

# INVESTMENT POLICY

## Investment Policy | Finance

The purpose of this document is to establish the framework of principles that are to apply to the investment of Council funds.

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## Table of Contents

<b>1</b>	<b>Background</b> .....	<b>3</b>
1.1	Title of the Policy and Commencement Date.....	3
1.2	Purpose of the Policy .....	3
<b>2</b>	<b>Objective</b> .....	<b>3</b>
2.1	Objectives and Coverage of the Policy .....	3
<b>3</b>	<b>Application</b> .....	<b>4</b>
3.1	Application of this Policy .....	4
<b>4</b>	<b>Definitions</b> .....	<b>4</b>
<b>5</b>	<b>Principles/Body</b> .....	<b>5</b>
5.1	Authorised Investments.....	5
5.2	Prohibited Investments.....	5
5.3	Risk Management Guidelines .....	6
5.4	Investment Advisor.....	6
5.5	Accounting.....	7
5.6	Safe Custody Arrangements .....	7
5.7	Performance Benchmarks.....	7
5.8	Reporting.....	8
5.9	Risk Management .....	8
5.9.1	Credit Quality Limits .....	9
5.9.2	Counterparty Limits .....	9
5.9.3	Investment Downgrade .....	10
5.9.4	Term to Maturity / Investment Horizon .....	10
<b>6</b>	<b>Relevant Legislation</b> .....	<b>11</b>
<b>7</b>	<b>Document Information</b> .....	<b>11</b>
7.1	Related Documents.....	11
<b>8</b>	<b>Responsible Officer / Policy Owner</b> .....	<b>11</b>
<b>9</b>	<b>Responsibilities</b> .....	<b>12</b>
<b>10</b>	<b>Approval</b> .....	<b>12</b>
<b>11</b>	<b>Monitoring</b> .....	<b>12</b>
<b>12</b>	<b>Review Date</b> .....	<b>12</b>
<b>13</b>	<b>Last Review Date</b> .....	<b>12</b>
<b>14</b>	<b>Record Keeping, Confidentiality and Privacy</b> .....	<b>12</b>
<b>15</b>	<b>Breaches and Sanctions</b> .....	<b>12</b>



## 1 Background

### 1.1 Title of the Policy and Commencement Date

The Investment Policy takes effect from the date of adoption by Council.

### 1.2 Purpose of the Policy

The purpose of this document is to establish the framework of principles that 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;
- How investments are to be undertaken;
- The applicable risks to be managed;
- Any constraints and other prudential requirements to apply to the investment of funds having regard to the applicable legislation and regulations governing Council investment;
- The manner in which compliance with the Policy will be monitored and reported;
- Appropriate benchmarks for each category of investments.

## 2 Objective

### 2.1 Objectives and Coverage of the Policy

The purpose of this Policy is to provide a framework for the investment of Singleton Council's funds at the most favourable rate of interest available to it at the time to maximise returns, whilst having due consideration of risk tolerance, liquidity and security for its investments.

While exercising the power to invest, consideration is to be given to the preservation of capital, liquidity, and the return of investment. Council therefore has several primary objectives for its investment portfolio:

- Compliance with legislation, regulations, and the prudent person tests of the Trustee Act and best practice guidelines;
- The preservation of the amount invested;
- To ensure there is sufficient liquid funds to meet all reasonably anticipated cash flow requirements;
- To generate income from the investment that exceeds the performance benchmarks mentioned later in this document; and
- Community confidence in management of public funds.



## 3 Application

### 3.1 Application of this Policy

Authority for 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 investments to the Responsible Accounting Officer, subject to regular reviews.

Officers' 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.

## 4 Definitions

For the purposes of this policy:

Term	Meaning
<b>ADI</b>	Authorised Deposit-Taking Institutions (ADIs) are corporations that are authorised under the <i>Banking Act 1959 (Cwth)</i> to take deposits from customers.
<b>BBSW</b>	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.
<b>Fair Value</b>	The Australian Accounting Standards Board defines Fair Value as <i>the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date</i> .
<b>FRN</b>	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.
<b>Grandfathered</b>	Investments held by Council that were removed from the Minister's Order but could be retained when the NSW State Government changed the list of Approved Investments as a result of the Cole enquiry (or which are similarly treated in any future amendments).
<b>IP</b>	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 IP.
<b>LGGR</b>	<i>Local Government (General) Regulation 2005 (NSW)</i> .
<b>OLG</b>	NSW Office of Local Government.
<b>RAO</b>	Responsible Accounting Officer of a council means a member of the staff of the council designated by the Chief Executive Officer, or if no such member has been designated, the Chief Executive Officer. (LGGR, clause 196).
<b>T-Corp, TCorpIM</b>	New South Wales Treasury Corporation and their investment management subsidiary.
<b>NCD</b>	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.
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## 5 Principles/Body

### 5.1 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 securities e.g. bonds;
- Interest bearing deposits / senior securities issued by an eligible ADI;
- Bills of exchange, (< 200 days duration) guaranteed by an ADI;
- Debentures issued by NSW Local Government;
- Deposits with TCorp &/or Investments in TCorp IM Funds and
- Investments grandfathered under the Ministerial Investment Order.

### 5.2 Prohibited Investments

This investment policy prohibits the following types of investment:

- Derivative based instruments;
- Principal only investments or securities that provide potentially nil or negative cash flow;
- Stand-alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind; and
- Other investments excluded by the Ministerial Investment Order.

Prohibited investments are not limited to the list above and extend to any investment carried out for speculative purposes.

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.

Exclusion of an investment by replacement regulation would not normally require divestment unless specifically directed. Generally, existing holdings are grandfathered, and nothing in this Policy is intended to imply a presumption of divestiture. However, in such cases it is appropriate to formally review the investments affected, and formulate a strategic approach to maximising their value. The decision on when to exit such investments are based on a range of criteria specific to the investments – including but not limited to factors such as:

- Returns expected over the remaining term;
- Fair values;
- Competing investment opportunities;
- Costs of holding;
- Liquidity and transaction costs; and
- Outlook for future investment values.



Professional advice will be sought before transacting in “grandfathered investments”. The overriding principle used in dealing with grandfathered assets is maximising public interest (having regard to risk of the assets).

### 5.3 Risk Management Guidelines

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

- **Credit Risk** – The risk that a party 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.
- **Liquidity Risk** – The risk that Council incurs additional costs (or in the worst case is unable to execute its spending plans) due to having too little cash available due to being invested in illiquid assets.
- **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.
- **Maturity Risk** – the risk relating to the length of term to maturity of the investment. The longer the term, the greater the length of exposure and risk to market volatilities.
- **Preservation of Capital** – the requirement for preventing losses in an investment portfolio’s total value.
- **Rollover Risk** – The risk that income will not meet expectations or budgeted requirement because interest rates are lower than expected in future. Deposits and bank securities are offered at a margin above a bank bill swap rate. The “rollover risk” for these securities is that the margins (or fixed rates) contract when the security matures and needs to be reinvested, thereby resulting in a reduction of income over time – the converse of Maturity Risk.

### 5.4 Investment Advisor

The Council’s investment advisor must be approved by Council and licensed by the Australian Securities and Investment Commission – the role shall not extend beyond advice to a discretionary or dealing mandate. The advisor must be independent and must confirm in writing that they 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 investment policy.

This includes receiving no commissions or other benefits in relation to the investments being recommended or reviewed, and having no involvement in the structuring or distribution. All remuneration received from investments must be rebated to Council in full.



## 5.5 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 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.

## 5.6 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:
  - Austraclear;
  - The Custodian nominated by TCorpIM Funds;
  - An institution with an investment grade Standard and Poor's or Moody's or Fitch 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.
- Council's assets must be entirely separate, and not be mingled with the assets of the advisor or any other counterparty in a sub-account.
- Council will have regard to costs and other consequences of any arrangements.

## 5.7 Performance Benchmarks

The performance of each investment will be assessed against the benchmarks listed in the table below. It is Council's expectation that the performance of each investment will be greater than or equal to the applicable benchmark by sufficient margin to justify the investment taking into account its risks, liquidity and other benefits of the investment.

It is also expected that Council will take due steps to ensure that any investment is executed at the best pricing reasonably possible.



Investment	Performance Benchmark	Time Horizon
At-Call Account, short dated bills, deposits issued by financial institutions of appropriate term, TCorpIM Cash Fund.	Bloomberg AusBond Bank Bill Index (BBI)	Working Capital 3 months or less
Term Deposits of appropriate remaining term, FRN's nearing maturity, TCorpIM Strategic Cash Fund.	Bloomberg AusBond Bank Bill Index (BBI)	Short Current financial year
FRN's, Bonds, Term deposits with a maturity date beyond the financial year and up to 5 Years.	Bloomberg AusBond Bank Bill Index (BBI)	Medium 2 to 5 Years
Other TCorpIM Funds	Fund's Internal Benchmark	3-5 Years (M/T Growth) 5+ Years (L/T Growth)

## 5.8 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 30<sup>th</sup> June each year.

All investments are to be appropriately recorded in Council's financial records and reconciled at least on a monthly basis, including fair value movements.

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 – including investments divested during the financial year. However, reporting market values can be for information purpose only – it does not preclude use of a held-to-maturity accounting treatment where permitted by Australian Accounting Standards. The monthly report will also detail the investment performance against the applicable benchmark and confirm compliance of Council's investments within legislative and policy limits.

## 5.9 Risk Management

All investments carry a trade-off between risk, liquidity and return. Further, risks can either be amplified or reduced when investments are combined within a portfolio. To address these risks the following mechanisms are in place:



- Council's Investment Policy is the key risk control document, setting out counterparty risk limits, minimum credit quality of the portfolio and relevant restrictions on particular investment types.
- Council has determined a list of Authorised Investments that may be used for Council funds.
- Council will establish its credit quality allocations and term to maturity profile to ensure that liquidity and income requirements are met in a well-diversified investment portfolio.
- Council will receive professional assistance with evaluation and monitoring investments to ensure they will meet Council needs. The adviser shall also assist Council to ensure that the commercial terms on which Council is offered investments by fund managers, issuers and brokers are fair and reasonable.
- Council will receive professional assistance with portfolio construction so that:
  - The overall risk of the portfolio can be appropriately assessed;
  - The portfolio can be adjusted over time as circumstances warrant;
  - Regulatory changes are accommodated.

### 5.9.1 Credit Quality Limits

The portfolio credit guidelines to be adopted will be based on the Standard & Poor's (S&P) ratings system criteria (or Moody's/Fitch equivalent ratings if an S&P rating is not available). The maximum holding limit in each rating category for Council's portfolio shall be:

Long Term Ratings Range	Maximum Holding
AAA Category <sup>1</sup>	100%
AA Category including Australian major banks <sup>2</sup>	100%
A Category	60%
BBB Category & unrated ADI's <sup>3</sup>	40%

<sup>1</sup> 100% Commonwealth Government and Government-guaranteed deposits are included in this category.

<sup>2</sup> Should the Australian major banks (including their brands and subsidiaries) be downgraded below AA range, they would continue to hold the limits prescribed for AA

<sup>3</sup> This category includes unrated ADI's such as Credit Unions and Building Societies to the extent not Commonwealth-guaranteed.

### 5.9.2 Counterparty Limits

Exposure to individual counterparties/financial institutions will be restricted by their S&P rating so that single entity exposure is limited, as detailed in the table below. This table does not apply to any grandfathered managed fund or structured investment where it is not possible to identify a single counterparty exposure.



Long Term Credit Ratings	Direct Securities Limit	Maximum
AAA Category <sup>1</sup>		40%
AA Category including Australian major banks <sup>2</sup>		30%
A Category		20%
BBB Category		10%
Unrated Category <sup>3</sup>		5%

### 5.9.3 Investment Downgrade

Council will grandfather any deposit investments that cease to comply through downgrades, but will review any tradeable investments downgraded to outside Policy limits.

### 5.9.4 Term to Maturity / Investment Horizon

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

Once the primary aim of liquidity is met, Council will ordinarily diversify its maturity profile as this will ordinarily be a low-risk method of obtaining additional return as well as reducing the risks to Council's income. However, Council always retains the flexibility to invest as short as required by internal requirements or the economic outlook.

The factors and/or information used by Council to determine minimum allocations to the shorter durations include:

- Council's liquidity requirements to cover both regular payments as well as sufficient buffer to cover reasonably foreseeable contingencies;
- Medium term financial plans and major capex forecasts;
- Known grants, asset sales or similar one-off inflows; seasonal patterns to Council's investment balances.

Investment Horizon Description	Investment Horizon Maturity Date	Minimum Allocation	Maximum Allocation
Working capital funds	0-3 months	10%	100%
Short term funds	3-12 months	10%	100%
Short-Medium term funds	1-2 years	0%	70%
Medium term funds	2-5 years	0%	50%
Long term funds	5-10 years	0%	25%

Within these broad ranges, Council relies upon assumptions of expected investment



returns and market conditions that have been examined with its investment advisor.

Assets can back the longer durations to the extent that Council expects net portfolio drawdowns over the horizon will not result in those funds being required. This is based on the current term remaining, or the horizon of funds.

A fund or tradeable security can, on advice, be assigned an intended investment horizon reflecting the likely period it will be held. For securities, this may be different to the legal maturity.

## 6 Relevant Legislation

This document 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. It is Council's intention to comply with investment regulation and nothing in this Policy is to override these obligations.

All investments are to comply with the following:

- *Local Government Act 1993 - Section 625;*
- *Local Government Act 1993 - Order (of the Minister) dated 31 July 2008;*
- *The Trustee Amendment (Discretionary Investments) Act 1997 – Sections 14A(2), 14C(1) & (2);*
- *Local Government General Regulation 2005;*
- *Office of Local Government Circulars;*
- *Local Government Code of Accounting Practice and Financial Reporting;* and
- *Australian Accounting Standards.*

## 7 Document Information

Related documents and reference information in this section provides a single reference point to develop and maintain site compliance information.

### 7.1 Related Documents

Related documents, listed in **Table 7-1** below, are internal documents directly related to or referenced from this document.

Number	Title
	Council's Investment Strategy
	Delegations Register

Table 7-1 – Related documents

## 8 Responsible Officer / Policy Owner

Ownership of this policy rests with the Financial Controller.



## 9 Responsibilities

The investments 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.

## 10 Approval

As per cover sheet.

## 11 Monitoring

This policy will be monitored by the Financial Controller to ensure compliance.

## 12 Review Date

This policy, once adopted, is to remain in force until it is reviewed by Council. This policy is to be reviewed at least bi-annually to ensure that it meets legislative requirements 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 that Council and in the spirit of this policy. Any amendment to the investment Policy must be by way of Council resolution before taking effect.

## 13 Last Review Date

This Policy was last reviewed in May 2017

## 14 Record Keeping, Confidentiality and Privacy

This policy is to be made available for public viewing as required under the *Government Information (Public Access) 2009, NSW*.

## 15 Breaches and Sanctions

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.

Independent advisors are also to declare that they have no actual or perceived conflicts of interest and receive no inducements in relation to Council's investments.

Any breaches of this Policy will be referred to the General Manager for appropriate action.

