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Council Policy

Investment Policy 2025

Document Overview

Document Category	Council Policy
Policy Title	Investment Policy
Policy Statement	<i>Council's investment objective is to ensure funds that are surplus to Council's immediate requirements are invested within acceptable risk parameters to optimise interest income and the community's best interests, while ensuring the security of these funds.</i>
Date	12/03/2025
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Responsible Position	Chief Financial Officer
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Consultation	Arlo Investment Advisory Pty Ltd
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Initial Draft V9	12/03/2025

Purpose

The Investment Policy establishes the framework within which Council's cash and investment portfolio will be managed, monitored and reported on for the optimum investment of Council's funds. The policy has been established in compliance with section 625 of the Local Government Act 1993 and provides guidance for the investment of Council's funds. Consideration is to be given to the preservation of capital, liquidity and the return on investment.

The Policy outlines:

- Council funds covered by the Policy;
- Council's objectives for its investment portfolio;
- The process for making investments;
- The risks to be managed;
- Any constraints and prudential requirements in line with relevant legislation and regulations;
- The manner in which compliance with the Policy will be monitored and reported; and
- Appropriate benchmarks for each investment category.

Related Information

This Policy has been prepared to recognise the legislative requirements and obligations for the investment of Council's funds.

Council will comply with investment regulations, and directions of the Office of Local Government which will prevail in the event of inconsistencies with the adopted Policy. This document replaces any previous Investment Policy document adopted by Council. This Investment Policy will be reviewed at least annually in March each year, or when a change in either regulation or market conditions necessitate a review.

Council's Investment Strategy will run in conjunction with this Investment Policy.

Related Legislation

All investments are to comply with the following:

- Australian Accounting Standards;
- Local Government Act (1993);
- Local Government Code of Accounting Practice and Financial Reporting;
- Local Government (General) Regulation (2021);
- Ministerial Investment Order;
- Office of Local Government Circulars;
- Office of Local Government Investment Policy Guidelines;
- The Trustee Amendment (Discretionary Investments) Act (1997) – Section 14.

Scope

This Policy has been prepared to recognise the legislative requirements and obligations for investment of Council's funds. The Policy applies to Council employees with delegated authority to act upon Council's cash investments.

Policy

The objective of the Policy is to provide a framework for optimising the investment of Council's funds, ensuring the best possible return while considering risk tolerance, liquidity, and security. The key goals for the investment portfolio include:

- Compliance with relevant legislation, regulations, and best practice guidelines;
- Preservation of capital, prioritising the security and safeguarding of investments while managing credit and interest rate risks;
- Ensuring adequate liquidity to meet cash flow needs without incurring significant costs from unexpected sales;
- Maximising returns in line with the Council's risk tolerance, ensuring efficient investment terms.

Investments are managed to meet strategic goals, support short-term working capital needs, and fulfill operational requirements in line with the Council's long-term and annual plans.

1. Delegated Authorities and Investment Responsibilities

Authorities and investment responsibilities are defined within Council's Delegation Authority register. Authority for the implementation of the Investment Policy is delegated by Council to the Chief Executive Officer in accordance with the *Local Government Act 1993*.

The Chief Executive Officer has delegated authority to invest surplus funds as follows:

- Director Organisational Performance (DOP);
- Chief Financial Officer (CFO);
- other senior financial officers who have the requisite skills to undertake investment functions (as per the Delegations Register).

Officers with delegated authority are required to acknowledge they have received a copy of this Policy and understand their obligations in this role.

When determining surplus funds available for investments, Council's Revenue Section must reasonably determine that Council's general fund cash liquidity can meet cash flow requirements including water fund and sewer fund.

Council's Revenue Section prepares investment recommendations in accordance with this Policy and the Investment Strategy. To achieve the best value for Council's investments, recommendations will consider:

- credit risk;
- interest rate risk (expectations of movements in the official RBA cash rate);
- forecast cash requirements;

- alternative investments with comparable risk;
- liquidity and maturity profiles.

Where investing directly, Council shall demonstrate reasonable endeavors to ensure best execution, having regard to competing rates. Council will have regard to:

- the range of ADIs of acceptable quality;
- sources of deposits (treasury department direct, brokers, retail rates, branches, etc.) and tradeable securities (brokers, primary issuance and secondary market offers);
- relative value at various terms;
- the character and competing merits of managed funds (TCorpIM) and direct investments.

Two authorised signatories, with appropriate delegation limits, must approve each investment recommendation. Recommendations must be retained on file as a permanent record.

2. Prudent Person Standard

The investments will be managed with the care, diligence and skill that a prudent person (as derived by legislation, Trustees Act, and case law) 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.

3. 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 Chief Executive Officer. Independent advisors are also required to declare that they have no actual or perceived conflicts of interest, and receive no inducements in relation to Council's investments, unless otherwise declared and fully rebated.

4. Approved Investments

Investments are limited to those allowed by the most current Ministerial Investment Order that has been issued by the NSW Minister for Local Government.

5. Prohibited Investments

In accordance with the Ministerial Investment Order, this investment policy prohibits the following 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; and
- mortgage of land.

This policy also prohibits the use of leveraging (borrowing to invest) of an investment. However, nothing in

the policy shall prohibit the short-term investment of loan proceeds where the loan is raised for non-investments purposes and there is a delay prior to the expenditure of loan funds.

6. Liquidity Requirements

Liquidity refers to the minimum level of liquid funds available to finance day to day requirements. Cashflow must be monitored daily and Council will ensure that it has access to the required funds to meet liquidity needs.

7. Financial Planning and Cashflow Management

Funds that are surplus to Council's immediate cash requirements will be managed in accordance with the long, medium and short-term financial cash requirements.

Long term financial plans are developed to ensure the long-term financial sustainability of Council. These plans will incorporate forecasts of cash inflows and outflows to:

- estimate cash surpluses and shortages in future periods;
- identify the longer and medium term investment horizon for surplus funds.

Shorter term financial plans are used to predict funds availability and monitor the Council's cash management needs throughout the year. These cash flow models are monitored daily to facilitate informed investment decisions and to ensure that sufficient liquidity exists to satisfy Council's financial commitments.

In accordance with section 409 of the Local Government Act, money and property held in the Council's Consolidated fund may be applied towards any purpose allowed by the Act, however in accordance with subsection (3), money received for the specific purpose of water supply or sewer services may only be used for the specific purpose of water supply and sewer services. Accordingly, Council holds investments within its Investment Register separately for General fund, Water fund and Sewerage fund and must ensure that sufficient General fund operating cash is available to cover General fund, Water fund and Sewer fund requirements.

8. Measurement of Investment Performance

Investment performance includes both interest returns and any change in the underlying capital value of the investments.

Interim fluctuations of capital value are excluded from the monthly measurement of investment performance on the basis that:

- fixed investments have no mechanism for realising gains prior to maturity, and tradeable securities are held on a multi-year perspective – not actively traded (but maybe sold prior to maturity, if favourable or in case of an emergency to meet ongoing cash flow requirements);
- there is no certainty that these returns will be realised, until the point of maturity or sale of the asset and so they should not be spent;

- cash liquidity requirements are structured and managed to ensure that Council is not in a financial position that will require a forced sale of these assets.

Notwithstanding the above position, changes in capital value are relevant and the monthly investment report will therefore provide Council with indicative market valuations of each investment. In the event that the capital value of any investment becomes permanently impaired, or a capital loss or gain is actually realised (through disposal), the loss or gain of value will be recognised within that month's financial accounts.

9. Performance Benchmarks

The performance of each investment will be assessed against the benchmarks listed in the table below. It is Council's expectation that the performance of each investment will be greater than or equal to the applicable benchmark whilst taking into account its risks, liquidity and other benefits. Council will take due steps to ensure that any investment is executed at the best pricing reasonably possible.

Investment	Performance Benchmark	Time Horizon
Funds held in overnight accounts - 11 am Account including TCorpIM Short Term Income Fund, Cash Management Accounts.	AusBond Bank Bill Index (BBI)	3 months or less
Short dated bills, Term Deposits of appropriate remaining term, FRNs nearing maturity, TCorpIM Short Term Income.		3 months to 12 months
Term Deposits, FRNs with a maturity date between 1 and 2 Years.		1 to 2 years
FRNs, Bonds, Term deposits with a maturity date between 2 and 5 Years.		2 to 5 Years
TCorpIM Managed Funds (Diversified or growth assets).	Fund's Internal Benchmark	5+ Years (M/T Growth) 7+ Years (L/T Growth or other Growth)

Situations may arise where inadvertent breaches of limitations or thresholds occur, other than through the acquisition of investments. Examples include:

- amendments to regulatory directives or legislation;
- a credit rating downgrade;
- Changes in the total value of Council's investment portfolio or a credit rating downgrade can affect the threshold limits, potentially causing the portfolio to no longer meet its liquidity parameters.

As such, grandfathered investments should be allocated to the appropriate investment horizon based on their expected or average maturity date. These investments must be factored into the overall portfolio allocation. The decision to exit these investments depends on various criteria specific to the investments, including but not limited to:

- Returns expected over the remaining term;

- Fair values;
- Competing investment opportunities;
- Cost of holding;
- Liquidity and transaction costs;
- Outlook for future investment values; and
- Risk of defaulting payment.

In general, it is expected that professional advice will be sought before transacting in “grandfathered” investments. This policy does not presume disposal; however, the removal of an asset from the Minister’s Order would warrant a review of its suitability for retention.

10. Currency and Ownership

Investments must be in Australian Dollars and held under the name of Dubbo Regional Council, including when managed through a custodian, ensuring the Council retains beneficial ownership.

11. Portfolio Credit Rating Framework

Direct investments beyond government guaranteed deposits must have a credit rating, with the exception of a permitted allocation that are unrated as per the investment limit table.

The credit rating structure of individual investments and the total portfolio must comply with the maximum tenor as listed in the following table, which also applies differential tenor limits by rating:

Investment Class	Portfolio Limits	Counterparty Limit	Max Term
TCorpIM Short Term Income Fund	100%	100%	N/A
AAA Rated	100%	100%	N/A
AA+ to AA- Rated including the 4 major banks	100%	40%	5 years
A+ to A- Rated	60%	35%	5 years
BBB+ to BBB- Rated	35%	15%	5 years
Unrated ADIs	10%	5%	12 months

Standard & Poor’s (or equivalent Moody’s or Fitch) ratings attributed to each individual institution will be used to determine maximum holdings.

In the event of disagreement between two agencies as to the rating band (“split ratings”) Council shall use the lower of the ratings. Where more than two ratings exist, Council shall discard the lowest rating and then use the lower of the higher two ratings when assessing new purchases.

Credit ratings can apply to either products and institutions. However, this Policy requires the rating applicable to the institution responsible for the product (e.g. guarantor) to be taken as the relevant rating given this represents the underlying risk to Council. Rating criteria use the best applicable guide where an

investment is not explicitly rated. For example, the TCorpIM Term Income Fund is assessed based on the underlying investment mix. For some ADIs a rating may only be reflected by its parent's institution.

Notes:

Credit ratings must be monitored regularly by Council's appointed advisors to ensure ongoing compliance. Investments with credit ratings downgraded to an extent that they no longer comply will be divested as soon as practicable, in accordance with grandfathering under this Policy.

Credit risk investment parameters are based on credit rating bands as published by the Standard and Poor's credit rating agency. If not rated by Standard and Poor's, Moody's or Fitch ratings may be used instead.

12. Risk Management Guidelines

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

- Preservation of Capital – the requirement for preventing losses in the investment portfolio's total value;
- Credit Risk – The risk that a party or guarantor to a transaction will fail to fulfil its obligations. In the context of this document, it relates to the risk of loss due to the failure of an institution/entity with which an investment is held to pay the interest and/or repay the principal of an investment;
- Diversification – the requirement to place investments in a broad range of products so as not to be over exposed to a particular sector of the investment market;
- Liquidity Risk – the risk that Council is unable to redeem investments at a fair price within a timely period, and thereby Council incurs additional costs (or in the worst case is unable to execute its spending plans) either through investment in fixed term products, products with long redemption periods, or failure of the counterparty to honor intended liquidity terms;
- Market Risk – the risk that fair value or future cash flows will fluctuate due to changes in market prices, or benchmark returns will unexpectedly overtake the investment's return;
- Legal Risk – inability to enforce a contract, resulting in loss;
- Fidelity Risk – inadequate procedures and controls, resulting in fraud by internal or external parties;
- Maturity Risk – the risk relating to the length of term to maturity of the investment. The longer the term, the greater the length of exposure and risk to market volatilities; and
- Rollover Risk – the risk that income will not meet expectations or budgeted requirement because interest rates are lower than expected in future.

13. Safe Custody Arrangements

Where necessary, investments may be held in safe custody on Council's behalf, providing the following criteria are met:

- Council must retain beneficial ownership of all investments;
- Adequate documentation is provided, verifying the existence of the investments at inception, in regular statements and for audit;
- The Custodian conducts regular reconciliation of records with relevant registries and/or clearing

systems; and

- The Institution or Custodian recording and holding the assets will be:
 - The Custodian nominated by NSW TCorp for TCorpIM Funds
 - Austraclear;
 - An institution with an investment grade Standard and Poor's, Moody's or Fitch rating; or
 - An institution with adequate insurance, including professional indemnity insurance and other insurances considered prudent and appropriate to cover its liabilities under any agreement.

14. Investment Horizon Limits

Council's investment portfolio shall be structured around the time horizon of investment to ensure that liquidity and income requirements are met. "Horizon" represents the intended minimum term of the investment, which can be designated as shorter than the legal maturity in case of an expectation of earlier call or the intention to sell the investment. (Such a designation may have accounting implications which must be taken into account.)

Once the primary aim of liquidity is met, Council will ordinarily diversify its maturity profile as this will ordinarily be a low-risk method of obtaining additional return as well as reducing the risks to Council's income. However, Council always retains the flexibility to invest as short as required by cashflow requirements or the economic outlook.

The factors and/or information used by Council to determine minimum allocations to the shorter durations include:

- Council's liquidity requirements to cover both regular payments as well as sufficient buffer to cover reasonably foreseeable contingencies;
- Medium term financial plans and major capital expenditure forecasts;
- Known grants, asset sales or similar one-off inflows;
- Seasonal patterns to Council's surplus funds.

In addition to the term limits of investments based on rating (above), the aggregate portfolio should comply with the following:

Investment Horizon Description	Investment Horizon Maturity Date	Minimum Allocation	Maximum Allocation
Working capital funds	0-3 months	10%	100%
Short term funds	3-12 months	20%	100%
Short-Medium term funds	1-2 years	0%	70%
Medium term funds	2-5 years	0%	50%
Long term funds	5-10 years	0%	25%

[^]Council's Working Capital Funds are inclusive of NAB Professional Fund Account.

Within these broad ranges, Council relies upon assumptions of expected investment returns and market conditions that have been examined with its investment advisor.

15. Environmentally and Socially Responsible Investments

Ethical and socially responsible investments (SRIs) allow investors to consider their values by focusing on socially responsible practices. In addition to the usual risk assessment, investments can be considered in terms of environmental, social, and governance (ESG) factors. Several independent organisations have been established to evaluate and rank companies based on these criteria.

In accordance with legislative requirements and Investment Policy objectives, the Council considers investments in Ethical or Socially Responsible Investments, provided they meet all other investment criteria and the performance outlook does not disadvantage Council.

16. Investment Advisory

The Council's investment advisor is appointed by the Chief Executive Officer or Director Organisational Performance and must operate under a license issued by the Australian Securities and Investment Commission. The advisor must be independent and must confirm in writing that they have no actual or potential conflict of interest in relation to investment products being recommended and are free to choose the most appropriate product within the terms and conditions of the Investment Policy. 'Independence' includes receiving no commissions or other benefits in relation to the investments being recommended or reviewed, unless such remuneration is rebated 100% to Council, promptly.

17. Investment Strategy

An investment strategy will be implemented alongside the Investment Policy. It will be reviewed annually with an independent investment advisor. The strategy will cover.

- The Council's current cash flow projections and the effects of any deviations from the long-term liquidity goals.
- Market conditions and the corresponding actions, especially in relation to the positioning within the policy's limits.
- Expected returns, risk-reward factors, market cycle analysis, and associated risk constraints.
- Maximisation of suitable investments for Council's portfolio.

18. Recording of Investments

Documentary evidence must be retained for each investment, with the relevant details kept in the investment register. This evidence should establish the Council's legal title to the investment. Additionally, the Council will maintain a separate record of funds invested under section 625 of the Local Government Act 1993, in line with the criteria set out by the Local Government Code of Accounting Practice and Financial Reporting.

19. Reporting and Review

A monthly investment report will be provided to Council. The report will detail the investment portfolio in terms of holdings by maturity, returns generated for the portfolio compared to the AusBond Bank Bill

Index, and comparison with the budget. The monthly report will also confirm compliance of Council's investments within legislative and policy limits.

In accordance with the Local Government Code of Accounting Practice & Financial Reporting, Council will undertake at least an annual review of its Investment Policy and Investment Strategy.

If there are any significant changes to the Act, regulations, issued guidelines, or if the market changes to a degree that warrants an earlier examination, the Policy and/or Strategy will be reviewed and brought back to Council for its consideration.

20. Audit Oversight

Council's external auditors will review Council's investments as part of the Annual Financial Reports. This includes seeking independent certification from the relevant financial institutions (banks, fund managers, etc.) to confirm the balance of investments held on Council's behalf at the end of the financial year, and the adequacy of their internal control procedures.

Responsibilities

Position	Responsibility
Users	Financial Accounting Officer/Accounts Receivable Team Leader
Supervisors / Team Leaders / Coordinators	Revenue Accountant
Managers	Chief Financial Officer
Directors	Director Organisational Performance
Information Services	
People, Culture & Safety	

Definitions

To assist in interpretation, the following definitions apply:

Term	Definition
Authorised Deposit Taking Institutions (ADI)	These are either a bank, credit union or building society that is authorised under the Banking Act 1959 (Cth) to take deposits from customers. These institutions are monitored by the Government's financial regulator, the Australian Prudential Regulatory Authority (APRA).

Bank Bill Swap Rate (BBSW)	The average of mid-rate bank bills and is calculated daily. It is used as an independent reference. Floating rate securities are most commonly reset quarterly to the 90 day BBSW.
Bloomberg Ausbond Index	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 bank bills averaging 45 days which is calculated by portfolio of 90 day bank bills over a specified period.
Credit Risk	The risk that a party or guarantor will fail to fulfil its obligations. In the context of this document it relates to the risk of loss due to the failure of the institution/entity with which an investment is held to pay the interest and/or repay the principal of an investment.
Diversification	The requirement to place investments in a broad range of products and counterparties so as not to be over exposed to a particular sector of the investment market.
Floating Rate Note (FRN)	A medium to long term fixed interest investment where the coupon is a fixed margin ("coupon margin") over a benchmark, also described as a "floating rate". The benchmark is usually the BBSW and is reset at regular intervals – most commonly quarterly.
Grandfathered	Grandfathered investments are an investment that Council is eligible to retain, however the investment no longer meets the Investment Policy requirements due to changes in legislation, changes to Council's Investment Policy or a credit rating downgrade.
Interest Rate Risk	The risk that the fair value or future cash flow of an investment will fluctuate because of changes in market interest rates.
Investment Portfolio	The total pool of Council's cash and fixed income investments.
Liquidity Risk	The risk that Council runs out of cash, is unable to redeem the investments at a fair price within a timely period and thereby incurs additional costs (or, in the worst case, is unable to execute its spending plans) either due to its own liquidity management, or through changes in the liquidity profile of an investment.
Market Risk	The risk that fair value or future cash flows of an investment will fluctuate due to changes in market prices or benchmark returns will unexpectedly overtake the investment's return.
Maturity Risk	The risk relating to the length of term to maturity of the investment. The longer the term, the greater the length of exposure and risk to market volatilities from changes in interest rates, market conditions and deteriorating credit.

Monthly Investment Report	In accordance with Part 9, Division 5, Section 212 of the Local Government (General) Regulation 2021, Council is provided with a monthly investment report which list all investments held by Council at that point in time.
Official Cash Rate	The interest rate set by the Reserve Bank of Australia.
Prohibited Investments	Investment classes that have been prohibited by the Office of Local Government in its guidelines for NSW Local Government Investment Policy and Ministerial Investment Orders.
Preservation of Capital	An investment strategy with the primary goal of preventing losses in an investment portfolio's total value.
Prudent Person Standard	A legal standard restricting the investing and managing of a client's account to what a prudent person seeking reasonable income and preservation of capital might exercise for his or her own investment.
Rollover Risk	The risk that income will not meet expectations or budgeted requirements because future interest rates are lower than expected. As deposits and bank securities mature and need to be reinvested, margins may contract thereby resulting in a reduction of income over time.
Securities	For financial markets, the many types of financial instruments (i.e., documents) that are traded in financial markets (except derivatives & contracts), e.g. bonds and shares.
Term Deposits	Funds invested with a financial institution at a predetermined rate that applies for the duration of the deposit. The principal is held on deposit for a fixed term with interest payable at set periods during the term and/or on maturity. Increasingly banking regulation requires term deposits to be issued on "unbreakable" terms or, at a minimum, funds cannot be withdrawn for a minimum period of 31 days.
At-call Deposits	Cash invested on an overnight basis. Funds can be recalled or re-invested before 11am on the following business day.

Related Documents

Council's Investment Strategy will run in conjunction with this Investment Policy.

Document Control

Responsible Officer:	Chief Financial Officer
Division:	Organisational Performance
Prepared by:	Revenue Accountant
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Previous Cover



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