

# Investment Policy

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**Financial Operations**

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# 1. Objectives

Preservation of capital is the principal objective of the investment portfolio. Investments are to be placed in a manner that safeguards the investment portfolio. This includes managing credit and interest rate exposure risk within identified thresholds and parameters.

Other objectives include:

- to maximise the return to Council in line with all requirements of the policy;
- to comply with the legislative requirements and regulations relevant to the management of Council's investments;
- to ensure sufficient liquidity to meet all cash flow requirements
- to establish a framework for monitoring investments. Investments are expected to achieve a market average rate of return in line with Council's risk tolerance;
- to confirm delegations and other relevant governance matters in relation to Council's investments.

The Council is committed to financial sustainability and inter-generational equity. It recognises that borrowings can be an important source of funding for capital projects and that the full cost of some projects should not be borne entirely by present-day ratepayers, but contributed to by future ratepayers who will also benefit.

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# 2. Legislation

## 2.1. Legislative and regulatory references

All investments are to comply with the following:

- Local Government Act (1993) Section 625;
- Local Government (General) Regulation (2005) Clause 212;
- Ministerial Investment Order
- The Trustee Amendment (Discretionary Investments) Act(1997) – Section 14;
- Local Government Code of Accounting Practice and Financial Reporting;
- Australian Accounting Standards;
- Office of Local Government Investment Policy Guidelines; and
- Office of Local Government Circulars

## 2.2. Authorised Investments

All investments must be denominated in Australian Dollars. Authorised Investments are limited to those allowed by the Ministerial Investment Order and include:

- Commonwealth / State / Territory Government securities e.g. bonds; Interest bearing deposits / senior securities issued by an eligible ADI;
- Bills of Exchange, (< 200 days duration) guaranteed by an ADI;
- Debentures issued by a NSW Council under Local Government Act (1993);
- Investments with NSW Treasury Corporation (T-Corp) &/or Investments in a T-Corp managed funds.

### 2.3. Prohibited Investments

This investment policy prohibits the following types of investment:

- Derivative based instruments (e.g. Collateralised Debt Obligations - CDO).
- Principal only investments or securities that provide potentially nil or negative cash flow.
- 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

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## 3. Authority

### Delegated authority

Authority for implementation of the Investment Policy is delegated by Council to the General Manager in accordance with the Local Government Act (1993). The General Manager has in turn delegated the day-to-day management of Councils investment to those currently recorded in the Delegated Authority register.

Delegated officers are required to acknowledge they have received a copy of this policy and understand their obligations in this role when investing funds on behalf of Council in accordance with this policy.

Adequate controls are in place to safeguard Council’s assets, such as the separation of duties in relation to authorising and executing transactions through the requirement of two authorised signatories for each transaction.

Delgation Register	
Reference Number	FI030
Category	Finance
Sub-category	Accounting
Sub-delegation title	Investments
Sub-delegation detail	The position holder is delegated authority to implement the Council’s adopted Investment Policy and invest the Council’s money in accordance with section 625 of the Local Government Act 1993.
Delegated to: Position Title	Refer to latest Delegations of Authority register as published on Council’s website

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## 4. Risk management

### Risk management guidelines

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

#### Preservation of capital

The requirement for preventing losses in an investment portfolio's total value.

#### Interest rate risk

The sensitivity of the value of assets, liabilities and future cash flows to a change in interest rates.

#### Credit default 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 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 an investor is unable to redeem the investment at a fair price within a timely period thereby incurring additional costs.

#### Market risk

The risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices, or benchmark returns unexpectedly overtake the investment's return.

#### Maturity risk

The risk relating to the length of the term to maturity of the investment. The longer the term, the greater the length of exposure and the risk to market volatilities.

#### Rollover/Reinvestment risk

The risk that income will not meet expectations or budget because interest rates are lower than predicted in the future.

## 5. Capital security, liquidity and maturity

### 5.1. Credit quality limits

Credit guidelines to be adopted reference the Standard & Poors (S&P) ratings system criteria and format – however, references to the Minister’s Order also recognise Moody’s and Fitch Ratings and any of the three may be used where available.

Ratings in no way guarantee the investment or protect Council against investment losses. The prescribed ratings should not be misinterpreted as an implicit guarantee of investments or entities that have such ratings. Even given this challenge, ratings provide the best independent information available.

Since credit ratings cannot be considered a consistent indicator of risk across different investment types, to provide a more effective risk management framework, this policy sets different exposure and duration terms for different categories of investments.

The following table provides a comparison of the rating equivalents between the different rating agencies:

	S&P	Moody’s	Fitch
<b>Prime</b>	AAA	Aaa	AAA
<b>High Grade</b>	AA+	Aa1	AA+
	AA	Aa2	AA
	AA-	Aa3	AA-
<b>Upper Medium Grade</b>	A+	A1	A+
	A	A2	A
	A-	A3	A-
<b>Lower Medium Grade</b>	BBB+	Baa1	BBB+
	BBB	Baa2	BBB
	BBB-	Baa3	BBB-
<b>Non-Investment Grade Speculative</b>	BB+	Ba1	BB+
	BB	Ba2	BB
	BB-	Ba3	BB-
<b>Highly Speculative</b>	B+	B1	B+
	B	B2	B
	B-	B3	B-

To minimise risk and to maximise protection of capital, Council will only invest in Prime, High Grade and Upper Medium Grade investment classes.

All investments must have a S&P long term credit rating of A- or stronger. Council will not invest in any products with an S&P long term credit rating of BBB+ or lower.

The maximum holding limit in each rating category and the target credit quality weighting for Council’s portfolio shall be:

S&P Long Term Rating Range (or Moody’s / Finch equivalent)	Maximum Holding
AAA Category	100%
AA Category	100%
A Category	80%
BBB Category	0%

If any of Council’s investments are downgraded such that they no longer fall within these policy guidelines, they will be divested as soon as is practicable.

**5.2. Terms to maturity**

The term to maturity framework is structured around the cash requirements of the Council and the management of liquidity risk. The investment portfolio will diversify its maturity profile within the following term to maturity constraints.

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 to Medium Term Funds	1-2 years	0%	70%
Medium Term Funds	2-5 years	0%	50%
Long Term Funds	5-10 years	0%	25%

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## 6. Diversification

### Counterparty exposure

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

Individual Institution Limits	
S&P Long Term Rating Range (or Moody's / Finch equivalent)	Maximum Holding
AAA Category	40%
AA Category	40%
A Category	25%
BBB Category	0%

Percentage limits in the table refer to percentages of the total portfolio. It excludes any government guaranteed investments.

This table does not apply to any structured investment where it is not possible to identify a single counterparty exposure.

100% Commonwealth Government and Government-guaranteed deposits are included in the AAA category, but without any upper limit applying to the government as counterparty.

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## 7. Ethical Investments

### Fossil Fuel Companies

Where financial institutions are offering equivalent investment returns with the same credit rating, and the investment fits within the provisions of this Investment Policy, preference will be given to placing funds with institutions identified as not dealing with fossil fuel companies.

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## 8. Legal title

When a user of funds obtains finance from the provider of funds, the user must prepare a document that clearly defines the contractual arrangement that has been agreed. This is known as a "financial instrument". When Council enters into a financial instrument, it is important that the financial instrument clearly shows it is held in the name of Randwick City Council.

## Safe Custody arrangements

Investments may be held in safe custody on Council's behalf, as long as the following criteria are met:

- Council retains beneficial ownership of all investments.
- Adequate documentation is provided, verifying the existence of the investments.
- The Custodian conducts regular reconciliation of records with relevant registries and/or clearing systems.
- The Institution or Custodian recording and holding the assets will be:
  - Austraclear or;
  - An institution with an investment grade Standard and Poor's or 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.

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## 9. Benchmarks

### Performance Benchmarks

The performance of each investment will be assessed against the benchmarks listed in the following table.

Investment	Performance Benchmark	Time Horizon
11am Account, short dated bills, deposits issued by financial institutions of appropriate term	RBA Cash Rate	0-3 months
Term Deposits of appropriate remaining term, FRN's nearing maturity	AusBond Bank Bill Index (BBI)	3-12 months
Term Deposits with a maturity date between 1 and 2 years, FRN's.	AusBond Bank Bill Index (BBI)	1-2 years
FRN's, Bonds, Term Deposits with a maturity date between 2 and 5 years.	AusBond Bank Bill Index (BBI)	2-5 years
T-Corp Hour Glass Managed Funds	Fund's Internal Benchmark	3 years (Med Term) 5+ years (Long Term)

It is Council's expectation that the performance of each investment will be greater than or equal to the applicable benchmark by sufficient margin to justify the investment taking into account its risks, liquidity and other benefits of the investment.

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## 10. Monitoring and reporting

### Reporting & Reviewing Requirements (Accounting)

Documentary evidence must be held for each investment and details maintained in an investment register. The documentary evidence must provide Council legal title to the investment.

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

For audit purposes, certificates must be obtained from the banks/fund managers/custodian confirming the amounts of investment held on Council's behalf at 30 June each year and reconciled to the Investment Register.

A monthly report will be provided to Council. The report will detail the investment portfolio in terms of performance (i.e. investment income earned versus budget year to date and relevant performance benchmarks as outlined in this policy), percentage of holdings, maturity date and changes in market value and confirm compliance of Council's investments within legislative and policy limits.

Council will comply with appropriate accounting standards in valuing its investments and quantifying its investment returns.

In addition to recording investment income according to accounting standards, published reports may show a break-down of its duly calculated investment returns into realised and unrealised capital gains and losses, and interest.

Other relevant issues will be considered in line with relevant Australian Accounting Standards, such as discount or premium, designation as held-to-maturity or on a fair value basis, and impairment.

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## 11. Duties and responsibilities of the council officers

Council officers must act with the duty of care, skill, prudence and diligence that a prudent person would exercise when investing and managing their own funds. The "prudent person" principle is set out in section 14 of the Trustee Act.

### 11.1. 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 as soon as they arise.

## 11.2. Non-Financial Factors

When assessing an investment opportunity as part of the prudent person rule there will always be a number of factors, which are not easily quantifiable that should be considered. These factors may lead to accepting a lower rate of return on a particular investment. Such decisions should be documented with reasons to support the decision. This will ensure accountability and transparency and enable those reasons to be identified at a later date.

The highest rate should not always be accepted, but the investment which delivers the best value to Council, should be selected. This allows officers to include other factors when choosing an investment.

Factors which may be considered when choosing investments include:

- • Transaction costs
- • Ease of making transactions
- • Ability to switch out of the investment
- • Level of service from an institution
- • Benefit to local government
- • Liquidity terms
- • Reduced costs to other services

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## 12. Review of investment policy and investments

### 12.1. Annual review

The Code of Accounting Practice & Financial Reporting requires Council to review the Investment Policy annually or in the event of legislative change or as a result of significantly changed economic/market conditions.

The Investment Policy may also be changed as a result of other amendments that are to the advantage of the Council and in the spirit of this policy.

Any amendment to the Investment Policy must be by Council resolution.

### 12.2. Internal audit

Investment reports are sent to the internal audit committee for regular review.

## 12.3. External audit

Council's external auditor is required to review Council's investments as part of the audit of the Annual Financial Reports.

## 12.4. Investment Advisor

Council may use the services of a suitably qualified and experienced investment advisor for the purposes of achieving the objectives of this policy. The Council's investment advisor must be approved by Council and be licensed by the Australian Securities and Investment Commission.

The advisor must be independent and have 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 policy. This includes receiving no commissions or other benefit in relation to the investment being recommended or reviewed, except as fully rebated to Council.

Manufacturers and distributors of investment products are excluded from acting as investment advisors to Council.

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# 13. Borrowings

## 13.1. Borrowing considerations

Council may:

- borrow for capital projects identified in its adopted Resourcing Strategy; or
- borrow to fund income producing assets.

Council will:

- not borrow for operational purposes;
- borrow in accordance with the the Local Government Act 1993, the Minister for Local Government's Borrowing Order (Attachment F) and its borrowing limit reported to the Office of Local Government each financial year;
- not borrow for terms that exceed the expected economic life of the asset being funded; and
- ensure its borrowings are sustainable.

### Internal Borrowings

Funds can be used from internally restricted revenues as an internal loan in place of external borrowings. A repayment schedule to repay internal borrowings will be drafted to ensure repayments to internal reserves can be funded. All such borrowings must be approved by Council resolution and cannot be delegated.

## 13.2. Risk parameters

### Interest Rate Risk

The establishment of interest rate risk parameters has the objective of managing Council's exposure to movements in interest rates in order to:

- manage the total interest expense associated with Council's debt portfolio;
- manage variations in interest expense from year-to-year; and
- recognise Council's exposure to economic markets and maintain flexibility to take advantage of favourable interest rate movements and protect against unfavourable movements.

Council will, based on its assessment of market conditions and forecasts at the time of borrowing, use the following interest rate risk management instruments:

- Floating Rate Debt;
- Fixed Rate Debt; or
- A combination of Floating and Fixed Rate Debt.

### Liquidity/Funding Risk

Liquidity/Funding risk parameters focus on the ability of Council to raise new debt or refinance existing debt as required and will be managed by:

- ensuring debt maturity / re-negotiation dates are set to avoid a concentration of more than \$50 million falling due during a single financial year;
- commencing negotiation of funding requirements at least three months prior to the need to drawdown on a new loan facility or the maturity of an existing loan.

### Credit Risk

The credit quality of the institutions from which Council borrows is an important consideration in the management of potential financial impacts arising from a credit event.

To manage its credit risk, Council will only borrow from:

- banks licensed by APRA which have a minimum Standard & Poor's long term credit rating of 'A-' (or the Moody's or Fitch ratings equivalents)
- NSW Treasury Corporation
- Australian State or Federal Government agency.
- a formalised debenture arrangement with other NSW Councils.

## 13.3. Performance measurement

Council will manage its debt portfolio with a view to meeting the following performance measures:

- Debt Service Ratio – less than or equal to 20%
- Debt Service Cover Ratio – greater than 2x
- Interest Cover Ratio – greater than 4x

The above performance measures only apply while Council has borrowings in place. The performance measures will be reported to Council annually in conjunction with the Financial Statements.

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## A. Local Government Act 1993 – Section 625

### How may councils invest?

- (1) A council may invest money that is not, for the time being, required by the council for any other purpose.
- (2) Money may be invested only in a form of investment notified by order of the Minister published in the Gazette.

Note: See Gazette No 152 of 24.11.2000, p 12041.

- (3) An order of the Minister notifying a form of investment for the purposes of this section must not be made without the approval of the Treasurer.
- (4) The acquisition, in accordance with section 358, of a controlling interest in a corporation is not an investment for the purposes of this section.

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## B. Ministerial Investment Order

### 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 12<sup>th</sup> day of January 2011

  
Hon BARBARA PERRY MP  
Minister for Local Government

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## C. The Trustee Amendment (Discretionary Investments) Act 1997 - Sections 14A (2), 14C (1) & (2)

### Section 14A – Duties of trustee in respect of power of investment

- (1) This section has effect subject to the instrument (if any) creating the trust.
- (2) 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.

Note: Some Acts deem investments under the Acts to be investments that satisfy the prudent person test. See, for example, section 39 of the Public Authorities (Financial Arrangements) Act 1987.

- (3) A trustee must exercise a power of investment in accordance with any provision of the instrument (if any) creating the trust that is binding on the trustee and requires the obtaining of any consent or approval with respect to trust investments.
- (4) A trustee must, at least once in each year, review the performance (individually and as a whole) of trust investments.

### Section 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.
- (3) A trustee is to comply with this section unless expressly forbidden by the instrument (if any) creating the trust.

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## D. Local Government (General) Regulation 2005 – Clause 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.

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 (Attachment A)

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## E. Local Government Code of Accounting Practice and Financial Reporting

### Section 11.3.4

Councils must maintain a separate record of money it has invested under 625 of the LGA. The record must specify:

- (a) the source and 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 of the money invested.

### Section 11.3.5

Council must maintain an investment policy that complies with the Act and ensures *“it or its representatives exercise care, diligence and skill that a prudent person would exercise in investing council funds”*.

For an extensive list of matters a prudent person would be expected to consider, reference is made to Section 4 of the NSW Local Government Investments Best Practice Guide.

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## F. Ministerial Borrowing Order

### **Local Government Act 1993 – Borrowing Order** (Related to borrowings by Council)

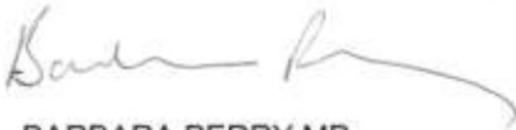
I, BARBARA PERRY MP, Minister for Local Government, in pursuance of section 624 of the Local Government Act 1993, hereby impose restrictions on borrowings by a council as follows:

A council shall not borrow from any source outside the Commonwealth of Australia nor in any other currency other than Australian currency.

#### Transitional Arrangements

Nothing in this Order affects any borrowings made before the date of this Order, which was made in compliance with the previous Ministerial Order dated 27 September 1993, and such borrowings are taken to be in compliance with this Order.

Dated this 13<sup>th</sup> day of May 2009



**BARBARA PERRY MP**  
Minister for Local Government

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## G. Definitions

### **Act**

Local Government Act, 1993.

### **Ausbond Bank Bill Index**

In 2014, Bloomberg acquired the UBS Australia Bond Indices. The benchmark index formerly referred to as UBSA BBI was rebranded as Ausbond Bank Bill Index.

Bloomberg calculates a daily Bank Bill Index representing the performance of a notional rolling parcel of bills averaging 45 days.

### **Austraclear**

Austraclear is a clearing and settlement facility, licensed by the Australian Securities and Investments Commission and subject to certain financial stability standards administered by the Reserve Bank of Australia.

### **Australian Prudential Regulation Authority - APRA**

APRA (Australian Prudential Regulation Authority) is the prudential regulator of the Australian financial services industry. APRA enforces prudential standards and practices (e.g. capital adequacy and other risk management issues) of banks, credit unions, building societies, insurance companies and friendly societies.

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

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

### **Bill of Exchange**

A bill of exchange is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a sum certain in money to or to the order of a specified person, or to bearer.

### **BBSW**

The Bank Bill Swap reference rate (BBSW) is the average of mid-rate bank-bill quote from brokers on the BBSW Panel. The BBSW is calculated daily. Floating rate securities are most commonly reset quarterly to the 90-day BBSW.

### **Council Funds**

Surplus monies that are invested by Council in accordance with section 625 of the Act

**Credit Rating**

Credit Rating refers to a short or long term summary assessment of the credit worthiness of a debt issuer or of a specific issue.

**Debenture**

A debenture is a document evidencing an acknowledgement of a debt, which a company has created for the purposes of raising capital. Debentures are issued by companies in return for medium and long term investment of funds by lenders.

**Debt Service Ratio**

$$\frac{\text{Cost of debt servicing (interest + principal)}}{\text{Total Revenue from continuing operations (excl. capital grants \& contributions)}}$$

Note: The denominator in this calculation excludes fair value adjustments, reversal of revaluation decrements, net gain on sale of assets and net share of interests in joint ventures

**Debt Service Cover Ratio**

$$\frac{\text{Operating Result before Interest \& Depreciation}}{\text{Cost of debt servicing (interest + principal)}}$$

**Direct Deposits**

Direct Deposits refer to investments made by Council (or on behalf of Council) directly with financial institutions.

**Fixed Rate Debt**

A loan structure with an interest rate that does not change for the term of the loan. This structure has the advantage of shielding Council from future interest rate increases and provides certainty around repayment commitments in Council’s budget.

**Floating Rate Debt**

A loan structure with an interest rate designed to move up and down by a set margin above an underlying index/benchmark.

**Floating Rate Note - FRN**

A Floating Rate Note (FRN) is 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.

**Interest Cover Ratio**

$$\frac{\text{Operating Result before Interest \& Depreciation}}{\text{Interest expense}}$$

**LGGR**

Local Government (General) Regulation 2005 (NSW).

**Minister's Order**

Refers to the Order of the Minister for Local Government relating to Investments made by Councils.

Last Minister's Order was dated 12 January 2011.

**Negotiable Certificate of Deposit - NCD**

Is a short term investment in an underlying security being a negotiable certificate of deposit (NCD) where the term of the security is usually for a period of 185 days or less (sometimes up to 2 years). NCDs are generally discount securities, meaning they are issued and on-sold to investors at a discount to their face value.

**OLG**

NSW Office of Local Government, Department of Premier and Cabinet

**Responsible Accounting Officer - RAO**

Responsible Accounting Officer of a council means a member of the staff of the council designated by the General Manager, or if no such member has been designated, the General Manager. (LGGR, clause 196)

**T-Corp**

New South Wales Treasury Corporation.

The *Treasury Corporation Act 1983* establishes New South Wales Treasury Corporation ("TCorp") as the central financing authority for the New South Wales public sector. Under this act, TCorp's principal objective is "to provide financial services for, or for the benefit of, the New South Wales government, public authorities and other public bodies".

**Major Banks**

The ADI deposits or senior guaranteed principal and interest ADI securities issued by the major Australian banking groups being ANZ, CBA, NAB and Westpac, including ADI subsidiaries whether or not explicitly guaranteed and brands (such as BankWest).

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