POLICY

Central Tablelands Water

# INVESTMENT AND RESTRICTED ASSETS POLICY

# DOCUMENT CONTROL

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|---|---|---|---|---|---|
| Document Title | | Investment and Restricted Assets Policy | | | |
| Policy Number | | CTW-PR007 | | | |
| Responsible Officer | | Executive Management Accountant | | | |
| Reviewed by | | General Manager and Executive Management Accountant | | | |
| Date Adopted | | 17 June 2026 | | | |
| Adopted by | | Council | | | |
| Review Due Date | | June 2027 | | | |
| Revision Number | | 6 | | | |
| **Previous Versions** | **Date** | **Description of Amendments** | **Author** | **Review/ Sign Off** | **Minute No: (if relevant)** |
| 1 | 12/10/15 | | | | 16/079 |
| 2 | 12/02/20 | | DFCS | | 20/011 |
| 3 | 15/02/23 | | DFCS | | 23/009 |
| 4 | 16/10/24 | | DFCS | | 24/098 |
| 5 | 29/11/25 | Updated delegations and minor changes | EMA | Council | 25/104 |
| 6 | 01/06/26 | Updated to extend maximum tenure of investments, incorporate requirements where investment balances change after an investment is placed, and incorporation of restricted assets | EMA | Council | 26/035 |
| | | | | | |

## PURPOSE

(a) To undertake investment of surplus funds, maximising earnings from authorised investments, whilst ensuring the security of Council Funds

(b) To ensure there is sufficient liquidity to meet all reasonably anticipated cash flow requirements, as and when they fall due, without incurring significant costs due to the unanticipated sale of an investment.

(c) To ensure that capital invested is preserved and invested in accord with Council's risk appetite.

(d) To ensure that all restricted funds are backed by cash or investments.

(e) To provide a framework for management of Council's restricted assets.

(f) To ensure Council preserves external restricted funds from unauthorised use.

## SCOPE

This Policy applies to all persons at Central Tablelands Water (CTW), including employees, volunteers, contractors, and consultants.

## POLICY STATEMENT

### Legislative Requirements

All investments are to be made in accordance with:

(a) Local Government Act 1993;

(b) Ministerial Investment Order;

(c) Trustee Act 1925;

(d) Local Government (General) Regulation 2005;

(e) Local Government Code of Accounting Practice and Financial Reporting;

(f) Australian Accounting Standards; and

(g) Office of Local Government Circulars.

### Delegation of Authority

| Authorised Officer | Roles & Responsibilities | Value |
|---|---|---|
| General Manager | Authority to approve the investment of surplus funds and authority to delegate this function. | Up to $1 million |
| Executive Management Accountant | Authority to approve investment of surplus funds. | Up to $1 million |
| Executive Manager Corporate Services | Authority to approve investment of surplus funds. | Up to $1 million |
| Executive Manager Operations & Technical Services | Authority to approve investment of surplus funds. | Up to $1 million |
| Finance Officer | Authority to recommend and set up investment of surplus funds. | |

## Authorised 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 dated 12 January 2011.

Council shall 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; and

(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 principal and investment income (interest).

## Prudent Person Standard

The investments shall be managed with care, diligence, and skill that a prudent person would exercise. As trustees of public monies, officers are to manage Council's investment portfolios to safeguard the portfolio in accordance with the spirit of this Investment Policy, and not for speculative purposes.

## Ethics and Conflicts of Interest

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

If engaged, independent advisors shall also be required to declare that they have no actual or perceived conflicts of interest.

## Prohibited Investments

This Investment Policy prohibits any investment carried out for speculative purposes including:

(a) Derivative based instruments;

(b) Principal only investments or securities that provide potentially nil or negative cash flow;

(c) Stand-alone securities issued that have underlying futures, options, forward contracts and swaps of any kind; and

(d) The use of leveraging (borrowing to invest) of any investment.

## Risk Management Guidelines

Investments are to comply with the following criteria:

(a) Preservation and return of capital - all reasonable measures are to be taken to prevent losses in portfolio value;

(b) All investments will be made with Authorised Deposit Institutions (ADI). These consist of all financial institutions approved and regulated by the Australian Prudential Regulatory Authority (APRA)

(c) Institutional Diversification:

  a. Not less than three (3) quotations shall be obtained from authorised institutions when an investment is proposed, with an investment time period of a minimum of 3 months to a maximum of 2 years.

  b. Direct investments, including cash at bank, shall not exceed 50% with any single ADI rated "A" or higher by Standard and Poors at any one time.

  c. Direct investments with any single ADI rated lower than "A" by Standard and Poors shall not exceed 40% at any one time.

  d. Direct investments with any single unrated ADI shall not exceed 30% at any one time.

(d) Maturity Risk: the investment portfolio is to be invested within the following maturity constraints:

| **Overall Portfolio Return to Maturity** | | |
|---|---|---|
| Portfolio % < 1 year | Min 50% | Max 100% |
| Portfolio % > 1 year | Min 0% | Max 50% |
| Portfolio % > 2 years | Min 0% | Max 25% |

(e) Market/Credit Risk: consideration shall be given to the risk that the fair value or the future cash flows of an investment will fluctuate due to changes in market prices, or the risk of failure to repay principal or pay interest of in investment.

(f) Liquidity Risk:

  (i) Matching investments with cash flow requirements.

  (ii) Ensure access is available within seven (7) days to at least $500,000 or 5% of value of total investments, whichever is greater.

(g) Counterparty Limits

The following counter party limits will apply under this policy:

| **Long Term Rating Range** | **Short Term Rating Range** | **Maximum Holding %** |
|---|---|---|
| AAA | A-1+ | 100 |
| AA | A-2 | 100 |
| A | A-2 | 80 |
| BBB | A-3 | 50 |
| Unrated | | 30 |

For the purposes of determining the limits pursuant to this policy, the sum of the cash, cash equivalence (call accounts) and investments held at a point in time shall be considered.

If any of Council's investment institutions are downgraded or policy limits are raised, such that they no longer fall within the investment policy limits, they will be divested as soon as practicable having regard to potential losses resulting from early redemption and subject to minimising any loss of capital that may arise from compliance with this provision.

Where growth in investments, resulting from strong investment returns, or the total value of all investments decreases, either causing an institutional Credit Framework limit to be exceeded, the exceeding investments may be retained until maturity. However, no further investment may be made in the institution (which has exceeded the limit) while the institution exceeds the limit. Such investments must be reviewed annually.

### Performance Benchmarks

The performance of the investment portfolio shall be assessed against the industry standard of the 90-day Bank Bill Swap Rate (BBSW) rate for all investments. **The objective of the investments is to be =/> the BBSW rate over a 12-month period.**

### Measurement

As Council holds term deposits only, the value of the investment will generally be its face value at the time of investment.

### Reporting and Responsibilities of Council Officers

(a) The Responsible Accounting Officer shall be responsible for reconciling the investment register monthly and ensuring sufficient records are maintained, including:

- (i) the source and amount of money invested;
- (ii) particulars of the security or form of investment in which the money was invested;
- (iii) the term of the investment, and
- (iv) if appropriate, the rate of interest to be paid, and the amount of money earned, in respect of money invested.

(b) A monthly report shall be provided to Council, detailing the investment portfolio in terms of performance, investment institution and amount of each investment.

(c) The report should also detail each average return percentage against the performance benchmark rates.

(d) For audit purposes, certificates must be obtained from financial institution confirming the amounts of investment held on the council's behalf at 30 June each year.

(e) The documentary evidence must provide Council legal title to the investment.

### Investment Advisor

Should council engage an investment advisor or finance brokers.

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

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

The finance broker must be licensed by the Australian Securities and Investment commission.

## Council's Restricted Assets

Council holds significant cash, cash equivalents and investments to meet current and future obligations. Council is subject to contractual conditions imposed by third parties and legislative obligations to hold and spend funds only for a specific purpose, these are external restrictions. Council may also establish internal cash restrictions; these allocations are a budget and risk management technique and are adopted by Council to cover future commitments where it is prudent to hold cash to meet those commitments or risks.

Typically, restrictions are established to allocate funds for Council to:

- meet legislative or contractual requirements
- fund Council's future projects and activities
- ensure funds are available for long-term requirements

Council must also hold an unrestricted cash buffer to cover all operational needs and to meet any unexpected or emergency costs at any point in time.

## Cash Management

Council has a legislative responsibility under section 409(3) of the Local Government Act 1993, to ensure that funds that are subject to an external restriction are only used for the specific purposes attached to the funding. Externally restricted funds cannot be used to fund the general operational expenses of the Council. Council will ensure external restrictions are always fully cash backed.

Cash balances vary daily and are influenced by the receipts and payments moving through Council's accounts. The management of cash liquidity to meet short-term and medium-term obligations as they arise will take precedence over the goal of ensuring that internal allocations are fully cash- backed at all times.

As such internal allocation balances are notional balances from an operational perspective during the financial year. Actual balances will be confirmed at 30 June each year, will be cash-backed and reported within the Financial Statements.

Council will maintain a minimum unrestricted cash balance equivalent to three months of estimated operational expenses (currently $500,000). Given the impact of timing differences on cash, cash equivalent and investment balances, the Executive Management Accountant will adjust the notional balance of the Infrastructure Fund internal cash restriction to ensure the unrestricted allocation is maintained.

## Reporting

Restriction balances, including unrestricted cash, are reported in Council's Annual Financial Statements and estimated quarterly as part of the Quarterly Budget Review Statement.

## Changes to Restrictions

### External Restrictions

External restrictions are automatically established when funds are received with legislative, contractual or funding agreement conditions.

No Council resolution is required to establish externally restricted reserves.

External restrictions cannot be closed or repurposed unless the original legislative or contractual restriction has expired or been fulfilled.

### Internal Cash Restrictions

Any new internal cash restriction will only be established on a Council resolution. Council must be clear about:

- The purpose of the restriction and the administration of its application
- How the restricted funds are to be accumulated
- How the restricted funds are to be spent
- Any anticipated dissolution date for the restriction

Any changes to internal cash restrictions, including amendments to the purpose or intention; contribution to; utilisation; or dissolution, will only occur following a Council resolution, with the exception of Employee Leave Entitlements as these are held against legislative requirements. A Council resolution regarding internal cash restrictions can be made at any time.

A review of all restrictions will be undertaken as part of the annual budget preparation and in preparation for the Annual Financial Statements. All reviews will be made based on the best use of those funds.

## Interest

Interest must be added to external cash restriction balances where required by legislation, e.g. on Section 64 Developer Contributions. The rate of interest is equal to the average rate of return on Council's investments for the applicable period (unless another rate or methodology is required by legislation).

Interest is not applicable on internal cash restrictions unless specified in the resolution of Council, including the justification, rate or methodology to be applied.

## Borrowings

### Borrowings from External Restrictions

The Local Government Act restrains and controls the way Council raises and uses money for its operations. Section 409(3) of the Local Government Act 1993 states:

a) money that has been received as a result of the levying of a special rate or charge may not be used otherwise than for the purpose for which the rate or charge was levied, and

b) money that is subject to the provisions of this or any other Act may be used only for that purpose, and

c) money that has been received from the Government or from a public authority by way of a specific purpose advance or grant may not, except with the consent of the Government or public authority, be used otherwise than for that specific purpose.

In reference to part (a) above, special rates or charges, Council may be able to utilise externally restricted funds by way of internal loan if it receives Ministerial approval to do so in accordance with subsections 410(3) and (4) of the Local Government Act.

Section 410 (3) of the Local Government Act states:

> Money that is not yet required for the purpose for which it was received may be lent (by way of internal loan) for use by the Council for any other purpose if, and only if, its use for that other purpose is approved by the Minister.

Section 410 (4) of the Local Government Act states:

> In granting such approval, the Minister must impose conditions as to the time within which the internal loan must be repaid and as to any additional amount, in the nature of interest, that is to be paid in connection with that loan.

In reference to parts (a) and (b) above, Council may be able to utilise externally restricted funds by way of an internal loan if it receives Ministerial approval (in the case of developer contributions), or approval from the Government or public authority providing the funding (in the case of specific purpose grant funding).

**Borrowings from Internal Cash Restrictions**
Council may borrow from internal cash restrictions following a resolution of Council.

The full impact of the borrowings must be disclosed in the Council resolution, and the resolution must set out:

- the reason for the borrowing
- the basis of calculating the amount of the borrowing
- the permitted use/s of the borrowed funds
- the internal cash restriction that will be borrowed from
- if borrowing cost (interest) is to be applied to the borrowing, then the interest rate to be used
- loan repayment period

A repayment schedule to repay internal borrowings will be drafted to ensure repayments to internal cash restrictions can be funded.

## DEFINITIONS

| Term | Meaning |
|---|---|
| Restricted Assets or Cash Restrictions | Funds that cannot be used for general purposes as they are subject to an established obligation or a Council commitment expected to arise in future. |
| Internal Cash Restrictions or Internally Restricted Assets | Funds established by a resolution of Council towards a future obligation or commitment within the remit of Council. |
| External Restrictions or Externally Restricted Assets | Funds that are subject to external legislative or contractual obligations. |
| Unrestricted Assets or Unrestricted Cash | Funds that are not subject to any internal or external restriction and can be used for any general purpose. |

## List of Restricted Assets

### External Restrictions

| Developer Contributions | |
|---|---|
| Purpose | The provision of infrastructure required due to development, applied to expenditure associated with works identified in the Development Servicing Plan and as permitted by the legislation governing the Plan. |
| Source of Funds | Capital contributions under the Development Servicing Plan |
| **Specific Purpose Grants and Other Contributions** | |
| Purpose | Income received from a third party for a specific project or purpose, subject to contractual obligations or other legislation not restricted elsewhere, is restricted for the approved purpose.<br>*Funds are released from this restriction as the project or specific purpose obligations are met. |
| Source of Funds | Grants and contributions received and not spent |

### Internal Cash Restrictions

| Employee Leave Entitlements | |
|---|---|
| Purpose | A partial cash reserve to fund employee leave liabilities accrued over an employee's tenure and payable in service or on termination. Amounts held are based on applicable industry benchmarks. |
| Source of Funds | Operational income |
| **Infrastructure Fund** | |
| Purpose | A partial cash reserve to fund the acquisition, construction and renewal of water infrastructure assets. This fund is the primary fund used to balance any surplus or deficit cash. |
| Source of Funds | Operational income |
| **Plant and Vehicle Replacement** | |
| Purpose | A partial cash reserve to fund the acquisition, of plant and vehicles. |
| Source of Funds | Operational income |
| **IT Fund** | |
| Purpose | A cash reserve to fund the management of critical IT requirements. |
| Source of Funds | Operational income |

| **Drought Fund** | |
|---|---|
| Purpose | Financial capacity to manage income reduction during times of drought to protect funding of operations, capital and asset renewal. |
| Source of Funds | Surplus operational income |
| **Consultancy Fund** | |
| Purpose | A partial cash reserve to fund unplanned works to prepare applications for grant funding or to contribute to investigations in respect to regional water matters. |
| Source of Funds | Operational income |

## POLICY REVIEW

This policy will be reviewed annually if needed, with reference to any relevant legislation, best practice guides, or other related factors.

## REFERENCES

- Local Government Act 1993
- Local Government Code of Accounting Practice and Financial Reporting:
  - Australian Accounting Standards
  - Office of Local Government Circulars

## VARIATION

Council reserves the right to review, vary or revoke this policy.