

INVESTMENT POLICY

OPERATIONAL POLICY

Responsible Department: Cabonne Services

Responsible Section: Finance

Responsible Officer: Department Leader - Finance

Objective

Provides for the General Manager to have authority to invest Council's funds in accordance with an approved investment strategy. This Policy applies to all Council investments.

Introduction

The purpose of this policy is to provide a framework for the optimum investment of Council's funds on the most favourable terms available to it at the time whilst having due consideration of risk, liquidity and security for its investments.

The policy objectives are:

- To undertake investment of surplus funds in line with Council's current Investment Strategy.
- To ensure all investments comply with the forms of investment allowable under the Local Government Act Investment Order.
- To set boundaries for exposure to market risk, credit risk and interest rate risk within the investment portfolio and the 'counterparty' exposure of the portfolio to individual institutions or investment products.
- To establish a framework for monitoring investments.
- To confirm delegations and other relevant governance matters in relation to Council's investments.

Policy

Delegation of Authority

The General Manager (or his delegated representative) has authority to invest surplus funds.

Currently this authority is delegated to the Department Leader - Finance. From an operational perspective, investments are undertaken by senior finance staff under the guidance of the Department Leader - Finance.

Approval Arrangements

An investment form will be completed for all investments to ensure appropriate documentation of the investment decision. All decisions require approval by two (2) Officers who have the appropriate delegation from the General Manager.

Prudent Person Standard

The investments will be managed with the care, diligence and skill that a prudent person (as defined by legislation, Trustees Act 1925 and case law). As trustees of public monies, Officers are to manage Council's investment portfolio to safeguard the portfolio in accordance with the spirit of this Investment Policy, and not for speculative purposes.

Authorised Investments

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

- Commonwealth / State / Territory Government Bonds, Debentures or Securities;
- Interest bearing deposits / senior securities issued by an eligible ADI;
- Bills of Exchange, (< 200 days duration) guaranteed by an ADI;
- Deposits with TCorp and/or investments in TCorp Managed Funds.

Prohibited Investments

This Investment Policy prohibits the following types of investment:

- Interest bearing deposits or debentures or bonds containing a subordinated debt obligation;
- Derivative based instruments;
- Principal only investments or securities that provide potentially nil or negative cash flow;
- Single stocks or Managed Funds (other than TCorp);
- Mortgage of land.

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 expenditure of loan funds.

Risk Management Guidelines

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

- Portfolio Credit Framework – to limit overall credit exposure of the portfolio;
- Counterparty Credit Framework – to limit exposure to individual counterparties / institutions;
- Investment Horizon Framework – limits based upon maturity of securities.

Portfolio Credit Framework

The portfolio credit guidelines to be adopted will reference the Standard & Poor's (S&P) ratings system criteria and format – however, references to the Minister's Order also recognise Moody's and Fitch Ratings and any of the three (3) ratings may be used where available.

However, the primary control of credit quality is the prudential supervision and government support of the ADI sector, not ratings.

The maximum holding limit in each rating category for Council's portfolio shall be:

Long Term Rating Range (or Moody's equivalent)	Maximum Holding
AAA Category	100%
AA Category or Major Banks	100%
A Category	70%
BBB Category	30%
Unrated ADI's	15%
TCorpIM Growth Funds	5%

Counterparty Credit Framework

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

Long Term Rating Range (or Moody's equivalent)	Limit
AAA Category	50%
AA Category or Major Banks	50%
A Category	15%
BBB Category	10%
Unrated ADI's	5%
TCorpIM Growth Funds	5%

Council may utilise an advisor to assist and guide its decision making around new investments and to periodically review and report on the composition and performance of the investment portfolio.

Council's investment advisor must be independent, hold an Australian Financial Services license (AFSL) issued by the Australian Securities and Investment Commission (ASIC) and must confirm in writing that they have no actual or potential conflict of interest in relation investment products being recommended. This includes receiving no commissions or other benefits in relation to the investments being recommended or reviewed, except if any commissions are fully rebated to Council.

Performance Benchmarks

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

Investment	Performance Benchmark	Time Horizon
Cash-at-call accounts and short term deposits.	Ausbond Bank Bill Index (BBI)	0-3 months
Term Deposits, FRN's nearing maturity	Ausbond Bank Bill Index (BBI)	3-12 months
Term Deposits and FRN's with a maturity date of 1-2 years	Ausbond Bank Bill Index (BBI)	1-2 years
Term Deposits and FRN's with a maturity date between 2 and 5 years	Ausbond Bank Bill Index (BBI)	2-5 years
TCorp Medium Term Growth Fund	CPI plus 2%	7 years
TCorp Long Term Growth Fund	CPI plus 3.5%	10 years

Accounting

Council will comply with appropriate accounting standards in valuing and reporting its investments and investment income. This includes:

- AASB 9 – Financial Instruments
- AASB 7 – Financial Instruments: Disclosures

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, audit confirmation certificates must be obtained from the financial institutions confirming the amount of investments held on Council's behalf as at 30 June each year and reconciled to the investment register. All investments are to be appropriately recorded in Council's financial records and reconciled on a monthly basis.

As required by Section 212 of the Local Government (General) Regulation 2021, a monthly investment 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 investment portfolio with legislative and policy limits. Council may nominate additional content for reporting. A monthly report will be provided to Council, detailing the investment portfolio including (as a minimum) the current yield, rating, purchase price and market value.

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

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 TCorp for their managed funds;
- Austraclear;
- An institution with an investment grade Standard and Poor's or Moody's rating; or
- An institution with adequate insurance, including professional indemnity insurance and other insurances considered prudent and appropriate to cover its liabilities under any agreement.

Responsibilities

General Manager: responsible for the overall control and implementation of the policy.

Deputy General Managers & Leaders: responsible for the control of the policy and procedures within their area of responsibility. The Department Leader - Finance is delegated to invest surplus funds under delegation by the General Manager. The Department Leader - Finance provides guidance to the Senior Finance Staff on all day-to-day operations of Council's investing activities.

Definitions

Act: NSW Local Government Act, 1993

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

AusBond Bank Bill Index: The AusBond Bank Bill Index is the leading benchmark for the Australian fixed income market. It is interpolated from the RBA Cash rate, 1 month and 3 month Bank Bill Swap rates and is the widely used benchmark for local councils.

Bank Bill Swap Rate: The Bank Bill Swap reference rate (BBSW) is the average of midrate 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.

Conflict of Interest: A conflict of interest can be pecuniary (involving financial gain or loss) or non-pecuniary (based on animosity, friendship or family connection). A conflict of interest can also arise from avoiding personal losses as well as gaining personal advantage, financial or otherwise. Conflicts of interest can be actual, perceived, or potential.

Counterparty: Both a legal and financial term that refers to the other individual or institution to an agreement or contract.

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.

Financial Instrument: Any contract that gives rise to a financial asset of one entity, and a financial liability or equity instrument of another entity.

Floating Rate Notes: A Floating Rate Note (FRN) is a medium to long term fixed interest investment where the coupon is a fixed margin (“coupon margin”) over a benchmark, also described as a “floating rate”. The benchmark is usually the BBSW and is reset at regular intervals – most commonly quarterly.

Interest Rate Risk: The risk that the fair value or future cash flows of an investment will fluctuate because of changes in market interest rates.

Liquidity Risk: The risk an investor runs out of cash, is unable to redeem investments at a fair price within a timely period, and thereby incurs additional costs (or in the worst case is unable to execute its spending plans).

Major Banks: For the purpose of this Policy, “Major Banks” are currently defined as: The ADI deposits or senior guaranteed principal and interest ADI securities issued by the major Australian banking groups:

- Australia and New Zealand banking Group Limited (ANZ)
- Commonwealth Bank of Australia (CBA)
- National Australia Bank Limited (NAB)
- Westpac Banking Corporation (Westpac)

including ADI subsidiaries such as Bankwest whether or not explicitly guaranteed, and brands (such as St George).

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

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

Rating Agencies: Includes Credit Rating Agencies such as Standard and Poor’s (S&P), Moody’s and Fitch who are professional organisations that provide opinion on the general credit worthiness of an obligor with respect to particular debt security or other financial obligations. 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 creditor rights.

In the event of disagreement between agencies as to the rating (“split ratings”) Council shall use the higher in assessing compliance with portfolio Policy limits, but for conservatism shall apply the lower in assessing new purchases.

TCorp: New South Wales Treasury Corporation

Term Deposits: Non-tradeable investments offered by ADIs with varying maturity dates and a rate set at the outset. Interest is normally payable upon maturity or if the term is longer than 12 months, annually from the investment date. Penalties apply if the funds are withdrawn before maturity and a notice period of 31 days is usually required.

Yield: The annual rate of return on an investment.

References

Local Government Act 1993 - Section 625;

Local Government Act 1993 - Order (of the Minister) dated 12th January 2011;

Trustee Act 1925;

Local Government (General) Regulation 2021 – Clause 212- Reports on Council Investments;

NSW Office of Local Government – Investment Policy Guidelines

NSW Office of Local Government - Circular 11-01

NSW Office of Local Government – Code of Accounting Practice and Financial Reporting

History

Minute Number	Summary of Changes	New Version Date
10/02/17	Readopted by Council	15 February 2010
10/06/18	Readopted by Council	21 June 2010
11/05/13	Readopted by Council	16 May 2011
13/05/17	Reviewed and updated based on current fiscal conditions	21 May 2013
13/09/30	Previous (May 2011) version inadvertently readopted as per s165(4)	17 September 2013
14/04/9	Readopted by Council	15 April 2014
18/05/20	Readopted as per s165(4)	22 May 2018
Draft	Policy reviewed and amended to reflect changes to financial legislation and regulation. Changes made to maximum holding limit in each rating category for Council's portfolio to maximise investment performance options.	To be confirmed