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Divergent approaches to investment: a tale of three local councils

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Abstract

The Global Financial Crisis of 2008 led to a substantial write-down in the value of investments such as Collateralised Debt Obligations (CDOs) with one class of investors being NSW local councils. This paper analyses interviews with three local councils, each of which took a substantially different approach to CDO investment. It adopts the lens of Bourdieu's Theory of Practice to describe and explain behaviour regarding decisions to invest (or not) in CDOs, and how these decisions impacted on them. Interesting themes arise regarding differing views on the appropriate role of local councils, and on the degree and form of "capital" (which includes knowledge, competencies, skills and economic resources) that a council should have before investing in sophisticated financial products. The contribution of this paper is that it explores how three local councils came to quite divergent interpretations of what constitutes an "appropriate" investment and provides policy suggestions for future local council governance.

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Divergent Approaches to Investment: A Tale of Three Local Councils

Introduction

The Global Financial Crisis (GFC) of 2008 led to a substantial write down in the value of some investments such as Collateralised Debt Obligations (CDOs). One class of investors holding some of these CDO assets were NSW local councils who were permitted (under the Local Government Act, 1993) to invest council funds in a range of sophisticated investment products, such as CDOs, provided that these products held a sufficiently high credit rating as determined by ratings agencies Moody's Investors Services Inc, Standard and Poor's Investors Service Inc or Fitch Ratings. Following the onset of the GFC, in July 2008, the Director General of the Department of Local Government, Garry Payne, issued revised ministerial investment orders emphasising the need for councils to exercise due care and diligence in their investments and significantly curtailing the investments in which local councils could invest. The seminal report outlining the questionable investment practices of local councils and the possible ramifications of post-GFC write downs was written by Cole (2008). As a result of the Cole report the ministerial investment guidelines were reviewed and by January 2011, the Local Government Act 1993 – Investment Order (relating to investments by councils) offered councils very limited, prescribed and conservative investment options with an overriding emphasis on fiduciary responsibility and prudence.

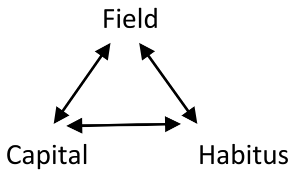
This article uses interviews with four finance managers from three local councils, each of which took a substantially different approach to investing in CDOs (and other sophisticated investment products). It uses the lens of Bourdieu's Theory of Practice to describe and explain the behaviour of these three councils regarding their decisions to invest (or not) in CDOs, and how these decisions impacted on them. Interesting themes arising from these interviews are the local councils differing views on the appropriate role of local councils (in Bourdieu's terms, this could be seen as "habitus"), and on the degree and form of "capital" (in Bourdieu's terms this includes knowledge, competencies, and skills as well as capital in the usual meaning of economic resources) that a council should have before proceeding with an investment in sophisticated financial products. The contribution of this article is to explore how three local councils came to quite divergent interpretations of what constitutes an "appropriate" investment and, given this divergence of interpretation, recommend some policy suggestions for local council corporate governance in the future.

Bourdieu's Theory of Practice

Bourdieu is a social theorist who was one of the founders of what is now described as practice theory. For Bourdieu, (1977) practice is based upon the inherent pre-existing dispositions of the actors. He proposed that the actors seek to improvise and pursue strategic goals and interests, while also acting within their societal and situational environments which also have existing strong internal norms. Bourdieu (cited in Wacquant 2004) sought to show that social agents develop strategies which are adapted to the area which they inhabit and that these strategies are unconscious results of prior learning and social expectations. Bourdieu desired to analyse actors in the practical arena, while considering their performance, and their meaning as part of a social product which was linked to their cultural and symbolic actions (Breiger 2000, p. 109). Bourdieu's concepts are highly interdependent and the way in which he uses them is intended to guide research and elicit research questions in a variety of social environments while looking at the interrelationships that exist (Hurtado 2010, p. 54).

Bourdieu sought to connect empirical research with his theoretical ideas and offer insights into "how objective and subjective factors are interrelated" (Berard 2005, p. 205). His work was grounded in the way everyday life operated and focussed on the culture or as he posited, a "theory of practice" (Bourdieu 1977; Webb, Schirato & Danaher 2002). Bourdieu (1977) proposed that his "theory of practice' should not be considered as a pure theory, but more as a framework which could provide the tools with which to develop understanding of practice. He was adamant about the inseparability of the structure, subjectivity and the pre-reflectivity character of practice. Bourdieu (1977) proposed that social order is produced through relations of domination, where the power to make groups and instil them with authority is a representation of symbolic power (Bourdieu 1987), and then agents develop ways of comprehending the world through developing dispositions or inclinations that support the patterns, purposes and principles of the social context in which they operate. The main terms he used to describe his theory of practice were habitus, field and capital.

Bourdieu's Framework



(Adapted from Bourdieu 1977; Bourdieu 1990b)

While there are a wide variety of fields which could influence the decision making of local councils, for the purpose of this paper, we have restricted the fields to each of the individual councils, Local Government ministerial investment policies, and the financial professionals group.

Bourdieu (1977; 1984; 1990b) later further divided capital into a range of categories such as social capital, cultural capital and symbolic capital as a means of differentiating the different elements which were able to exert influence. In this research, we will outline what the finance managers interviewed perceived to be factors that influenced some local council finance managers to invest funds in CDOs (Collateralised Debt Obligations) without fully understanding the risk, and some local council finance mangers not to do so.

Participants in Interviews:

Applewood Council, Tony Black[1] (TB)

Applewood is an outer-suburban council in N.S.W. Applewood did not invest in CDOs.

Blackwell Council, Adam Greene[2] (AB)

This council is in N.S.W. in a suburban area. This council had approximately $50 million invested in CDOs, but withdrew to approximately $23 million when warned of risks. Blackwell lost approximately $5 million in the crash.

[1] Both "Applewood Council" and "Tony Black" are pseudonyms used to protect identity.
[2] Both "Blackwell Council" and "Adam Greene" are pseudonyms used to protect identity.

Cedarvale Council, Peter Redman (PR) and Mark Redford[3] (MR)

Cedervale is a large urban council in NSW. Cedarvale's internal policy allowed them to invest up to $10 million but at the time of the market crash they only had $5 million of which $2.5 million was a total loss.

Themes mentioned in interviews that participants thought influenced local councils to invest without fully understanding the risks of CDOs:

1. **Aggressive sales tactics by CDO salesmen offended all finance officers at all three councils. Comments from the three finance managers are as follows:**

A. TB (Applewood)

'The guy marketing them came out from Iron[4] Securities I think it was, was telling us how much money you could make and ... I said "Oh no we are not going to go near them" and then he went to my boss who is the group manager of business services who told him "we were not going near them" and then he went to our general manager... and the 4 of us met, the 3 of us plus him and the general manager told him that we were not going near them. Our reasons for not going near them is it didn't, it didn't seem logical. He wasn't, he didn't understand them enough and for that reason it didn't seem logical to invest in them...We didn't go near them, umm we didn't like his tactic either...Go to me get knocked back, go to my boss get knocked back, go the general manager get knocked back...The guy promoting them .. he was .. probably more of a salesman than an investment sort of advisor."

B. AG (Blackwell)

'They marketed aggressively. They marketed it as though you were doing something wrong if you didn't go into it. They marketed it from the point of view that you had great returns. I had two reps in here won't mention their names and one of the lasses turned to me and said that they were trying to hard sell it and that was the end of it for me when they turned to me and said that these were safer than a term deposit. And I said (and I had one of my staff here and she would be happy to confirm) and I said "you are kidding me, are you telling me that I can put my grandmothers inheritance into a CDO and it will be safer than putting it into a high grade bank term deposit?". And she said "yes". And I said "I don't need to discuss this any further, that is the silliest thing I have ever heard". They said "no, over the long term of 25 years" and I said "no it's ridiculous, we are not talking about 25 years". So they had a hard sell where they tried to make people believe that you were doing the wrong thing if you weren't getting the best returns.'

And

'So that is where it got personal at the end of the day because I did not believe what this guy was doing was right in relation to how he was flogging them off as day to day liquid assets that you could just trade and get as much out of it because you could see behind it and see that they were getting very generous commissions. And I thought it was wrong. Anyway what we ended up doing at one of our financial professional meetings was we invited him along because Iron Securities sponsored the session the day and he came along and he talked about treasury management. And

[3] "Cedarvale Council", "Peter Redman" and "Mark Redford"are pseudonyms used to protect identity.

[4] Name changed.

*he sat in that chamber with all of these councils the whole 18-19 of us and basically put a presentation up and told the whole room that only two councils in the room were doing the right thing by the council the rest of you were irresponsible.... That went over... I was chairman of that group at that stage and I thought, "Oh Mike[5] you ....". Anyway they listened to it and he went through it and he showed them how with CDOs you have got this so the sell was there. So some of these poor buggers sitting there, the fresh finance managers or whatever at the end of the day are looking at this and thinking that "maybe I am doing the wrong thing". There was a sell of "hey you are not doing your job here you're not doing the right thing" which was really wrong. When he got out of the room some of the old heads in that room Stan Blue[6] from Dentonville[7] and some of the other boys who had been around as long as me they basically said "don't invite that pr**k back here again. Because we are not going to sit here and listen to that you know". And I thought "well you know they sponsored [this seminar]". Apparently so it goes he went to Erwingate[8] which is one of the Northern Councils did the same thing and they threw him out after 10 minutes. They had the balls to do it we didn't. Maybe I should have but I thought "oh well, no-one is objecting here we might as well let him go with it" but he basically for the older heads he cruelled it. But I just wonder there was some young blokes in there and some of those councils invested more in CDOs. And some of those councils signed up for [the CDOs] which was what he was pushing.'*

C. PR (Cedarvale)

'[they were marketed] quite aggressively by them. Mike Jones[9] and them came and pushed them.'

D. MR (Cedarvale)

MR 'They were also regularly visiting to try and push the independently managed portfolio thing. With them they were quite aggressive in their marketing. We just looked at the thing and for us it was the risk assessment and what we wanted to go with.

Researcher: 'So if you said no did it stop there?'

MR'No they would just bring another one around that they hoped would suit us better'

Researcher: 'Did they go beyond you to someone else?'

MR'Yes. Yes they were pushing right up to the director level. We know that they tried to push to CEO and mayors in some councils. The director who was there at that stage they certainly did approach him.'

Habitus and aggressive sales tactics to local councils

Bourdieu sees power as something that is created through culture and symbolism, which is then re-legitimised through interactions between the agent and the organisational structure. The primary way in which he viewed this occurring is through what he labelled 'habitus'. Habitus is essential to Bourdieu's theory (Berard 2005, p. 201) and is described as a socially constructed set of dispositions(Bourdieu 1977; Bourdieu 1996). It captures the 'cultural unconscious' that shapes action through encapsulating the dialect between structure and agency. Habitus is the residue of past

[5] Name changed.
[6] Name changed
[7] Name changed
[8] Name changed
[9] Name changed

actions, knowledge, knowhow, behaviour and responses that now function in the present and influence behaviour (Bourdieu 1984). Habitus is therefore the social norms or tendencies that guide behaviour, actions and thinking (Webb et al. 2002). In terms of local Government Habitus, Iron Securities aggressive marketing techniques violated all four finance managers' sense of proper organisational structure when he repeatedly badgered ever-higher members of the Applewood and Cedervale's local council hierarchy trying to get them to buy his CDOs.

AG (Blackwell) also mentioned that he was concerned for younger local council finance managers being more vulnerable to aggressive sales techniques than more experienced and seasoned finance managers ("old heads"). Habitus in local councils can be vested in the organisation itself, or within the individuals working in the organisation. From the perspective of the local councils, prior experiences, both good and bad, develop a habitus which is capable of influencing future behaviour. No experience with investment failure in the past could also create a habitus where even the idea that financial investment may contain risk is not considered. Thus experience would shape the individual's habitus and make the more experienced manager less vulnerable to aggressive sales techniques.

> TB (Applewood) provided reasons for why they didn't invest in CDOs proposing that it was the conservative nature of the council and what was expected from investments mentioning that *"council are happy with our returns the way we are going the way they don't want me to take any risk"*

This is a clear example that the habitus of the organisation was influential in influencing the investment decision process and that if the council or the general manager were conservative and unwilling to accept risk that investments would reflect that attitude. This is a reflection of the capital held by those in authority.

Capital

Bourdieu describes the concepts of field and capital as being the structural context in which action occurs. Struggles over various resources that actors decide are worth expending effort on, define the stakes that are valued by the actors. Action is shaped by the recognition of those stakes and also by the resources (capital) available to the agents and also by the resources which are sought. While the traditional concept of capital (Emirbayer & Johnston 2008) has typically related to money or financial resources (economic capital), the more modern approach has been to include other types of capital such as human and social capital. Hence, capital can refer to both the tangible and intangible resources which enable individuals to further their aspirations and achieve success (or what is perceived as success) within their field. The quantity and type of capital that agents are able to control are thereby a reflection of their social position within any given field and as highlighted by Bourdieu and Wacquant (1992, p. 110) "capital does not exist and function except in relationship to a field" and an individual's capital may be substantially different in different fields.

Within the local government environment in NSW there is a range of different types of capital that may exist. Within local councils there is a hierarchical structure that creates capital due to each individual's position in that social structure. The elected councillors may have the role of guiding the overall policy and direction of the council and therefore the capital in respect of policy, however, it is the general manager who runs the day to day operations and hence the 'capital' to influence practice. Individuals such as the finance manager may have capital due to expert knowledge, qualifications and experience which could be used to influence policies and decisions. Other capital may be vested in the education qualifications, practical experience, capacity to influence policy, or links to community or business of other individuals. Bourdieu (1987; 1990b; 1996) highlighted that individuals within society, in positions of authority, try to hang onto power, not only through controlling physical action but also by dominating the social discourse.

From this it can be seen that by their aggressive marketing techniques, companies such as Iron Securities challenged the proper order of things at the three councils where the interviews took place and (in these three cases) alienated the finance mangers that they hoped to enrol. However, these finance mangers also expressed some concern that these tactics may have been more effective with less experienced finance managers.

2. Areas of influence (Bourdieu's Fields)

Cultural fields are made up of a range of "rules, rituals, conventions, categories, designations, appointments and titles which constitute an objective hierarchy" (Webb et al. 2002, p. 21), and lead to the production and authorisations of particular discourse and activities. Local councils are cultural fields with their own rules, policies and structures designed to lead to certain activities.

Finance managers working in NSW local governments function in a variety of fields which are interwoven. While some of these fields are highly regulated and prescriptive others are less rigid and are potentially adaptable to the power exerted by individuals or other fields.

From the perspective of the finance managers, an example of highly regulated fields are the restrictions imposed by the State Government through ministerial investment policy guidelines, which detail the types of products that local councils are able to invest in. The investment policies dictated to NSW local councils through the ministerial investment guidelines have changed over time. Up until the introduction of the *Local Government Act 1993* there was mention of the need to comply with the Trustees Act 1925, which incorporated protection of investment capital as a priority. Since 1993 there has been a general widening of the types of products in which councils were able to invest. By 2000 the guidelines incorporated investment in rated products such as CDOs, thereby providing an opening for more aggressive and risk accepting investments by local councils.

Similarly finance managers are also governed by the investment policies of their individual local councils (which also have to comply with the State investment guidelines), thereby creating firm boundaries within which they have to function. However these policies are influenced by their particular field and, habitus of the organisation and capital of those responsible for investment decisions.

a. Department of Local Government

One field was the Department of Local Government who issued the ministerial investment guidelines and provided assistance and advice to NSW councils.

TB (Applewood) lamented at the lack of information from the department of local government in respect of the policy guidelines, stating that

> *One of the problems is the department of local government they don't prescribe exactly what they want they talk around it. It's because they don't want to take the blame, it's the same as when you ring them for an opinion on something they wont commit that's my experience.*

AG (Blackwell) when talking about types of allowable investments asked for advice from the Department of Local Government in respect of what was allowed, failed to get an adequate response saying that

The legal opinion said that we believe you have got grounds and you can do it.

But when they ask the department they were non-committal

I would have loved the department to put a clarification on it and say no you can't.

This was an example of a field with the capacity and authority to influence investment decisions, leaving it in the hands of the individual councils.

b. Councils

A second field was the individual councils. Their respective acceptance of risk and subsequent investment policies were influenced by the experiences of the organisation.

When talking about a particularly good but high risk investment AG (Blackwell) highlighted the change in risk acceptance by the councillors saying that they were

a bit cocky and were thinking that they were good at investments They were saying gee this was good what else can we get into. So they didn't have a problem with CDOs they didn't have a problem with these risk things. We would say what the risk was with things and everyone was driven by this getting the asset hedged against the liability

The markets were booming if you remember everybody was great, no one thought about the 7 or 10 year cycles where they go back down and all of that and out there in the market place you just need a little pin prick in the balloon and they all go running and they all start selling on the stock exchange you know and it is a very reactive market.

This serves to emphasise that the economic environment and the experiences of the past provide a backdrop which may influence the decision making process and acceptance of risk.

c. Finance professional group

A third field was the forum within which knowledge and experience is shared in the field of local council finance managers was the "Rock Group" which is an opportunity (by the sponsor) to market to the finance mangers but also presents an opportunity for transfer of knowledge, experience and warnings between managers. For example, Blackwell council had about $50 million in CDOs before going to one such meeting in 2005:

A. AG (Blackwell)

'By the time I got in to them I got it down to about 17 million. I got out of them. What happened is we have a [forum] professional group... When was the height of the thing? Would have been 07-08 when the trouble was. I took over the portfolio here about 2003 so probably about 05 maybe even a little before that. Our group gets together, all the finance mangers and we get a sponsor that sponsors us they throw in a thousand bucks and what we basically do is we go to a location away from the offices, it might be a hotel or something... We get these guest speakers on different topics and basically the sponsorship pays for the hire of the facility plus lunch etcetera. Now we have been doing the successfully now since 2004 2005. It's been good because it has allowed all those councils, the all 18-19 of us, to share things including what happened here with the investments. But the main thrust of my story is that about 05 we had the Commonwealth sponsor us and they had merged with First State Colonial at that stage

and the Commonwealth they were all, they were all guilty of it, they were all basically at the end of the day flogging CDOs there was nothing else shall we say "sexy" around at the time as far as investments were concerned. CDOs was it and you could get great returns and obviously risks were in there and we knew a fair bit about them but there were other risks we were not exposed out or given out especially through Iron securities or Tin Securities[10] at that time.

*We sat in this room and the Commonwealth Bank sponsored it and we had a guest speaker from first Colonial who had just been merged with them and he bashed the sh*t out of them. He told you all the problems with them, the duplication in names and where they were, and here were the CBA the sponsor sitting there and what ended up happening on the floor was a great big debate between CBA and there new partner First Colonial. So it was great. The pros and the cons, CBA saying that there was nothing wrong and this guy well he showed how they were duplicating names how they were the same in many of them he gave examples, he did all this and the dangers of them and it was basically at that point that at that meeting that I came back and I thought that I am going to have a really good look at what we have got in this portfolio at what I have inherited, and they were everywhere. You would have for example Ford Motor Company, you would have 13 CDOs and you would have the name in 11 of them, you know, so as soon as you had a credit default, Bang, they were a credit default on the whole 11 of them. They had these triple CDOs they had all sorts of things and names for them and the names were repeated and it became when you looked at the cross of CDOs that were out there, there was a lot of companies that were duplicated in a lot of these and they were the same names and hence I went down from about 52 mil to about 19 where I made sure that the portfolio that we had basically did not double up a lot on these names and that they were reasonable products.'*

An example of where the field within which finance managers practice is less restrictive and where influence may be exerted is the finance managers groups, where they meet and discuss issues faced by their members. This field has the potential to exert influence on the perceptions and actions of the finance managers and then, through the actions of finance managers in other fields, to be extended beyond that original field. Bourdieu recognised that if the conditions in a field changed significantly, then the habitus would still generate the conditions previously expected and would no longer meet the objectives of the field (Hurtado 2010). He suggested that this would cause the individuals within a field to be more reflective, consider their practices and may then lead to modifications of those practices. Therefore influences on a field have the capacity to shape the existing habitus and the practices of those functioning within the field.

For example, Applewood council chose not to invest in CDOs because they felt they did not understand them:

B. TB (Applewood)

TB 'It was quite bizarre when it was all happening because there is a financial professionals group and we have a conference we meet once a month as in different sort of group and there is these spruikers who were actually sponsoring the financial professionals and the local government

[10] Name changed

managers association and were going to the conferences and talking about all these investments trying to use it as a platform to get on board as well I think that some councils fell for all that Said oh it must be alright they are sponsoring the financial professionals throwing money at the local government managers association so it was spruiking in a big way if you ask me'.

Researcher-'I have been told that some thought they had done their due diligence in that they endeavoured to learn about the product and thought that we understood it when we didn't'

TB 'Yeah I just admitted that I did not understand it. It just seemed too complicated and obviously if there is a bigger return then there is always a bigger risk that is the way we looked at it and it was just too confusing for me'

The social / group context was also mentioned by TB:

'Local government is a funny place as well everyone really talks to each other as you will find as you go around. Yeah so I would be talking to other finance managers what do you think of this, what do you think of that.'

This serves to demonstrate that fields outside the individual organisation were able to influence the views and provide alternative perspectives which had the potential to influence decisions.

3. Managing public funds

A third factor that led to these three councils not being far more involved with investing Council's funds in CDOs was their view of the role of council being primarily one of stewardship over the funds rather then seeking maximum return on investment:

TB (Applewood)

TB: 'All in all we are very conservative, and this comes right from our councillors down. I have had to report and stress to the councillors that we have not been involved with CDOs. We had since the CDO exposure I suppose we have had a new council come in. We had the old council asking what was our exposure to CDOs we said nil we had the new council asking what was our exposure to CDOs we said nil Every now and then ratepayers will write to us, I have had about half a dozen over the last few years asking what was councils exposure to CDOs we keep saying nil so ummm... we have to maximise our return but .. no one is going to thank us if we invest in something that falls over'

Researcher-'So you look for capital protection above return?'

TB 'Oh yeah without a doubt, without a doubt, yeah it is the ratepayers money it is not our money '.

B. PR (Cedirvale)

Researcher: 'In 1993 the mention of the Trustees Act was removed which basically talks about the preservation of capital. Obviously preservation of capital is something which you are very concerned with, is that a remnant of that early time or another reason?'

PR: ' No I think it comes more from the requirements around prudentially managing the portfolio. The view is we look at it as this is someone else's money that we are investing. It is there for us to *provide infrastructure for community and so that is essentially what drives the capital preservation aspect'*

From these excerpts, it will be seen that, although the Local Government Act (1993) allowed finance managers to invest council funds in a range of sophisticated investment products such as CDOs, some aspects of the habitus, field, and capital (or lack of knowledge capital when a finance manager realised (s)he really did not understand CDOs) served to protect local councils from losing more in the crash than might otherwise have been the case.

Tony Black (Applewood Council) distrusted the aggressive marketing tactics of CDO sellers, he felt that the proper role of council was primarily to act as a steward of ratepayer's money rather than to maximise return on investment of these funds.

Adam Greene (Blackwell Council) was initially annoyed by the aggressive marketing techniques associated with CDOs, but when he took over financial management of Blackwell in 2003 the council had around $50 million invested in CDOs. It was talking to other council finance professionals and an education session in which some of the duplications and risks inherent in CDOs was explained to him, that encouraged him to divest Blackwell's CDOs down to about $23 million. Blackwell lost approximately $5 million in the GFC.

Peter Redman and Mark Redford (Cedarvale Council) had quite sophisticated software and systems for managing their investment processes and emphasised that they were far more conservative in investments than the 1993 Act would have allowed them to be. This was because they felt that trading in CDOs was really not the role of council. Cedarvale did invest in some CDOs and take some losses but they emphasised that they did this with a good level of technical knowledge (capital) and that their strategy was to hold CDOs to maturity depending on when cash flow was required, rather than trading them:

PR (Cedarvale):

'Researcher: So are you saying that you had skills in house to analyse these products?'

PR: ' Yes to a certain extent it is not as if we took the things on blindly – which is one of the reasons why we never joined any class actions because we did research and I am not going to stand up in court and say we went into this blindly because someone misled us. We actually went in and did studies and as I said the reason why the thing never expanded in to a huge area was that we saw credit risks in them, effectively they were just creating same risks in different products. When we went into the things we only did them in small parcels of 2 million normally, so hence when they have fallen over like these 2 have now we are sitting on a loss of 5 million dollars'

Conclusion

This study has shown that field and capital are interwoven with habitus. As agents operate and become involved within a particular field, the habitus is shaped, which in turn shapes actions, which are able then act to reproduce the field. The capital controlled by agents defines their position within the field, the position allows possibilities for action and hence the capacity to influence the habitus. Applying this logic to local governments, habitus is constructed by the social context in which it operates (the field), and actions that shape the nature of the organisation.

Thus, Applewood Council realised that they had little knowledge capital in the area of CDOs, felt that CDOs were inconsistent with their role of stewardship over council funds and were also distrustful of violations of proper hierarchy involved with CDO marketing techniques. Thus, although the 1993 Act would have allowed Applewood to invest in CDOs, their place in Bordieu's Theory of Practice meant that they chose not to invest in CDOs at all.

Blackwell Council were quite heavily invested in CDOs following the 1993 Act, but, through interaction with his peers and adjustments to his knowledge capital via a particular seminar, AG divested more than half of Balckwell's CDOs by the time the crash came and so Blackwell was not nearly as exposed as might otherwise have been the case.

Cedarvale Council had by far the highest capital in terms of investment knowledge, but their view of the proper role of councils being to hold investments to maturity and match investments with cash flow requirements rather than maximising returns through trading in sophisticated products insulated them somewhat from the crash.

To conclude, investment decisions take place within a social context. Hierachies exist within councils, Finance Mangers of councils have mechanisms and groups in which concepts are discussed and each council's individual habitus is constructed. In the case of investing (or not) in CDOs, it can be seen that the relaxation of the NSW ministerial guidelines ensured that individual local councils would have reconsidered the products in which they were able to invest. However the individual councils were able to control the level of risk that they were willing to undertake through their own investment policies. It could be argued that as this change had been presented by the minister, and the DLG, it may also have encouraged NSW local councils who relied on the policy as a mechanism of governance, to take up the opportunity to engage in these products (which in the case of CDOs were high risk investments). However, ultimately it was the habitus and acceptance of risk within each of the individual local councils, which was the crucial component in the determination of whether or not they were disposed to engage in these types of investments.

This research has been conducted as part of a PhD. A number of other interviews have been conducted and additional themes have been identified. This paper has provided a snapshot of how investment decisions in councils have been made. Further research will identify other factors such as how the rating of CDOs influenced councils to invest. It will show how investment policy has changed and how the historical perceptions of councils influence their actions.

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