



POLICY MANUAL

Policy title:	INVESTMENTS
Policy number:	Policy 1.5.4
Objective:	To preserve invested capital while gaining the most advantageous rate of return with an acceptable level of risk.
Link to community vision/service:	Leadership and participation – E4
Program Area:	Finance
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General

Purpose of Document

The purpose of this document is to establish the framework within which investment principles are to apply to the investment of Council funds. It details:

- Council Funds covered by this Investment Policy
- Council's objectives for its investment portfolio/s
- how investments are to be undertaken
- the applicable risks to be managed
- any constraints and other prudential requirements to apply to the investments of Funds having regard to the applicable legislation and regulations governing Council investment
- the manner in which compliance with the Policy & Strategy will be monitored and reported; and
- appropriate benchmarks for each category of investments.

Related Documents

This statement has been prepared to recognise the legislative requirements and obligations for the investment of Council's funds. The legislative requirements are listed in the Investment Policy adopted by Council from time to time.

Council will comply with investment regulations and directions of the Office of Local Government – where inconsistent, the Policy is to be read as subject to these.

An Investment Strategy document will be updated from time to time, reflecting market conditions and outlining the best way to achieve the Investment Policy's objectives.

Effective Date

Once approved by Council, this document replaces any previous Investment Policy document. It will be reviewed at regular annual intervals going forward, or when either change in regulation or market conditions necessitate a review.

Definitions

Act	Local Government Act, 1993.
ADI	Authorised Deposit-Taking Institutions (ADI) are corporations that are authorised under the Banking Act 1959 (Cwth) to take deposits from customers.
Bill of Exchange	The 2011 Investment Order state that councils may invest in a Bill of Exchange which confers on the holder a right of recourse to an authorised deposit-taking institution (ADI). This means the bill must either be issued by an ADI or issued by another party and accepted by an ADI. An ADI issuer would not need to guarantee its own paper (bills) and the practice for ADI's that add their name to bills of exchange is known as 'acceptance'.
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.

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.
FRN	A Floating Rate Note (FRN) is a security that pays a coupon linked to a variable benchmark. In Australia most FRN's pay a coupon set as a fixed margin over the Bank Bill Swap Rate which is the market benchmark three month interbank rate.
IP	The Investment Policy provides the general investment goals and objectives of Council and describes the strategies that must be employed to meet these objectives. Specific information on matters such as asset allocation. Risk tolerance, and liquidity requirements are also included in the Investment Strategy.
LGGR	Local Government (General) Regulation 2005 (NSW).
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 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 & Cabinet, its predecessors, and successors.
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)
TCorp, TCorpIM	New South Wales Treasury Corporation and its investment management division.
Bloomberg Ausbond Bank Bill Index	The Bloomberg Ausbond Bank Bill Index is 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.

Investment Policy

Objectives

To provide a framework for the investing of Council's funds at the most favourable return available to it at the time whilst having due consideration of risk and security for that investment type and ensuring that its liquidity requirements are being met while exercising the power to invest, consideration is to be given to the preservation of capital, liquidity, and the return of investment.

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

Investments should be allocated to ensure there is sufficient liquidity to meet all reasonably anticipated cash flow requirements, as and when they fall due, without incurring the risk of significant costs due to the unanticipated sale of an investment.

Investments are expected to achieve a market average rate of return in line with Council's Risk Management Guidelines.

In conjunction with the above objectives, Council has determined to proactively move toward a portfolio consisting of Socially Responsible/Green investments.

Legislative and Regulatory Requirements

All investments are to comply with the following:

- Local Government Act 1993 - Section 412 & 625
- Local Government Act 1993 – Order (of the Minister) Circular No: 11/01 gazetted on 17 February 2011, or most current
- The Trustee Amendment (Discretionary Investments) Act 1997 – Sections 14A(2), 14C(1) & (2)
- Local Government (General) Regulation 2005 – Clause 212
- Australian Accounting Standards
- Office of Local Government Investment Policy Guidelines; and
- Office of Local Government Circulars.

Delegation of Authority

Authority for the implementation of the Investment Policy is delegated by Council to the General Manager in accordance with the *Local Government Act 1993*.

The General Manager may in turn delegate the day-to-day management of Council's investment to the Responsible Accounting Officer or senior staff, subject to regular reviews.

Officers with delegated authority to manage Council's investments shall be recorded and required to acknowledge they have received a copy of this policy and understand their obligations in this role.

Prudent Person Standard

The investment will be managed with the 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 with delegated authority to manage Council's investments 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.

Independent advisors are also required to declare that they have no actual or perceived conflicts of interest.

Approved Investments

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

The current Ministerial Investment Order limits investments to the following:

- Commonwealth/State/Territory Government securities e.g., bonds
- Interest bearing deposits or senior bonds issued by an authorised deposit taking institution (ADI)
- Bills of exchange, (<200 days duration), guaranteed by an authorised deposit taking institution (ADI)
- Debentures issued by NSW Local Government; and
- Deposits with NSW Treasury &/or Investments in NSW Treasury Corporation's Investment Management Funds - currently the Cash Fund and Short Term Income Fund.

Prohibited Investments

This investment policy prohibits but is not limited to any investment carried out for speculative purposes, including;

- Derivative based instruments
- Principal only investments or securities that provide potentially nil or negative cash flow; and
- Stand-alone 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. However, nothing in the Policy shall prohibit the short-term investment of loan proceeds where the loan is raised for non-investment purposes and there is a delay prior to the spending occurring.

Risk Management Guidelines

Investments are expected to achieve a market average rate of return in line with the Council's risk tolerance. Investments are to be considered in the light of the following key criteria:

- **Preservation of Capital** – the requirement for preventing losses in an 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.
- **Market Risk** - the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices.
- **Liquidity Risk** - the risk an investor is unable to redeem the investment at a fair price within a timely period.
- **Maturity Risk** - the risk relating to the length of term to maturity of the investment. The larger the term, the greater the length of exposure and risk to market volatilities.
- **Leveraging Risk** - the magnification of an investor's risk and return that occurs when the investor takes on financial leverage through an investment product.
- **Rollover Risk** – the risk that income will not meet expectations or budgeted requirements because interest rates are lower in the future than expected.

Credit and Maturity Guidelines

Investments are to comply with three key criteria relating to:

- **Overall Portfolio Credit Framework:** limit overall credit exposure of the portfolio
- **Institutional Credit Framework:** limit exposure to individual institutions based on their credit ratings. and
- **Term to Maturity Framework:** limits based upon maturity of securities.

(1) Overall Portfolio Credit Framework

To control the credit quality on the entire portfolio, the following credit framework limits the percentage of the portfolio exposed to any particular credit rating category.

Government/ADI Credit Limits/Ratings	
Long Term Credit Ratings	Portfolio Max %
AAA	100%
AA+, AA, AA-	100%
A+, A	100%
A-	40%
BBB+	30%
Unrated local ADIs	5%
Specific Ministerial Approved Forms of Investment	
NSW TCorpIM Funds	35%

Credit ratings are based upon the Standard & Poor's Investment Rating, or Moody's or Fitch equivalent, where a Standard & Poor's Investment Rating does not exist.

(2) Institutional Credit Framework

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

Government/ADI Credit Limits/Ratings	
Long Term Credit Ratings	Institution Max %
AAA	50%
AA+, AA, AA-	50%
A+ A	30%
A-	20%
BBB+	10%
Unrated local ADIs	5%
Specific Ministerial Approved Forms of Investment	
NSW TCorpIM Short Term Income Fund	20%
NSW TCorpIM Medium Term Growth Fund	10%
NSW TCorpIM Long Term Growth Fund	5%

Credit ratings are based upon the Standard & Poor's Investment Rating, or Moody's or Fitch equivalent, where a Standard & Poor's Investment Rating does not exist.

If any of the Council's investments are downgraded 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.

(3) Term to Maturity Framework

Council's investment portfolio shall be structured around the time horizon of investment to ensure that liquidity and income requirements are met.

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

Overall Portfolio Term to Maturity Limits		
Portfolio % ≤1 year	Min 20%	Max 100%
Portfolio % >1 year ≤10 years	Min 0%	Max 80%
Sub limits by Maturity		
<i>Portfolio % > 3 years</i>	<i>Min 0%</i>	<i>Max 50%</i>
<i>Portfolio % > 5 years ≤ 10 years</i>	<i>Min 0%</i>	<i>Max 25%</i>
Sub limits by Credit Rating		
<i>Sub limits: AA+, AA, AA- rating:</i>		<i>5yrs maximum</i>
<i>Sub limits: A+, A, A-, BBB+ rating:</i>		<i>3yrs maximum</i>
<i>Sub limits: Unrated local ADIs:</i>		<i>1yr maximum</i>
Specific Ministerial Approved Forms of Investment		
<i>NSW TCorp/IM Funds</i>		<i>N/A</i>

Ethical Investments

Within the limits of prevailing Legislation and this Investment Policy, Council's investments will be made in consideration of the principals of ethical investment management.

In conjunction with the above objectives, Council has determined to proactively move toward a portfolio consisting of Socially Responsible/Green investments.

Investment Advisor

If Council appoints an investment advisor, they must be appointed by the General Manager and must be licensed by the Australian Securities and Investment Commission. The advisor must be independent and must confirm in writing that they (and any related parties) 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 Investment Policy. This includes receiving no commissions or other inducements in relation to the investments being recommended or reviewed.

Accounting

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.

Safe Custody Arrangements

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

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

Performance Benchmarks

The performance of the overall investment portfolio shall be measured against the industry standard Bloomberg AusBond Bank Bill Index.

The long term performance of any holdings in the NSW TCorpIM Medium Term Growth Fund or Long Term Growth Fund will be viewed in context of the Funds' stated investment objectives as detailed by NSW TCorp.

Reporting

Documentary evidence must be held for each investment and details thereof maintained in an investment register. The documentary evidence must provide Council legal title to the investment. For audit purposes, certificates must be obtained from the banks/fund managers/custodian confirming the amounts of investment held on Council's behalf at 30th June each year.

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

A monthly report will be provided to Council. The report will detail the investment portfolio in terms of holdings and impact of changes in market value since the previous report. The monthly report will also detail the investment performance against the applicable benchmark, investment income earned versus budget year to date and confirm compliance of Council's investments within legislative and Policy limits. Council may nominate additional content for reporting.

Review

The Investment Policy will be reviewed, by an Independent Investment Advisor appointed by the General Manager and licenced by the Australian Securities and Investment Commission, at least once during the term of council or as required 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 Council and in the spirit of this policy.

Any amendment to the investment Policy must be by way of Council resolution.

Schedules

- Schedule 1 – Standard & Poor's Ratings Descriptions
- Schedule 2 – Extracts of Legislative Requirements

Schedule 1: Standard & Poor's Ratings Descriptions

Credit Ratings

Standard & Poor's (S&P) is a professional organisation that provides analytical services. An S&P rating is an opinion of the general creditworthiness of an obligor with respect to particular debt security or other financial obligation - based on relevant risk factors.

Credit ratings are based, in varying degrees, on the following considerations:

- Likelihood of payment
- Nature and provisions of the obligation
- Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganisation or other laws affecting creditors' rights.

The issue rating definitions are expressed in terms of default risk.

Long-Term Obligations Ratings are:

AAA: An obligation/obligor rated AAA has the highest rating assigned by S&P. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

AA: An obligation/obligor rated AA differs from the highest rated obligations only in a small degree. The obligor's capacity to meet its financial commitment on the obligations is very strong.

A: An obligation/obligor rated A is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations/obligor in higher rated categories. However, the obligors' capacity to meet its financial commitment on the obligation is still strong.

BBB: An obligation/obligor rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to the obligor to meet its financial commitment on the obligation.

Unrated: Financial institutions do not necessarily require a credit rating from the various ratings agencies such as Standard and Poor's and these institutions are classed as "Unrated". Some Credit Unions and Building Societies fall into this category. These institutions nonetheless must adhere to the capital maintenance requirements of the Australian Prudential Regulatory Authority (APRA) in line with all Authorised Deposit Taking Institutions (Banks, Building Societies and Credit Unions).

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

Schedule 2: Extracts of Legislative Requirements

LOCAL GOVERNMENT ACT 1993 - SECT 412 & 625

Section 412 Accounting Records

- (1) A council must keep such accounting records as are necessary to correctly record and explain its financial transactions and its financial position.
- (2) In particular, a council must keep its accounting records in a manner and form that facilitate:
 - (a) the preparation of financial reports that present fairly its financial position and the results of its operations, and
 - (b) the convenient and proper auditing of those reports.

Section 625 How May Councils Invest?

- (1) A council may invest money that is not, for the time being, required by the council for any other purpose.
- (2) Money may be invested only in a form of investment notified by order of the Minister published in the Gazette.
- (3) An order of the Minister notifying a form of investment for the purposes of this section must not be made without the approval of the Treasurer.
- (4) The acquisition, in accordance with section 358, of a controlling interest in a corporation is not an investment for the purposes of this section.

**THE TRUSTEE AMENDMENT (DISCRETIONARY INVESTMENTS) ACT 1997 –
SECTIONS 14A (2), 14C (1) & (2)**

14A (2) Duties of trustee in respect of power of investment

A trustee must, in exercising a power of investment:

- (a) If the trustee's profession, business or employment is or includes acting as a trustee or investing money on behalf of other persons, exercise the care, diligence and skill that a prudent person engaged in that profession, business or employment would exercise in managing the affairs of other persons, or
- (b) if the trustee is not engaged in such a profession, business or employment, exercise the care, diligence and skill that a prudent person would exercise in managing the affairs of other persons.

14C Matters to which trustee is to have regard when exercising power of investment

- (1) Without limiting the matters that a trustee may take into account when exercising a power of investment, a trustee must, so far as they are appropriate to the circumstances of the trust, if any, have regard to the following matters:
 - (a) the purposes of the trust and the needs and circumstances of the beneficiaries,
 - (b) the desirability of diversifying trust investments,
 - (c) the nature of, and the risk associated with, existing trust investments and other trust property,
 - (d) the need to maintain the real value of the capital or income of the trust,
 - (e) the risk of capital or income loss or depreciation,
 - (f) the potential for capital appreciation,
 - (g) the likely income return and the timing of income return,
 - (h) the length of the term of the proposed investment,
 - (i) the probable duration of the trust,
 - (j) the liquidity and marketability of the proposed investment during, and on the determination of, the term of the proposed investment,
 - (k) the aggregate value of the trust estate,
 - (l) the effect of the proposed investment in relation to the tax liability of the trust,

- (m) the likelihood of inflation affecting the value of the proposed investment or other trust property,
 - (n) the costs (including commissions, fees, charges and duties payable) of making the proposed investment,
 - (o) the results of a review of existing trust investments in accordance with section 14A (4).
- (2) A trustee may, having regard to the size and nature of the trust, do either or both of the following:
- (a) obtain and consider independent and impartial advice reasonably required for the investment of trust funds or the management of the investment from a person whom the trustee reasonably believes to be competent to give the advice,
 - (b) pay out of trust funds the reasonable costs of obtaining the advice.

LOCAL GOVERNMENT (GENERAL) REGULATION 2005 - CLAUSE 212

212 Reports on council investments

(1) The responsible accounting officer of a council:

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

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

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

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

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

Note. Section 625 of the Act says how a council may invest its surplus funds.

Circular No. 11-01
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Contact: Finance Policy Section
02 4428 4100
dlg@dlg.nsw.gov.au

REVISED MINISTERIAL INVESTMENT ORDER

A revised Investment Order pursuant to section 625 of the *Local Government Act 1993* has been issued. The Minister for Local Government signed the revised Order on 12 January 2011 and it was published in the NSW Government Gazette on 11 February 2011. It replaces the Order dated 31 July 2008. The revised Order is attached to this circular.

Changes to the Investment Order include:

- the removal of the ability to invest in the mortgage of land (part (c) of the Investment Order dated 31 July 2008)
- the removal of the ability to make a deposit with the Local Government Financial Services Pty Ltd (part (f) of the order dated 31 July 2008)
- the addition of "Key Considerations" in the revised Investment Order, which includes a comment that a council's General Manager, or any other staff, with delegated authority by a council to invest in funds on behalf of the council must do so in accordance with the council's adopted investment policy.

Councils are reminded that on 25 May 2010 the Division of Local Government issued Investment Policy Guidelines (Circular to Councils 10-11 refers). It is expected that all councils will by now have adopted an Investment Policy in accordance with the Guidelines.



Ross Woodward
Chief Executive, Local Government
A Division of the Department of Premier and Cabinet

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

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.

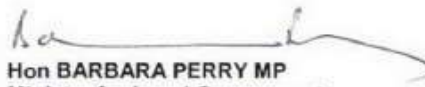
All councils should by resolution adopt an investment policy that is consistent with this Order and any guidelines issued by the Chief Executive (Local Government), Department of Premier and Cabinet, from time to time.

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