

# Central Coast Council

## Investments Management and Borrowings Policy

Date Adopted: 23/07/2024

Revision: 1



## Table of Contents

1. Policy Objectives.....	3
2. Policy Scope .....	3
3. Policy Statement.....	3
4. Investments Management.....	3
5. Borrowings .....	6
6. Responsibilities.....	9
7. Policy Definitions .....	10
8. Policy Administration .....	13
9. Policy Authorisations .....	14
10. Policy History .....	14

## 1. Policy Objectives

**1.1** The objective of this Policy is:

- 1.1.1 To provide an effective, accountable, and transparent framework for decision making, with respect to investing surplus funds held by Council, and undertaking borrowings, in accordance with the *Local Government Act 1993 (the Act)*, *Local Government (General) Regulation 2021 (the Regulation)*, and the NSW Local Government Minister's Orders dated 12 January 2011 (**Investments Order**) and 13 May 2009 (**Borrowings Order**).
  - 1.1.2 To maximise investment returns while maintaining the security of investments and preserving capital through the prudent management of risk.
  - 1.1.3 To ensure there is sufficient liquidity to meet all reasonably anticipated cashflow requirements as and when they fall due.
  - 1.1.4 To ensure funding of long dated assets achieves intergenerational equity, that is, that current and future ratepayers both contribute towards the assets they utilise now and in the future.
- 

## 2. Policy Scope

**2.1** This Policy applies to all employees who actively manage, or supervise employees who actively manage, Council's cash and investments portfolio or internal and external borrowing of funds (including the use of an overdraft facility).

---

## 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, and Borrowings undertaken by Council:

- 1.1.5 Investing activities must be conducted in a manner that is financially prudent, ensuring the preservation of capital, liquidity and returns.
  - 1.1.6 Borrowings must be conducted in a manner that is financially prudent, ensuring that debt levels and servicing costs are manageable and sustainable.
- 

## 4. Investments Management

**4.1** Investments are to be placed in a manner that seeks to ensure security and the safeguarding of the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters.

## 4.2 Approach to investing surplus funds:

- 4.2.1 A strategic approach will be taken when investing funds surplus to immediate requirements, considering short and long term cashflow requirements as identified in Council's Long Term Financial Plan.
- 4.2.2 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.
- 4.2.3 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.
- 4.2.4 The eligibility of an investment is determined by the prevailing Ministerial Investments Order as updated from time to time.

## 4.3 Risk Management Criteria

- 4.3.1 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 horizons, 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.

#### 4.4 Credit Risk Criteria:

- 4.4.1 All new investments must comply with the risk criteria at the time of placement.
- 4.4.2 Prior to investing with a new institution, a diligent review of the credit worthiness of that institution will be undertaken. 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.
- 4.4.3 Standard & Poor's (or equivalent Moody's and Fitch) ratings attributed to each individual institution will be used to determine maximum holdings. If an investment is rated by more than one rating agencies, Council shall use the lower of the ratings.
- 4.4.4 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 <sup>^</sup>	100%
A Category	70%
BBB Category	60%
Unrated	0%

#### 4.5 Concentration Risk (Counterparty/Institution Credit Framework):

- 4.5.1 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%

#### 4.6 Product, Interest Rate and Income Risk/Term to Maturity Framework:

- 4.6.1 The investment portfolio is to be invested with a conservative approach to income budgeting within the following term to maturity constraints, subject to rigorous product research.
- 4.6.2 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
<b>Portfolio allocation:</b>	
Portfolio % < 1Year	100%
Portfolio % > 1 Year < 3 Years	70%
Portfolio % >3 Years < 5 Years	40%
Portfolio % > 5 Years	5%
<b>Maturity of financial institution securities:</b>	
ADI issues rated A or above	5+ years
ADI issues rated BBB to A	5 years
ADI issues BBB- (Term Deposits only)	1 years

#### 4.7 Regulatory, Fraud and Safekeeping/Clear Title Risk

- 4.7.1 The regulatory framework for investments is embedded within this policy.
- 4.7.2 Risk of fraud 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.
- 4.7.3 Council uses the following benchmarks to measure investment performance, in relation to both current month and 12-month rolling returns against its return/income objectives:
- a) Bloomberg AusBond Bank Bill Index
  - b) 30-day Bank Bill Rate
- 4.7.4 All investments to be in Australian dollars and held in the name of Council.

---

## 5. Borrowings

**5.1** Council recognises that loan borrowings for capital works are an important financing mechanism for local government. Loan borrowings provide the opportunity to bring projects forward and to ensure that the full cost of infrastructure is not borne entirely by present day ratepayers.

### **5.2 Permissible Reasons to Borrow**

Council is only to consider borrowings:

- 5.2.1 To accelerate capital works projects in Council's Long Term Financial Plan where bringing works forward is cost effective and results in asset management savings over the life of the asset.

5.2.2 For the creation or major refurbishment of a significant infrastructure asset which is unable to be funded from Council's planned long term expenditure.

5.2.3 To enable capital works funded from developer contributions, with repayments from future contributions.

5.2.4 For land or other asset acquisition for strategic property holdings.

**5.3** Council will **not** borrow funds for (except through an overdraft as per 5.7):

5.3.1 General operating costs, maintenance activities or other service provision that does not require major assets.

#### **5.4 Internal Borrowings**

When borrowing funds, Council will in the first instance, where appropriate and advantageous for Council, seek to use its own surplus cash funds.

##### **Externally Restricted Funds**

5.4.1 Internal Loans from Externally Restricted Reserves must have Ministerial Approval before the Internal Loan can be drawn, in accordance with Section 410(3) of the Local Government Act 1993.

5.4.2 Funds can be borrowed internally within the Section 7.11 Reserves only for the purpose of other Section 7.11 works. These funds cannot be used to fund works that are not part of the Section 7.11 works schedule.

5.4.3 A repayments schedule to repay internal borrowings will be drafted to ensure repayments to Externally Restricted Reserves can be funded and are made as scheduled to ensure timely replenishment of the Plan borrowed from.

##### **Internally Restricted Funds**

5.4.4 Where it is identified that Council holds Internally Restricted Reserves that are not required in the short term, those funds can be used as a replacement for an external loan borrowing where the cost of using external funds acquired through borrowings is greater than the foregone earnings on funds that are surplus to current requirements.

5.4.5 The use of Internally Restricted Reserves for a purpose that is different from its original purpose requires Council approval.

5.4.6 Under no circumstances shall funds be borrowed from Trust Accounts.

#### **5.5 Approach to Borrowings**

When considering borrowings, the following requirements will be met:

5.5.1 New borrowings are made in accordance with relevant legislation.

5.5.2 Other measures such as changing the planned timing of project cash flows, internal borrowing, or seeking grants from government or other sources are considered.

- 5.5.3 It is determined that borrowings are the most appropriate and cost-effective way to provide the cash to enable the delivery of the project/s. Proposals for borrowings must include a detailed business case and cashflow analysis showing:
- a) For building or purchasing infrastructure - that full funding costs can be repaid over the life of the asset
  - b) For economic investments - that the investment in a new asset decreases existing costs or provides new revenue in excess of its funding costs (i.e., positive Net Present Value)
  - c) The future impact on the Long-Term Financial Plan, having regard for the Council's ability to service debt and the whole of life operating costs of the project.
- 5.5.4 The annual debt service expense is affordable in the context of the annual Operational Plan and Council's Long Term Financial Plan, within current budget constraints and allows for current service levels to be maintained.
- 5.5.5 Debt Service Cover ratio is maintained as per the industry benchmark of greater than 2 times.
- 5.5.6 All borrowings must be repaid within the assessed economic life of the asset that it was used to fund.
- 5.5.7 The total of the loan borrowings is sustainable in terms of Council's ability to meet future repayments and budgetary obligations.
- 5.5.8 The risk and cost of borrowing is minimised via a structured procurement program.
- 5.5.9 The spread of debt maturities is within the set funding/refinancing risk limits.
- 5.5.10 Council will review all loans at least annually. Current and future loans will be considered as part of the ongoing review of Council's Long Term Financial Plan, to identify potential early repayment of loans, and future borrowings requirements. We will consider any actions necessary to match our evolving financial requirements and optimise debt cost. This may include:
- a) Debt consolidation
  - b) Change to lower cost providers.
  - c) Other changes to loan terms



## **5.6 Interest Rates Parameters**

Council will obtain professional advice regarding determining the period for which the interest rate should be fixed. The factors that will be considered shall include:

- 5.6.1 The level of the interest rate when compared to the long term average official interest rate.
- 5.6.2 Recent movements in the official interest rate
- 5.6.3 The term of the loan

## **5.7 Overdraft**

- 5.7.1 Council may have an overdraft facility with its transactional Bank.
- 5.7.2 An overdraft facility is only used for short term unavoidable and essential cash flow purposes. The use of the overdraft facility will normally occur when the cost of surplus funds held in interest bearing deposits, for which the transfer to cash will incur, a significant penalty and is largely not cost effective.
- 5.7.3 The use of the overdraft facility will generally be avoided through careful cash management practices to ensure sufficient funds are available to fund daily expenditure requirements.
- 5.7.4 At no time is the overdraft facility to be used as an ongoing debt facility or to fund anything except short term cash flows.

---

## **6. Responsibilities**

### **Compliance, monitoring and review**

- 6.1** 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.
- 6.2** 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 investments and borrowings management practices as outlined in this Policy.
- 6.3** The Responsible Accounting Officer is responsible for reporting and reviewing of investments and borrowings.
- 6.4** The Chief Financial Officer is responsible for compliance with this Policy and its review at least once a year or as required in the event of legislative changes. This Policy may also be changed as a result of other amendments that are to

the advantage of Council and in the spirit of this Policy. Any amendments to this Policy must be by way of Council resolution.

### Reporting

- 6.5** 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.
- 6.6** 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.
- 6.7** All investments are to be appropriately recorded in Council's financial records and reconciled at least monthly.
- 6.8** 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.
- 6.9** Council is required to complete the Office of Local Government Borrowing Return detailing projects to be funded for any borrowings for the financial year, on an annual basis.

### Records management

- ~~**6.10** Staff must maintain all records relevant to administering this protocol in accordance with Council's [Information and Records Management Policy](#).~~

## 7. Policy Definitions

<b>Act</b>	means the <i>Local Government Act 1993</i> (NSW)
<b>Active Secondary Market</b>	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.
<b>ADIs</b>	means Authorised Deposit Taking Institutions A financial institution licensed by the Australian Prudential Regulatory Authority (APRA) to carry on banking business, including accepting deposits from the public. This includes banks, building societies and credit unions.
<b>Bank Bill Swap Reference Rate (BBSW)</b>	means an independent reference rate that is used for pricing securities. Fixed income investors use BBSW since it's the benchmark to price floating rate bonds and other securities. The BBSW is an average of the bank bill rates supplied by banks for various maturities.
<b>Borrowing</b>	means cash received from another party in exchange for future payment of the principal, interest, and other finance charges.

<b>Borrowing costs</b>	means interest and other costs that an entity incurs in connection with the borrowing of the funds.
<b>Cash</b>	Cash comprises both cheque accounts and daily call accounts with Authorised Deposit Taking Institutions ( <b>ADIs</b> ). 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.
<b>Council</b>	means Central Coast Council.
<b>Debt Service Cover Ratio</b>	$\frac{\textit{Operating result before capital (excluding interest and depreciation/impairment/amortisation)}}{\textit{Principal repayments plus borrowing costs}}$
<b>Delegated Authority</b>	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 the purpose.
<b>Externally Restricted Reserves</b>	means those cash and investments where Council is bound by legislation or third-party contractual agreement that restricts the use of funds held.
<b>Internally Restricted Reserves</b>	means those cash and investments that Council has allocated by resolution to identified purposes.
<b>Investment</b>	comprises 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.
<b>Major banks</b>	<p>means Australian banking groups:</p> <ul style="list-style-type: none"> <li>• Australia and New Zealand Banking Group Limited</li> <li>• Commonwealth Bank of Australia</li> <li>• National Australia Bank Limited</li> <li>• Westpac Banking Corporation</li> </ul> <p>This includes ADI subsidiaries whether or not explicitly guaranteed, and brands (such as St George). Council may ratify an alternative definition from time to time.</p>
<b>Overdraft facility</b>	means a loan that is not drawn down completely when approved but allows for a series of timed borrowings over a period up to the maximum of the facility.

<b>Year</b>	means from July 1 to June 30 (financial year).
-------------	--

## 8. Policy Administration

<b>Business Group</b>	Corporate Services
<b>Responsible Officer</b>	Chief Financial Officer
<b>Associated Procedure (if any, reference document(s) number(s))</b>	N/A
<b>Policy Review Date</b>	Annual
<b>File Number / Document Number</b>	D16236207
<b>Relevant Legislation (reference specific sections)</b>	<p>This Policy supports Council's compliance with the following legislation:</p> <ul style="list-style-type: none"> <li>▪ <i>Local Government Act 1993</i> (NSW)</li> <li>▪ <i>Local Government (General) Regulation 2021</i> (NSW)</li> <li>▪ Ministerial Investment Order (12 January 2011)</li> <li>▪ Ministerial Borrowing Order (13 May 2009)</li> </ul>
<b>Link to Community Strategic Plan</b>	<p>Theme 4: Responsible</p> <p><b>Goal G: Good governance and great partnerships</b></p> <p>R-G3: Provide leadership that is transparent and accountable, makes decisions in the best interest of the community, ensures Council is financially sustainable and adheres to a strong audit process.</p>
<b>Related Policies / Protocols / Procedures / Documents (reference document numbers)</b>	<ul style="list-style-type: none"> <li>▪ <a href="#">Australian Accounting Standards</a></li> <li>▪ <a href="#">Code of Conduct</a></li> <li>▪ <a href="#">Delegations Register</a></li> <li>▪ <a href="#">Information and Records Management Policy</a></li> <li>▪ Investment Register</li> <li>▪ <a href="#">Local Government Code of Accounting Practice and Financial Reporting</a></li> <li>▪ <a href="#">Division of Local Government Investment Policy Guidelines 2010</a></li> </ul>

## 9. Policy Authorisations

No.	Authorised Function	Authorised Business Unit / Role(s)
TBA	Management of investments and borrowings	Finance

## 10. Policy History

Revision	Date Approved / Authority	Description Of Changes
1	23 July 2024 Minute No. 268/24	New Policy adopted (consolidation of the previous Policy for Investment Management and Debt Management Policy)