



Central Coast Council  
Policy for Investment Management

Version 0.1  
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## A. Policy Summary

- A1 This policy defines the circumstances under which Central Coast Council (CCC) may invest Council funds not required for immediate and short-term operational purposes.
- A2 It sets out the risk profile, investment strategy and authorities to execute investment instruments.

## B. Policy Background

- B1 All investments are to comply with:-
- B1.1 *Local Government Act 1993*;
  - B1.2 Local Government – Ministerial Order dated 12 January 2011;
  - B1.3 Sections 14A (2), 14C (1) and (2) of the *Trustee Amendment (Discretionary Investments) Act 1997*;
  - B1.4 *Local Government (General) Regulation 2005*;
  - B1.5 Division of Local Government Circular 11-01 ;
  - B1.6 Local Government Code of Accounting Practice and Financial Reporting;
  - B1.7 Australian Accounting Standards
- B2 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.

## C. Policy Objectives

- C1 The purpose of this policy is to provide a framework for investment of Council's funds with a view to minimising the risk of loss of capital or interest, to ensure that liquidity requirements are observed and after taking into account these two priority objectives, seeking to achieve the best rate of return available.
- C2 While exercising the power to invest, consideration is to be given to the preservation of capital, liquidity and the rate of return of the investment.

## D. Definitions

- D1 **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.
- D2 **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.
- D3 **Council** – means Central Coast Council.
- D4 **Investment** - means the placement of Council monies in any form of investment instrument that provides for returns. It does not include any investment made in capital assets, people or property. An investment must comply with Council's adopted Investment Policy.
- D5 **CEO** - means the person appointed to the position of Chief Executive Officer of the Council, who undertakes the functions of the General Manager under the Act.

- D6 **Proclamation** - means the *Local Government (Council Amalgamations) Proclamation 2016*.
- D7 **The Act** - means the *Local Government Act 1993*
- D8 **Year** - means from July 1 to June 30 (financial year).
- D9 **The Bank Bill Swap Reference Rate (BBSW)** – is the midpoint of the nationally observed best bid and offer for AFMA Prime Bank eligible securities.
- D10 **Floating Rate Note** – is a medium term fixed security where the coupon is a fixed margin ('coupon margin') over a variable rate benchmark. The benchmark is commonly BBSW and is reset at regular intervals.

## **E. Policy Statements**

### **General**

- E1 This policy does not confer any delegated authority upon any person.
- E2 Council will not instruct the CEO in any manner that requires the CEO to breach his or her statutory responsibilities in respect of investments.
- E3 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.
- E4 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.
- E5 Other investment acquisitions. 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.
- E6 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.
- E7 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.
- E8 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.
- E9 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.
- E10 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.

- E11 Variations, reviews or additions to this policy shall be approved by resolution of the Council.
- E12 The Policy for Investment Management will be reviewed annually or as required in the event of legislative changes and/or guidelines as per B2.
- E13 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

- E14 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.
- E15 The performance of the portfolio will be assessed against a benchmark set annually in the Investment Guidelines.
- E16 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** which must include:-

- E16.1 Maximum portfolio weighting by total assets in an asset grouping
- E16.2 Maximum amount to be held with an individual institution within an asset grouping

### **Term to Maturity Framework**

- E16.3 Asset groupings will be defined with reference to credit rating.
- E16.4 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

- E17 All investment securities must be denominated in Australian Dollars.
- E18 New investments shall be limited to (by statute):-
  - E18.1 Any public funds or securities issued by or guaranteed by the Commonwealth, any State or a Territory of the Commonwealth;
  - E18.2 Any debentures or securities issued by other Local Government Councils;
  - E18.3 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;
  - E18.4 A deposit with NSW Treasury Corporation or investments in their managed funds;

- E18.5 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.
- E19 This investment policy prohibits any investment carried out for speculative purposes including, but not limited to:
  - E19.1 Derivative based instruments;
  - E19.2 Principal only investments or securities that provide potentially nil or negative cash flow;
  - E19.3 Stand-alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind;
  - E19.4 The use of leveraging (borrowing to invest) of an investment
  - E19.5 Extensive trading activity

### **Accounting and Reporting**

- E20 Council will comply with appropriate accounting standards in valuing its investments and quantifying its investment returns.
- E21 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.
- E22 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.
- E23 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.
- E24 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**

- E25 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.
- E26 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

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

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

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.

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

The portfolio credit guidelines to be adopted will be based on the Standard & Poor's (S&P) ratings system criteria. 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>	80%
A Category	60%
BBB Category	20%
Unrated	2%

<sup>^</sup> 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.

Standard & Poor's ratings attributed to each individual institution will be used to determine maximum holdings.

In the event of disagreement between agencies as to the rating band ("split ratings") Council shall use the higher in assessing compliance with portfolio Policy limits, but for conservatism shall apply the lower in assessing new purchases.



## Concentration Risk (Counterparty/Institution Credit Framework)

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:

**Table 2 – Counter Party Risk**

Individual Institution Limits	
Long Term Credit Ratings	Maximum Exposure
AAA Category*	20%
AA Category*	20%
A Category	20%
BBB Category	10%
Unrated Category	2%

\*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

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	10 years
ADI issues rated BBB to A-	5 years
ADI issues non-rated (Term Deposits only)	2 years

### Regulatory, Fraud and Safekeeping/Clear title risk

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

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

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

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	Bench Mark	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

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.

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.

### Professional Advice

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.