

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.

| | | | |
|------------------------------|--|---------------------|-----------------|
| Policy No: | POL/6004.7 | Version: | 7 |
| Service Unit: | Finance | | |
| Responsible Officer: | Financial Controller | | |
| Responsible Director: | Director Business & Community Services | | |
| Authorisation Date: | 19 October 2020 | Review Date: | 19 October 2022 |
| Minute No: | 143/20 | | |

Printing Disclaimer

If you are viewing a printed copy of this document it may not be current. Printed copies of this document are not controlled.

Before utilising a printed copy of this document, verify that it is the most current version by referencing Council's intranet.

Table of Contents

| | | |
|-----------|--|-----------|
| 1 | Background | 3 |
| 1.1 | Title of the Policy and Commencement Date..... | 3 |
| 1.2 | Purpose of the Policy | 3 |
| 2 | Objective | 3 |
| 2.1 | Objectives and Coverage of the Policy | 3 |
| 3 | Application | 3 |
| 3.1 | Application of this Policy | 3 |
| 4 | Definitions | 4 |
| 5 | Principles/Body | 4 |
| 5.1 | Authorised Investments..... | 4 |
| 5.2 | Prohibited Investments..... | 4 |
| 5.3 | Risk Management Guidelines | 5 |
| 5.3.1 | Credit and Maturity Guidelines | 5 |
| 5.4 | Investment Strategy | 7 |
| 5.5 | Investment Advisor..... | 7 |
| 5.6 | Accounting..... | 7 |
| 5.7 | Safe Custody Arrangements | 7 |
| 5.8 | Performance Benchmarks..... | 8 |
| 5.9 | Reporting..... | 8 |
| 6 | Relevant Legislation | 8 |
| 7 | Document Information | 8 |
| 7.1 | Related Documents..... | 8 |
| 8 | Responsible Officer / Policy Owner | 9 |
| 9 | Responsibilities | 9 |
| 10 | Approval | 9 |
| 11 | Monitoring | 9 |
| 12 | Review Date | 9 |
| 13 | Last Review Date | 9 |
| 14 | Record Keeping, Confidentiality and Privacy | 9 |
| 15 | Breaches and Sanctions | 10 |



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.

2 Objective

2.1 Objectives and Coverage of the Policy

The objective of this policy is to establish the framework within which the investment function of Singleton Council will operate, be monitored, and be reported upon.

While exercising the power to invest, due consideration is to be given to:

- **Preservation of capital.** Preservation of capital is the principal objective of the investment process. Investments are to be placed in a manner that seeks to ensure security and of safeguarding the funds invested. This includes managing credit and interest rate risk within identified thresholds and parameters.
- **Managing Council's liquidity.** 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 costs due to the unanticipated sale of an investment.
- **Maximising returns within Council's risk appetite as outlined in this policy.** Investments are expected to achieve a market average rate of return in line with the Council's risk tolerance.

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 in a Delegations Register and they will be required to acknowledge having received a copy of this policy and understand their obligations in this role.



4 Definitions

For the purposes of this policy:

| Term | Meaning |
|--|--|
| ADI | Authorised Deposit-Taking Institutions (ADIs) are corporations that are authorised under the <i>Banking Act 1959 (Cwth)</i> to take deposits from customers. |
| 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. |
| Bloomberg Ausbond Bank Bill Index | This is the industry standard benchmark for short term, conservative cash and fixed income portfolios which allows benchmarking of performance against a notional rolling parcel of 90 day bank bills averaging 45 days over a specified period. |
| Fair Value | 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> |
| FRN | 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. |
| Grandfathered | Investments in the portfolio which may fall outside of future Ministerial Investment Orders and/or Investment Policies that are given exemption from divestment as they were obtained under prior Orders/Policies. |
| NSW T-Corp, NSW TCorpIM | New South Wales Treasury Corporation and their investment management subsidiary. |

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 NSW TCorp &/or Investments in NSW 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.

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.
- **Reinvestment Risk** – the risk that an investor will be unable to reinvest cash flows (e.g., coupon payments) and maturity proceeds at a rate comparable to their current rate of return because interest rates are lower in the future, thereby resulting in a reduction of income over time.

5.3.1 Credit and Maturity Guidelines

Investments are to comply with the following risk management frameworks:

- **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



Overall Portfolio Credit Framework

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

| Long Term Credit Ratings | Portfolio Max % |
|-------------------------------|-----------------|
| AAA | 100% |
| AA | 100% |
| A | 60% |
| BBB | 30% |
| Non Rated ADIs | 10% |
| NSW TCorpIM Funds (not rated) | 30% |

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

Institutional Credit Framework

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

| Long Term Credit Ratings | Institution Max % |
|--|-------------------|
| AAA | 40% |
| AA | 40% |
| A | 20% |
| BBB | 10% |
| Unrated ADIs | 5% |
| NSW TCorp IM Funds | Max % |
| TCorpIM Cash Fund (not rated) | 20% |
| TCorpIM Short Term Income Fund (not rated) | 10% |

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

Investments are to comply with the credit limit frameworks as at the time of placement. Any subsequent unintended breaches due to investment maturities, redemptions or other causes for change to portfolio size will be monitored and addressed when practicable but not necessitate divestments in and of itself.

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.

Term to Maturity Framework

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 | | |
| Portfolio % > 3 years | Min 0% | Max 50% |
| Portfolio % > 5 years ≤ 10 years | Min 0% | Max 25% |
| Sub limits by Credit Rating | | |
| Sub limits: BBB+ & BBB rating: | | 3yrs maximum |
| Sub limits: BBB- and non rated ADIs: | | 1yr maximum |



5.4 Investment Strategy

An Investment Strategy will run in conjunction with the Investment Policy. The investment strategy will be reviewed with an independent investment advisor at least semi-annually. The Strategy will outline:

- Market conditions and recommended responses
- Current and target allocation of investment types, credit rating exposure and term to maturity exposure
- Return outlook, risk-reward considerations, assessment of the market cycle

5.5 Investment Advisor

The Council's investment advisor must be approved by Council and licensed by the Australian Securities and Investment Commission. 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.

The independent advisor is required to provide written confirmation that they do not have any actual or potential conflicts of interest in relation to the investments they are recommending or reviewing. Any commissions paid to the advisor by banks/product providers will be rebated, or otherwise onforwarded, to Council as per ASIC requirements for an independent investment advisor.

5.6 Accounting

Council will comply with appropriate accounting standards in valuing its investments and quantifying its investment returns.

5.7 Safe Custody Arrangements

Where necessary, investments may be held in safe custody on Council's behalf, providing 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
- 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.



5.8 Performance Benchmarks

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

5.9 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 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.

6 Relevant Legislation

All investments are to comply with the following:

- *Local Government Act 1993 - Section 412 & 625;*
- *Local Government Act 1993 - Order (of the Minister) in accordance with the most recently published Order;*
- *The Trustee Amendment (Discretionary Investments) Act 1997 – Sections 14A(2), 14C(1) & (2);*
- *Local Government General Regulation 2005 – Reg 212;*
- *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 |
|----------|-------------------------------|
| 20/64375 | Council's Investment Strategy |
| 14/41181 | 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 on 17 September 2018.

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.

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

