Policy for Investment Management

28 June 2022

Policy No: CCC 024

Policy owner:	Finance Unit
Approved by:	Council
Date of approval:	28/06/2022
Policy category:	Statutory
Content Manager No:	D15225073
Review date:	28 June 2023

Central Coast Council P: 1300 463 954 E: ask@centralcoast.nsw.gov.au W: centralcoast.nsw.gov.au

A: Wyong: 2 Hely St / PO Box 20, Wyong NSW 2259

Contents

Purpose

1. The Investment Policy sets out the requirements for the management of Council's cash and investment portfolio.

2. Central Coast Council (CCC) require that all investment activities be exercised with the care, diligence and skill of a prudent person, and not for speculative purpose.

Policy summary

3. All investments are to comply with:
    a) Local Government Act 1993;
    b) Local Government (General) Regulation 2005;
    c) Local Government – Ministerial Order dated 12 January 2011;
    d) Division of Local Government (as it was then known) Circular 11-01;
    e) Division of Local Government (as it was then known) Investment Policy Guidelines published in May 2010.
    f) Local Government Code of Accounting Practice and Financial Reporting;
    g) Australian Accounting Standards
    h) Sections 14A (2), 14C (1) and (2) of the Trustee Amendment (Discretionary Investments) Act 1997;
4. The Office of Local Government releases guidance to Councils on investment management from time to time. Council will review this policy in light of such advice.

Background

5. The policy sets the framework to:
    a) Safeguard Council's cash and investment portfolio
    b) Achieve appropriate earnings
    c) Manage Council's cash resources to ensure sufficient liquidity to meet Council's business objectives over the long, medium and short term.

6. The policy reinforces Council's ongoing commitment to maintain a conservative risk and return portfolio, an important component of its ongoing prudent financial management practises.

7. The Investment Strategy supports the policy by defining investment objectives and actions for the next 12 months as outlined in the Appendix.

8. Central Coast Council's financial policies are developed to ensure that the Council satisfies legislative requirements and follows 'best practice' in its business operations, with due consideration for the effective and efficient management of the resources utilised within that business.

General

Policy Statements

9. This policy does not confer any delegated authority upon any person.
10. Council will not instruct the CEO in any manner that requires the CEO to breach his or her statutory responsibilities in respect of investments.
11. Subject to any functions, duties or powers conferred directly on a Council or CEO by the Act, the Council will delegate to the CEO, the power to make decisions relating to the effective and efficient management of investments in accordance with this policy.
12. The CEO or their delegate may, in exceptional or emergency circumstances, approve an action outside the requirements of this policy provided that any such variation to this policy is reported to Council in the next monthly investment report.
13. <u>Other investment acquisitions</u>. The Council alone may approve the acquisition of land or holding of any shares or interests in a body corporate, partnership, joint venture or other association of persons; or settle, or be, or appoint a trustee of, a Trust.
14. The Council will not delegate to any person the authority to raise capital or to specifically borrow money by any means, including options, swaps or any other non-balance sheet items.
15. Council will only allow investment for the purpose of achieving the effective and efficient on-going management of the Council organisation in accordance with the Act, Operational Plan, Long Term Financial Strategy and any other policy made from time to time.
16. Investments will be managed with the care, diligence and skill that a prudent person would exercise, and officers shall not engage in activities that would conflict with the proper execution and management of Council's investment portfolio.
17. Management of the risks associated with delegation of authority shall be achieved by way of detailed regular reporting on the exercise of all functions, duties and powers delegated throughout the organisation and by the Council.
18. Subject to functions, duties or powers conferred upon the CEO by the Act, all delegated authorities must be exercised in accordance with relevant CCC policies and procedures set by the Council or CEO from time to time.
19. Variations, reviews or additions to this policy shall be approved by resolution of the Council.
20. The Policy for Investment Management will be reviewed annually or as required in the event of legislative changes and/or guidelines as per point 4.

21. This policy is not dependent on the terms of any other policy or procedures except the Act or direct, lawful instruction under the terms of the Act.

Investment Guidelines

22. The CEO or his/her delegate, in consultation with Council staff, will approve investment guidelines, within this policy, as part of the annual review, which will set the general direction for the purchase and sale of investment assets for the coming period and prescribe performance targets by asset category.

23. The performance of the portfolio will be assessed against a benchmark set annually in the Investment Guidelines.

24. The CEO, in consultation with Council staff shall issue guidelines reviewed at least annually, for the management of the following risk classes:

Credit Risk Management Must Include

a) Maximum portfolio weighting by total assets in an asset grouping

b) Maximum amount to be held with an individual institution within an asset grouping

Term to Maturity Framework

a) Asset groupings will be defined with reference to credit rating.

b) The amount of investment risk attached to a particular security is in part related to its term to maturity. Guidelines for the management of term to maturity risk shall at a minimum prescribe the maximum exposure by term to maturity groupings, as an example, percentage of portfolio maturing in three to four years.

Investments

25. All investment securities must be denominated in Australian Dollars.

26. New investments shall be limited to (by statute):

a) Any public funds or securities issued by or guaranteed by the Commonwealth, any State or a Territory of the Commonwealth;

b) Any debentures or securities issued by other Local Government Councils;

c) Interest bearing deposits with, or any debentures or bonds issued by, an authorised deposit-taking institution (ADI), as defined in the Banking Act 1959, but excluding subordinated debt obligations;

d) A deposit with NSW Treasury Corporation or investments in their managed funds;

e) Any bill of exchange which has a maturity date of not more than 200 days and if purchased for value confers on the holder in due course a right of recourse against a bank which has been designated as an ADI by the Australia Prudential Regulation Authority (APRA).

27. This investment policy prohibits any investment carried out for speculative purposes including, but not limited to:

    a) Derivative based instruments;

    b) Principal only investments or securities that provide potentially nil or negative cash flow;

    c) Stand-alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind;

    d) The use of leveraging (borrowing to invest) of an investment;

    e) Extensive trading activity

Accounting and Reporting

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

29. Investment income must be recorded according to accounting standards. Published reports may show a breakdown of its duly calculated investment returns into capital gains and losses and interest.

30. A report will be provided to Council on a monthly basis when Ordinary Meetings occur. The report will detail the investment portfolio in terms of performance, percentage exposure of total portfolio and maturity dates.

31. From time to time financial assets may be acquired at a discount or premium to their face value. Discount or premium is to be taken into account in line with relevant Australian Accounting Standards.

32. 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 June each year.

Independent Financial Advisor

33. From time to time, Council may utilise the services of a suitably qualified and experienced investment advisor for the purposes of achieving the aims of this policy.

34. An appointment of an Independent Financial Advisor (IFA) can be decided by the CEO or their delegate. The IFA must be licensed by the Australian Securities and Investment Commission. An appointed Independent Advisor will have no conflict of interest in respect to their investments recommended. The term of any appointed Independent Financial Advisor will not exceed 3 years without review.

Investment Guidelines

35. Council is a prudent investor. It is intended to maximise investment returns while maintaining the security of investments through the prudent management of risk.

Risk Management

36. Detailed decisions on the purchase and sale of 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	Market Investments acquired at par value will not be exposed to interest rate fluctuations if they are redeemed at maturity.
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	Regulation embedded in Investment Policy. Portfolio actively managed to comply with Policy.
Fraud risk	Documented investment procedures, separation of responsibilities for investment decision making and transaction settlement, only one account for

	payment of redemption proceeds, use of licensed custodians or third-party registries where applicable.
Safe keeping / Clear title risk	Documented investment procedures.

Credit Risk

37. Before entering into any investment transaction with a new institution there will be a diligent review of the creditworthiness of that institution. The Chief Executive Officer or his/her delegate must form its own opinion of the risk attached to an institution and not merely rely on published credit ratings.

38. Central Coast Council will not invest in subordinate debt, as per the current NSW Minister's Order.

39. Standard & Poor's (or equivalent Moodys or Fitch) ratings attributed to each individual institution will be used to determine maximum holdings. In the event of 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 .
    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%

** 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*
- *Commonwealth Bank of Australia*
- *National Australia Bank Limited*
- *Westpac Banking Corporation*

Including ADI subsidiaries whether or not explicitly guaranteed, and brands (such as St George).
Council may ratify an alternative definition from time to time.

Concentration Risk (Counterparty/Institution Credit Framework)

40. 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.*

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

41. 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:

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%
Maturity of financial institution securities:	
ADI issues rated A or above	5 years
ADI issues rated BBB to A	3 years
ADI issues BBB- and non-rated (Term Deposits only)	1 years

Regulatory, Fraud and Safekeeping/Clear Title Risk

42. The regulatory framework for investments is embedded within the investment policy and the Portfolio will be actively managed to comply with policy.

43. 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.

Benchmarking and Monitoring

44. Each investment in the portfolio is to be evaluated and monitored against a performance benchmark appropriate to the risk and time horizon of the investment concerned.

45. The objective is to ensure that all investments under consideration can deliver a level of return commensurate with their risk profile and that they are competitive with an appropriate peer group of alternative investment options.

46. The eligibility of an investment is determined by the NSW Local Government Minister's Order dated 12 January 2011.

47. Under these Investment Guidelines, no assets other than those listed in the table below will be eligible.

Table 4 – Target Returns and Suitable Products

Investment Category	Investment Horizon	Benchmark	Permitted
Working capital funds	0-3 months	Official cash rate	11am, overnight call and cash accounts, short dated Bank Bills, TCorpIM Cash Fund
Short term funds	3-12 months	AusBond Bank Bill Index	TCorpIM Cash Fund, Term Deposits, Bank Bills
Short-Medium term funds	1-3 years	AusBond Bank Bill Index	Term Deposits, Senior ADI Fixed and Floating Rate Notes, short dated Bonds, TCorpIM Strategic Cash Fund
Medium term funds	3-5 years	AusBond Bank Bill Index	Term Deposits, Senior ADI Fixed and Floating Rate Notes and Bonds
Long term funds	5 years	AusBond Bank Bill Index TCorp's Internal Benchmark (Funds)	Term deposits, Senior ADI Fixed and Floating Rate Notes and Bonds, TCorpIM Growth Funds

Implementation and Authority to Amend Strategy

48. The Investment Guidelines noted earlier in this policy set out the intended approach to investments in the market conditions that are expected to prevail over the medium to long term investment horizon.
    However, there may be periods, sometimes sustained, where "normal" market conditions do not apply, for example, periods where short term interest rates are higher than long term interest rates, or investments of similar credit quality offer different yields due to liquidity differences.

49. The CEO or his/her delegate may approve a variation to this policy if the investment is to the Council's advantage or due to revised legislation subject to this variation being reported to Council in the next available monthly investment report.

Breaches of criteria

50. Procedures for dealing with unavoidable breaches of any particular thresholds are contained in the next three sections.

Grandfathering of Investments

51. This policy imposes limits and thresholds in relation to the acquisition and holding of investments. However, situations may occur where inadvertent breaches of these limitations or thresholds arise, other than from the acquisition of investments. For example:
    a) Amendments to regulatory directives or legislation
    b) Changes in the total value or amount of Council's investment portfolio which consequently changes any of the threshold limits so that they no longer meet the portfolio liquidity parameters.

Breach as a result of regulatory change

52. When limitations or thresholds are breached due to the amendments to regulatory directives or legislation, the investment portfolio must be managed in accordance with the respective amendments. Where the amendments enable retention and grandfathering of existing investments, Council may continue to actively manage those investments within the portfolio in accordance with all other regulations and policies applicable to such investments. This includes a strategy of holdings or divesting such investments in accordance with regular investment considerations.

Breach as a result of a change in the total investment portfolio

53. Where limitations or thresholds are breached due to a change in the overall size of the total investment portfolio, the following process will apply:
    a) An immediate freeze is imposed on the acquisition of new investments in the relevant category until the portfolio can be effectively managed back to accord with the requirements of this policy.
    b) The relevant category of investments must be managed back in accord with the policy limits within a period that takes into account any adversity created by market liquidity, current valuations it these investments and the risk of default.

Professional Advice

54. Council may seek professional, external investment advice from time to time to provide assistance in Investment Strategy formulation, portfolio implementation and monitoring in accordance with the Policy for Investment Management.

Definitions

55. In this policy:

a) **Active Secondary Market** – 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) **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.

c) **Council** – means Central Coast Council

d) **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 the purpose.

e) **Investment** – 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.

f) **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.

g) **Proclamation** - means the Local Government (Council Amalgamations) Proclamation 2016.

h) **The Act** - means the Local Government Act 1993.

i) **The Bank Bill Swap Reference Rate (BBSW)** – is the midpoint of the nationally observed best bid and offer for AFMA Prime Bank eligible securities.

j) **Year** - means from July 1 to June 30 (financial year).

k) **Grandfathered Investments** – are part of total investments and comprise investments where additional investment activity is prohibited by regulation and other investments over which additional investment activity is temporarily prohibited due to unintentional breaches of investments thresholds and limitations that arise due to changes in the level of unrelated investments within the portfolio (the prohibition only remains as long as the breaches remain in place).

Appendix 1: Investment Strategy

The annual Investment Strategy sets out Council's investment goals and targets for the coming year. The aim of the strategy is to guide the management of Council's investment portfolio over the short to medium term to:

a) achieve a balanced and diversified portfolio, in terms of allowable investment products, credit ratings and maturation terms that will outperform the benchmark indices

b) ensure liquidity when required for Council's operational and capital expenditure needs.

Scope

1. The Investment Strategy applies to all managers and employees who actively manage the investment of surplus funds or have responsibility for employees who actively manage the investment of surplus funds.

2. This strategy should be read in conjunction with the Investment Policy.

General

3. Council's investment strategy is determined after taking into consideration a review of the following issues:

    a) global and domestic economic investment environments

    b) investment policy and legislative constraints

    c) current composition of Council's investment portfolio

    d) long, medium- and short-term financial plans.

Global and Domestic Investment Environments

4. In Australia, a history of prudent regulation of the financial institutions by the Australian Prudential Regulation Authority (APRA) has meant that Australian based regulated financial institutions have already operated for an extended period under stringent capital adequacy and liquidity requirements. Council's investments all fall under APRA regulation with the result that the portfolio is conservative and secure.

5. Since 2020, the covid-19 pandemic has also placed considerable pressures on the Financial Markets impacting on earnings

6. Current interest rates are expected to rise in the near term due to global inflationary pressures and strength of the local labour market and moves by The Reserve Bank of Australia.

Legislative Environment

7. Council's investment opportunities are constrained by a combination of legislation, regulation and any directions and guidelines issued by the Minister or the Office of Local Government.

8. There has been no change to the investment legislative environment for a number of years and the most recent Ministerial Investment Order released in January 2011 continues to limit Council's investment options to:

    a) term deposits with Approved Deposit Taking Institutions (ADIs)

    b) other ADI senior ranked securities

    c) investments with NSW Treasury Corporation (T-Corp)

    d) funds or securities issued or guaranteed by the Commonwealth or any State or Territory.

Composition of Council's investment portfolio

9. The conservative nature of Council's Investment Strategy is clearly reflected in the structure of the portfolio, where 100% of the portfolio is invested with APRA-regulated ADIs.

10. Council's current portfolio is as follows:

Investment	Split
Big Four banks	11.55%
Australian mid-tier banks	73.65%
Foreign controlled Australian based ADIs	14.80%
Total APRA-regulated ADIs	**100%**

** The allocation of assets within the portfolio is with very secure institutions. In the past year, Council has diversified the portfolio with further selected investment into the Australian mid-tier banks as they continue to reflect strength and stability.*

Investment Strategy

11. Council's investment portfolio will continue to be prudently managed in accordance with:
    a) Council's Investment Policy and related legislative and regulatory requirements
    b) Documented risk management procedures to preserve capital
    c) Council's operational and capital funding requirements.

Objectives

12. Council's investment strategy for the period is to maintain the highly secure profile of the portfolio, provide liquidity and deliver competitive investment returns commensurate with the portfolio structure.

Risk Profile

13. The risk profile for the Council's investment portfolio is based on the principles of being prudent, conservative and risk averse. This is achieved by managing the diversity and creditworthiness of investments in accordance with the Investment Policy and other relevant requirements.

Liquidity / Maturity

14. The majority of the Council's cash and investments portfolio is held as internally restricted and externally restricted cash reserves to satisfy the Councils legislative responsibilities.

15. There are presently increased demands for funding of capital projects with the result that within the maturity profile of the investment portfolio there is a responsive shift of funds from the longer term to the short and medium terms.

16. To ensure Council has available funds to meet both these commitments and its short-term operational and capital cash commitments, the following liquidity targets are set in accordance with the Investment Policy.

Investment period	Cumulative Minimum % of total portfolio	Maximum % of total portfolio
1 month	10% or $50M	100%
2 to 12 months	20%	100%
1 to 3 Years	45%	70%
3 to 5 Years	95%	40%
> 5 Years	100%	5%

** Councils liquidity will be monitored on an ongoing basis to ensure the Councils cash requirements are met and that liquidity parameters remain within allowable limits set out in the Investment Policy.*

Return / Income

17. 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.

18. Council aims to achieve returns equal to or above these benchmark rates for the period. However, this achievement remains secondary to the critical strategies of maintaining a prudent and conservative risk profile and in meeting Council's liquidity needs.

19. Councils current cash balances are applied in meeting immediate operational and capital commitments as well as future year's capital commitments.

20. Additionally, 2022-2023 may present continued new opportunities in delivering higher investment income returns, including the following:
    a) Interest rate expectations are that in the short to medium-term interest rates will increase.
    b) The level of capital expenditure influences the maturity profile of the investment portfolio reducing in the long-term and being reinvested in the short to medium term where interest yields can be lower.
    c) A small number of long-term investments that are locked in the higher rates offered in previous years continue to mature. As these funds are reinvested earnings are forecast to improve compared to 2021-2022 as interest rates are on an upward trajectory.

Unrealised Investment Gains

21. The strategy in managing significant unrealised investment gains is to compare the following amounts:
    a) If an investment with a significant unrealised investment gain was to be sold to realise the gain, its earning potential becomes the sum of (a) the unrealised gain now realised and (b) the estimated future interest earnings of the proceeds of sale up to the maturity date of the original investment sold. A key consideration is that since the unrealised gain was the result of a decline in interest rates, the interest yields on the reinvesting of the proceeds of sale will be less than the yields of the original investment up to the time of maturity of the original investment.
    b) If the investment with a significant unrealised gain was to be held to maturity it would mature at its face value with the result that the unrealised investment gain will reverse steadily to its maturity date. On the other hand, the investment will continue to earn interest income to maturity at yields that are higher than those currently available in the market.

22. Consequently, investments with significant unrealised gains will be retained in the portfolio unless A exceeds B where:
    a) A = the sum of unrealised investment gain plus future interest earnings to maturity date at the lower interest yield
    b) B = the total amount of the future interest to maturity at the current higher interest yield

23. In accordance with AASB9 Financial Instruments, the unrealised investment gain and any subsequent increase or decrease in the amount is required to be recognised in Council's financial results. Consequently, if unrealised gains reverse as losses in the future, it means that these losses are more than offset by the interest income earned on those investments because of their respective higher interest rates.

Environmentally and Socially Responsible Investments

24. Council's ability to acquire environmentally and socially responsible investments within the current investment and policy environment remains limited, as the structure of many of these investments remains prohibited under the current Ministerial Investment Order;

25. Council will, however, continue to explore opportunities for supporting environmentally and socially responsible investments within these constraints. The investment climate is changing over time and Council notes that many large scale renewable projects are expected to evolve, which may offer sustainable investment opportunities in the future. Council will continue to encourage and give preference to these investments where they comply with the Ministerial Investment Order and satisfy Council's policy and investment objectives.

History of revisions

Amendment history	Details
Original approval authority details	Craig Norman - Chief Financial Officer
	16 August 2019
	The Investment Policy sets out the requirements for the management of Council's cash and investment portfolio. Central Coast Council (CCC) require that all investment activities be exercised with the care, diligence and skill of a prudent person, and not for speculative purpose.
	CM document number D13648027
Version 0.2	3 February 2021 Minute Number 11/21
	CM D14429986
	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*
Version 0.3	**28 June 2022 Minute Number 101/22**
	CM D15225073
	Review of Investment Policy.