

Central Coast Council

Investment Management Policy



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Revision: 5

Policy No.: CCC024

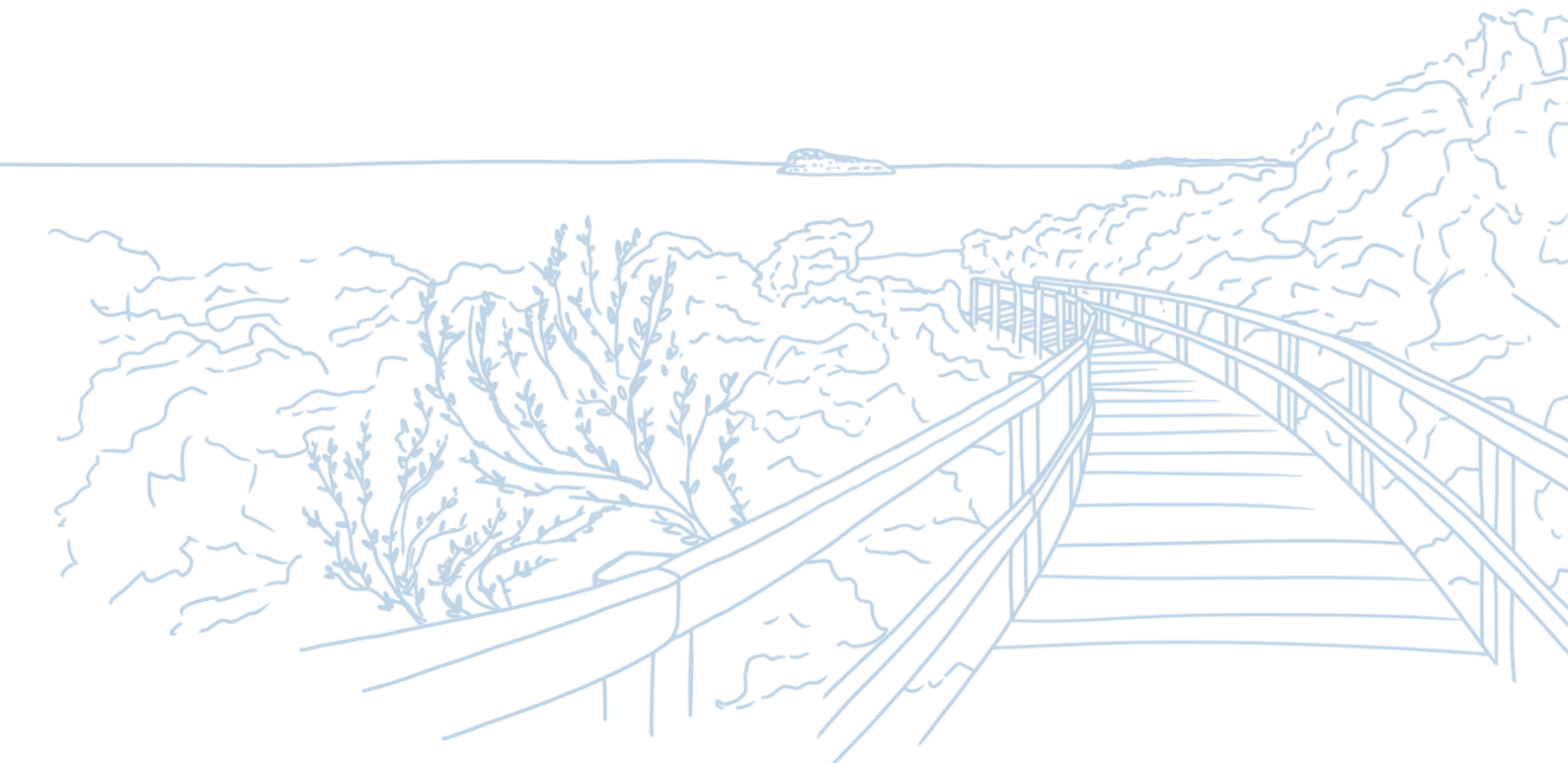


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1. Policy Objectives

- 1.1. To provide an effective, accountable and transparent framework for decision making, with respect to investing surplus funds held by Council in accordance with *Section 625, Part 13 of the Local Government Act 1993* and the NSW Local Government Minister's Order dated 12 January 2011.
 - 1.2. To maximise investment returns while maintaining the security of investments and preserving capital through the prudent management of risk.
 - 1.3. To ensure there is sufficient liquidity to meet all reasonably anticipated cashflow requirements as and when they fall due.
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2. Policy Scope

- 2.1. This Policy applies to all of Council's cash and related Investments Portfolio.
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3. Policy Statement

- 3.1. This Policy establishes an effective, accountable and transparent framework for decision making with respect to managing Council's cash and related Investment Portfolio.
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4. Investment Approach

- 4.1. To achieve Council's objective:
 - 4.1.1. Each investment in the portfolio will be evaluated and monitored against a performance benchmark appropriate to the risk and time period of the investment concerned;
 - 4.1.2. All investments under consideration will be assessed to ensure delivery of a level of return appropriate with their risk profile, and are competitive with an appropriate peer group of alternative investment options;
 - 4.1.3. The eligibility of an investment is determined by the NSW Local Government Minister's Order, as updated from time to time.
- 4.2. Risk Management Criteria:
 - 4.2.1. Detailed decisions on the purchase and sale of cash investment assets will be mindful of the following risk categories:

Risk	Mitigants
Risk of Capital Loss	Diligent product research, diversification and an intention to hold assets to maturity.

Liquidity risk	Cash flow forecasting, allocation of investment funds to time periods, maintenance of a “liquidity reserve” through conservative assumptions in cash flow forecasting.
Market timing risk (“not getting a good price on the day”)	Stagger investment dates, maintain spread of maturity dates.
Credit Risk	Credit Risk guidelines imposing required credit rating targets for the portfolio.
Concentration risk (“all eggs in one basket”)	Concentration Risk guidelines imposing maximum exposure for Individual institutions.
Product risk	Undertake rigorous product research.
Interest Rate (duration) risk	Invest in products within policy with staggered maturity dates to mitigate exposure to interest rate fluctuations.
Income risk	Conservative approach to investment income budgeting.
Reinvestment/Rollover risk	The risk that income will not meet expectations or budgeted requirements because interest rates are lower than expected in future.
Regulatory risk	Portfolio actively managed to comply with Legislation, Regulations and Policy.
Fraud risk	Documented investment procedures and manage portfolio in compliance with policy
Safe keeping / Clear title risk	Documented investment procedures.

All new investments must comply with the risk criteria at the time of placement.

4.3. Credit Risk Criteria:

- 4.3.1. Before entering any investment transaction with a new institution, there will be a diligent review of the credit worthiness of that institution. The Chief Executive Officer or his/her delegate must form their own opinion of the risk attached to an institution and not solely rely on published credit ratings.
- 4.3.2. Standard & Poor’s (or equivalent Moody’s or Fitch) ratings attributed to each individual institution will be used to determine maximum holdings. In the event of a disagreement between two rating agencies as to the rating band (“split ratings”), Council shall use the lower of the ratings. Where more than two ratings exist (e.g. 3 credit ratings S&P, Moody’s & Fitch), Council shall discard the lowest rating and then use the lower of the higher two ratings when assessing new purchases.
- 4.3.3. The maximum available limits in each rating category are as follows:

Table 1: Maximum Portfolio Weighting Per Rating Category

Long Term Credit Ratings	Maximum Portfolio Weighting
AAA Category	100%
AA Category or Major Bank [^]	100%
A Category	70%
BBB Category	60%
Unrated	0%

4.4. Concentration Risk (Counterparty / Institution Credit Framework):

- 4.4.1. Exposure to individual counterparties/financial institutions will be restricted by their rating as per the APRA standard above, so that single entity exposure is limited, as detailed in the table below:

Table 2: Counter Party Risk

Individual Institutions Limits	
Long Term Credit Ratings	Maximum Exposure
AAA Category*	100%
AA Category*	30%
A Category	20%
BBB Category	10%
Unrated Category	0%

** The limit may be exceeded temporarily to the extent that the excess represents funds held on deposit awaiting reinvestment.*

4.5. Product, Interest Rate and Income Risk / Term to Maturity Framework:

- 4.5.1. The investment portfolio is to be invested with a conservative approach to income budgeting within the maturity constraints set out in this Policy, and subject to rigorous product research.
- 4.5.2. To ensure Council has available funds to meet its short-term and long-term operational and capital cash commitments, liquidity targets as set in Table 3 are to be maintained.

Table 3: Term to Maturity

Description	Maximum Exposure
Portfolio allocation:	
Portfolio % < 1Year	100%
Portfolio % > 1 Year < 3 Years	70%
Portfolio % >3 Years < 5 Years	40%
Portfolio % > 5 Years	5%

4.6. Regulatory, Fraud and Safekeeping/Clear Title Risk:

- 4.6.1. The regulatory framework for investments is embedded within the investment policy and the Portfolio will be actively managed to comply with policy.
 - 4.6.2. Risk of Fraud and safe keeping is mitigated by documented investment procedures, separation of responsibilities for investment decision making and transaction settlement, with only one account for payment of redemption proceeds, including the use of licensed custodians or third-party registries where applicable.
 - 4.6.3. Council uses the following benchmarks to measure investment performance, in relation to both the current month and 12-month rolling returns against its return/income objectives:
 - a) Bloomberg AusBond Bank Bill Index
 - b) 30-day Bank Bill Rate
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5. Responsibilities

5.1. Compliance, monitoring and review

- 5.1.1. Pursuant to Section 223 of the Act, the elected Council is responsible for ensuring Council is, as far as possible, financially sustainable therefore it is the responsibility of the elected Council to ensure this policy is designed to achieve that;
- 5.1.2. Pursuant to Section 335 of the Act, the Chief Executive Officer is responsible to conduct the day-to-day management of Council in accordance with the strategic plans, programs, strategies and policies adopted by the elected Council. Therefore, the Chief Executive Officer is responsible for implementing the elected Council's decisions in accordance with investment practices as outlined in this policy; and
- 5.1.3. The Responsible Accounting Officer is responsible for reporting and reviewing of investments.

5.2. Reporting

- 5.2.1. 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;
- 5.2.2. Certificates must be obtained from the financial institutions confirming the amounts of investments held on Council's behalf as at 30 June each year, and reconciled to the Investment Register;
- 5.2.3. All investments are to be appropriately recorded in Council's financial records and reconciled at least on a monthly basis; and

- 5.2.4. A monthly report will be provided to the elected Council. The report will detail the investment portfolio in terms of performance, percentage exposure of total portfolio, maturity date and investment interest earned for the year.

5.3. Records management

- 5.3.1. Staff must maintain all records relevant to administering this policy in accordance with Council's [Information and Records Management Policy](#).

6. Policy Definitions

Act	means the <i>Local Government Act 1993 (NSW)</i> .
Active Secondary Market	means a market where investors purchase securities or assets from other investors, rather than from issuing companies themselves on an arm's length (independent) basis.
Cash	cash comprises both cheque accounts and daily call accounts with Authorised Deposit Taking Institutions (ADIs). Cash assets typically have a maturity term at the time of placement of being immediately available or available within 24 hours. Cash assets are closely linked with investments but do not constitute investments. Cash is used to meet immediate operational cash needs.
Council	means Central Coast Council.
Delegated Authority	means any function, duty or power vested in the Council by the Act, that the Council may, within the terms of the Act, delegate to a Council member, Committee of the Council, Chief Executive Officer, employee or person or class of persons approved for that purpose.
Investment	comprises of term deposits and bonds with an active secondary market placed with government (including NSW T-Corp) and ADI's. Investment assets have maturities at the time of placement of 30 days or more.
Major banks	<p>Australian banking groups:</p> <ul style="list-style-type: none"> • Australia and New Zealand Banking Group Limited • Commonwealth Bank of Australia • National Australia Bank Limited • Westpac Banking Corporation <p>Including ADI subsidiaries whether explicitly guaranteed, and brands (such as St George). Council may ratify an alternative definition from time to time.</p>
Policy	means policy created and approved by the Council, as well as any policy of either the former Gosford City Council or the former Wyong Shire Council, that applies to Council by the operation of the Proclamation.
The Bank Bill Swap Reference Rate (BBSW)	is the midpoint of the nationally observed best bid and offer for AFMA Prime Bank eligible securities.
Year	means from July 1 to June 30 (financial year).

7. Policy Administration

Business Group	Corporate Services
Responsible Officer	Chief Financial Officer
Associated Procedure (if any, reference document(s) number(s))	Investment Strategy
Policy Review Date	Annually from the date of adoption unless legislated otherwise as per the Department of Premier and cabinet Division of Local Government – Investment Policy Guidelines May 2010
File Number / Document Number	D15717731
Relevant Legislation (reference specific sections)	<ul style="list-style-type: none"> – <i>Local Government Act 1993</i> (NSW); – <i>Local Government (General) Regulation 2021</i> (NSW); – Local Government – Ministerial Order dated 12 January 2011; – Division of Local Government (as it was then known) Circular 11-01; – Division of Local Government (as it was then known) Investment Policy Guidelines published in May 2010; – Local Government Code of Accounting Practice and Financial Reporting; – Australian Accounting Standards; and – <i>Sections 14A(2), 14C(1) and (2), Trustee Amendment (Discretionary Investments) Act 1997</i> (NSW).
Relevant desired outcome or objectives as per Council's Delivery Program	<p>Theme 4: Responsible</p> <p>Goal G: Good governance and great partnerships</p> <p>R-G4: Serve the community by providing great customer experience, value for money and quality services.</p>
Related Policies / Protocols / Procedures / Documents (reference document numbers)	<ul style="list-style-type: none"> – Code of Conduct (D15487987) – Delegations Register – Information and Records Management Policy (D14025241) – Restricted Funds Policy (D15127118)

8. Policy Authorisations

No.	Authorised Function	Authorised Business Unit / Role(s)
LG Act 059	Implement the elected Council's decisions in accordance with investment practices as outlined in this policy	Chief Executive Officer
LG Act 042	Authority to make Investment decisions	Chief Financial Officer
EX022	Report and review investments in accordance with clause 6.2 of this policy	Responsible Accounting Officer

9. Policy History

Revision	Date Approved / Authority	Description Of Changes
1	28 October 2019 Minute Number 1042/19	Annual review of investment policy
2	14 December 2020 Minute Number 1288/20	Annual review of investment policy
3	3 February 2021 Minute Number 11/21	Annual review of Investment Policy. Revision of bank rating criteria from S&P to APRA standard approach Inclusion of Grandfathering provision and breaches of criteria Updating of maximum investment limits
4	28 June 2022 Minute Number 101/12	Annual review of investment policy
5	27 July 2023 Minute Number 93/23	Simplified version to meet ministerial guidelines and Council's new Policy Framework