ATTACHMENT A – LOCAL GOVERNMENT ACT

LOCAL GOVERNMENT ACT 1993 – SECTION 625

625 How may councils invest?

(1) A council may invest money that is not, for the time being, required by the council for any other purpose.

(2) Money may be invested only in a form of investment notified by order of the Minister published in the Gazette.

Editorial note**.** See Gazettes No 152 of 24.11.2000, p 12041; No 94 of 29.7.2005, p 3977 and No 97 of 15.8.2008, p 7638.

(3) An order of the Minister notifying a form of investment for the purposes of this section must not be made without the approval of the Treasurer.

(4) The acquisition, in accordance with section 358, of a controlling interest in a corporation or an entity within the meaning of that section is not an investment for the purposes of this section.

ATTACHMENT B – 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 12th day of January 2011

Hon BARBARA PERRY MP
Minister for Local Government

ATTACHMENT C – LOCAL GOVERNMENT (GENERAL) REGULATION

LOCAL GOVERNMENT (GENERAL) REGULATION 2005 – CLAUSE 212

212 Reports on council investments

(1) The responsible accounting officer of the council:

(a) must provide the council with a written report (setting out details of all money that the council has invested under section 625 of the Act) to be presented:

(i) if only one ordinary meeting of the council is held in a month, at that meeting, or

(ii) if more than one such meeting is held in a month, at whichever of those meetings the council by resolution determines, and

(b) must include in the report a certificate as to whether or not the investment has been made in accordance with the Act, the regulations and the Council's investment policies.

(2) The report must be made up to the last day of the month immediately preceding the meeting.

Note. Section 625 of the Act specifies the way in which a council may invest its surplus funds.

ATTACHMENT D – THE TRUSTEE ACT

THE TRUSTEE ACT 1925 SECTIONS 14A (2), 14C (1) & (2)

14 Powers of investment

A trustee may, unless expressly forbidden by the instrument (if any) creating the trust:

(a) invest trust funds in any form of investment, and

(b) at any time vary any investment.

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.

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.

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.

ATTACHMENT E – INVESTMENT INSTRUMENT DESCRIPTION

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.

CALL DEPOSITS

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

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.

FLOATING RATE NOTE/BOND (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. FRNs 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. Only Senior FRNs issued by an Australian Authorised Deposit Taking Institution such as a bank, credit union or building society are an eligible form of FRN investment.

HOUR-GLASS INVESTMENT FACILITY OF THE NEW SOUTH WALES TREASURY CORPORATION

The current ministerial order dated 12 January 2011 allows investments in NSW Treasury Corp (TCorp) Hourglass Facilities. The hourglass facilities are now referred to by TCorp as TCorpIM Core Funds and consists of Cash and Growth Funds.

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.

POOLED MANAGED FUNDS

Sector Specific Funds

These funds invest in one particular asset sector. A Cash Management Fund is an example of Sector Specific Funds as they predominately invest in the single asset sector of fixed/floating income 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 are usually redeemable within 24 to 48 hours.

These types of funds tend to have no fixed maturity date. Only funds managed by NSW Treasury Corporation are currently eligible pooled managed fund investments.

Diversified Funds

These funds invest in a range of asset classes including one or more of 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 (TCorpIM's Medium Term Growth) have a higher weighting in cash and fixed interest than Balanced Funds (TCorpIM's Long Term Growth) that have higher weightings in growth assets such as property and shares. Investments with higher potential returns involve higher potential risk. Likewise, investments with capital growth potential are typically more risky than those which offer stable income.

These types of funds tend to have no fixed maturity date. Only funds managed by NSW Treasury Corporation are currently eligible pooled managed fund investments.

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 set periods during the term and/or on maturity. It is not a tradeable security and the investor is penalised when funds are prepaid.

ATTACHMENT F – DEFINITIONS

AUTHORISED DEPOSIT TAKING INSTITUTIONS

ADIs (Authorised Deposit-taking Institutions) are financial institutions which are authorised under the Banking Act 1959 and are subject to the prudential standards set out in the Act and regulated by APRA.

AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY

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

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.

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 the specified person, or to the bearer.

CODE

Code means the *Local Government Code of Accounting Practice and Financial Reporting* published by the Division of Local Government (as in force from time to time).

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.

CREDIT RISK

Credit risk is the risk of loss to an investor 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.

DIRECT DEPOSITS

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

FITCH RATINGS (FITCH)

Fitch Ratings is a credit rating agency that assigns credit ratings to corporate issues based on the prospects of default.

GOVERNMENT GUARANTEE

A guarantee by the Australian Government to reimburse account holders the value of their investment up to $250,000 per Authorised Deposit-Taking Institution. This initiative was initially $1,000,000.

INVESTMENT PORTFOLIO

The total pool of Council’s invested funds.

MINISTER’S ORDER

Minister’s Order refers to the Order of the Minister for Local Government relating to Investments made by Councils dated 12 January 2011.

MOODY’S INVESTOR SERVICES (MOODY’S)

Moody’s Investor Services is a credit rating agency that assigns credit ratings to corporate issues based on the prospects of default.

PRUDENT PERSON STANDARD

Prudent person standard is 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.

RESPONSIBLE ACCOUNTING OFFICER

Responsible Accounting Officer (RAO) 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, then the General Manager.

STANDARD & POOR’S (S&P)

Standard & Poor’s is a credit rating agency that assigns credit ratings to corporate issues based on the prospects of default.

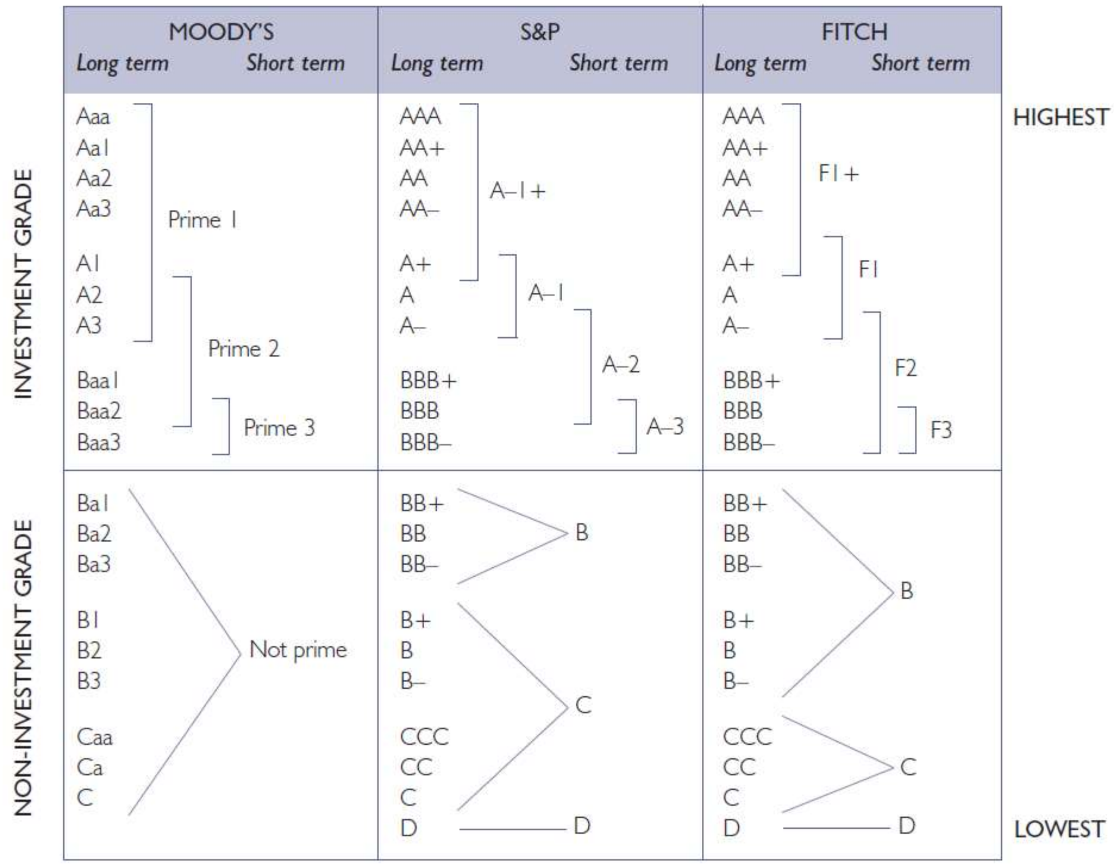
SURPLUS FUNDS

Surplus Funds refers to money that is not, for the time being, required by the council for any other purpose.

TCORP

New South Wales Treasury Corporation.

ATTACHMENT G – CREDIT RATING AGENCIES SCALE



https://www.treasurers.org/ACTmedia/ITCCMFcorpcreditguide.pdf

ATTACHMENT H – MOODY'S RATINGS DESCRIPTION

MOODY'S GLOBAL RATING SCALES

Ratings assigned on Moody's global long-term and short-term rating scales are forward-looking opinions of the relative credit risks of financial obligations issued by non-financial corporates, financial institutions, structured finance vehicles, project finance vehicles, and public sector entities. Moody's defines credit risk as the risk that an entity may not meet its contractual financial obligations as they come due and any estimated financial loss in the event of default or impairment. The contractual financial obligations addressed by Moody's ratings are those that call for, without regard to enforceability, the payment of an ascertainable amount, which may vary based upon standard sources of variation (e.g., floating interest rates), by an ascertainable date. Moody's rating addresses the issuer's ability to obtain cash sufficient to service the obligation, and its willingness to pay. Moody's ratings do not address non-standard sources of variation in the amount of the principal obligation (e.g., equity indexed), absent an express statement to the contrary in a press release accompanying an initial rating. Long-term ratings are assigned to issuers or obligations with an original maturity of one year or more and reflect both on the likelihood of a default or impairment on contractual financial obligations and the expected financial loss suffered in the event of default or impairment. Short-term ratings are assigned to obligations with an original maturity of thirteen months or less and reflect both on the likelihood of a default or impairment on contractual financial obligations and the expected financial loss suffered in the event of default or impairment. Moody's issues ratings at the issuer level and instrument level on both the long- term scale and the short-term scale. Typically, ratings are made publicly available although private and unpublished ratings may also be assigned.

Moody's differentiates structured finance ratings from fundamental ratings (i.e., ratings on nonfinancial corporate, financial institution, and public sector entities) on the global long-term scale by adding (sf) to all structured finance ratings. The addition of (sf) to structured finance ratings should eliminate any presumption that such ratings and fundamental ratings at the same letter grade level will behave the same. The (sf) indicator for structured finance security ratings indicates that otherwise similarly rated structured finance and fundamental securities may have different risk characteristics. Through its current methodologies, however, Moody's aspires to achieve broad expected equivalence in structured finance and fundamental rating performance when measured over a long period of time.

GLOBAL SHORT-TERM RATING SCALE:

- **P-1 Issuers** (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations.
- **P-2 Issuers** (or supporting institutions) rated Prime-2 have a strong ability to repay short-term debt obligations.
- **P-3 Issuers** (or supporting institutions) rated Prime-3 have an acceptable ability to repay short-term obligations.
- **NP Issuers** (or supporting institutions) rated Not Prime do not fall within any of the Prime rating categories.

GLOBAL LONG-TERM RATING SCALE:

- **Aaa** Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk.

- **Aa** Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.

- **A** Obligations rated A are judged to be upper-medium grade and are subject to low credit risk.

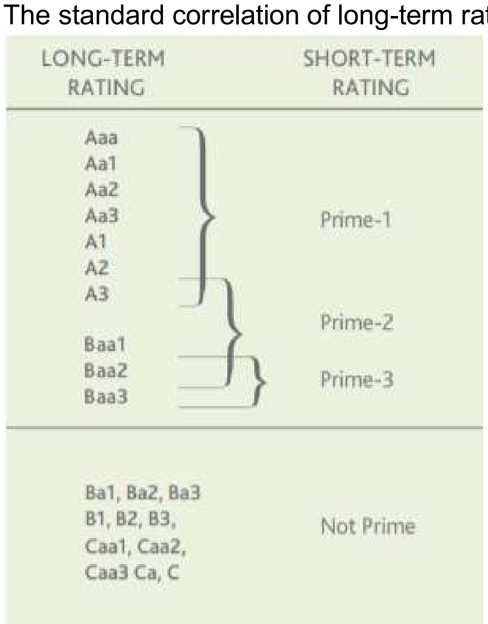
- **Baa** Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.
- **Ba** Obligations rated Ba are judged to be speculative and are subject to substantial credit risk.
- **B** Obligations rated B are considered speculative and are subject to high credit risk.
- **Caa** Obligations rated Caa are judged to be speculative of poor standing and are subject to very high credit risk.
- **Ca** Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
- **C** Obligations rated C are the lowest rated and are typically in default, with little prospect for recovery of principal or interest.

Note: Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category. Additionally, a "(hyb)" indicator is appended to all ratings of hybrid securities issued by banks, insurers, finance companies, and securities firms. *

*By their terms, hybrid securities allow for the omission of scheduled dividends, interest, or principal payments, which can potentially result in impairment if such an omission occurs. Hybrid securities may also be subject to contractually allowable write-downs of principal that could result in impairment. Together with the hybrid rid security indicator, the long-term obligation rating assigned to a hybrid security is an expression of the relative credit risk associated with that security.

Moody's Ratings Correlations

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



https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004