prohibits investment in subordinated obligations.
7. Investment in managed funds other than the NSW treasury Corporation Hour-glass investment facility or Local Government Financial Service is prohibited.
8. Transitional (grandfathering) arrangements allow Council to retain certain existing, non-complying investments until maturity.

## Schedule 5:

dlg | circular to councils

| | | | |
|---|---|---|---|
| Circular No. | 08-48 | Contact | Chris Duff |
| Date | 18 August 2008 | | 02 4428 4133 |
| Doc ID. | A153888 | | chris.duff@dlg.nsw.gov.au |

### REVISED MINISTERIAL INVESTMENT ORDER

The recent Review of NSW Local Government Investments ("the Cole Report") investigated the impact on councils that invested in structured financial products. The NSW Government adopted all the recommendations from the report.

The Minister for Local Government has now issued a revised Order pursuant to section 625 of the *Local Government Act 1993*. The Minister signed the amended Order on 31 July 2008 and it was gazetted on Friday 15 August 2008. It replaces the Order dated 15 July 2005. The revised Order is attached to this circular.

The changes to the Order include:

- including both principal and investment income in the definition of investment instruments
- removal of investments with specific credit ratings under items (k) and (l) of the previous Order. This decision will be reviewed after 31 December 2009
- removal of item (g) in the previous Order, which identified purchase of land as a form of investment. This removal does not preclude a council from acquiring land for the purpose of exercising any of its functions (s186(1) *Local Government Act 1993*)
- streamlining the wording around investing in public funds and securities issued by or guaranteed by the Commonwealth or Territory (part (a))
- restricting mortgages over land to first mortgages with a Loan to Value ratio of no greater than 60% (part (c))
- excluding subordinated obligations (part (d))
- improving the wording for investments and bills of exchange with authorised deposit-taking institutions (part (e))
- transitional arrangements regarding existing investments (grandfathering provisions).

The Department is preparing guidelines aimed at assisting councils in developing a comprehensive investment policy. The process will incorporate consultation with stakeholders. The guidelines will include issues raised in the Cole Report relating to conflicts of interest, such as product manufacturers and distributors being appointed as investment advisors, and the fiduciary responsibilities of councils and county councils in relation to investment activities.

Department of Local Government
5 O'Keefe Avenue NOWRA NSW 2541
Locked Bag 3015 NOWRA NSW 2541
T 02 4428 4100 F 02 4428 4199 TTY 02 4428 4209
E dlg@dlg.nsw.gov.au W www.dlg.nsw.gov.au ABN 99 567 863 195

When considering selling current investments that fall below the requirements of the revised Ministerial Investment Order (see Circular 06-70), councils should exercise due care and diligence. Councils should not solely rely on advice from the issuer of the investment and should seek independent financial advice. An investment adviser or dealer acting on behalf of a council should be licensed by the Australian Securities and Investment Commission (ASIC) (www.asic.gov.au).

**Garry Payne AM**
**Director General**

## LOCAL GOVERNMENT ACT 1993 – INVESTMENT ORDER

(Relating to investments by councils)

**I, the Hon. Paul Lynch 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) mortgage of land in any State or Territory of the Commonwealth (restricted to first mortgages over land with a Loan to Value ratio of no greater than 60%);

(d) 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;

(e) 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;

(f) a deposit with the Local Government Financial Services Pty Ltd

(g) 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.**

<u>Transitional Arrangements</u>

(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 Order dated 15 July 2005, 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.

Dated this [illegible] day of [illegible] 2008 **Hon PAUL LYNCH MP**
**Minister for Local Government**