

Investment Policy

1 Purpose

The purpose of this Policy is to provide a framework for the investment of Coffs Harbour City Council's funds at the most favourable rate of interest available to it at the time and maximising capital gains, whilst having due consideration of risk and security for that investment type and ensuring that its liquidity requirements are being met.

2 Policy

2.1 Policy Statement

While exercising the power to invest, consideration is to be given to the preservation of capital, liquidity, and the return on investment. Council therefore has four primary objectives for its investment portfolio:

- The preservation of the amount invested.
- To ensure there is sufficient liquid funds to meet all reasonably anticipated cash flow requirements.
- To generate income from the investment that exceeds the performance benchmarks mentioned later in this document.
- Compliance with legislation, regulations, the prudent person tests of the Trustee Act and best practice guidelines.

Council's Quarterly and Monthly Investment Portfolio Performance reviews will run in conjunction with its Investment Policy and will outline:

- Councils current cash flow expectations and the implications for deviations from a long-term liquidity profile;
- Market conditions and the appropriate responses – particularly relative positioning within Investment Policy Statement (IPS) limits;
- Relative return outlook, risk-reward considerations, assessment of the market cycle and hence constraints on risk;
- Diversification: Target allocation of investment type, credit quality, counterparty exposure and term to maturity profile; and
- Appropriateness of overall investment types for Council's portfolio.

2.2 Key Principles

Council's Investment Policy is underpinned by the following principles:

2.2.1 Prudent Person Standard

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.

2.2.2 Ethics and Conflicts of Interest

- 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.
- Independent advisors are also to declare that they have no actual or perceived conflicts of interest.

2.2.3 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 / bonds / debentures which are senior securities issued by an eligible Authorised Deposit-Taking Institution (ADI);
- Bills of exchange, (< 200 days duration) guaranteed by an ADI;
- Debentures issued by a NSW Council (under Local Government Act 1993);
- Deposits with T-Corp &/or Investments in T-Corps Hour Glass Facility; and
- Investments grandfathered under the Ministerial Investment Order.

2.2.4 Prohibited Investments

This investment policy prohibits the following types of investments, but prohibited investments are not limited to the list below and extend to any investment carried out for speculative purposes:

- Derivative based instruments;
- Principal only investments or securities that provide potentially nil or negative cash flow;
- Standalone securities issued that have underlying futures, options, forwards contracts and swaps of any kind; and
- The use of leveraging (borrowing to invest) of an investment - however, nothing in the policy shall prohibit the short-term investment of loan proceeds where the loan is raised for non-investment purposes and there is a delay prior to the spending occurring.

2.2.5 Risk Management Related Strategy

Investments obtained are to have the following key criteria considered:

- **Counterparty:** The risk that a party to a transaction will fail to fulfil its obligations. In the context of this document it relates to Council's Policy of limiting its exposure to any one ADI based on its credit rating as well as transactional counterparties (e.g. brokers and custodians);
- **Rollover Risk:** the risk that income will not meet expectations or budgeted requirement because interest rates are lower than expected in future.
- **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 an investor is unable to redeem the investment at a fair price within a timely period and thereby incurs additional costs (or in the worst case is unable to execute its spending plans);
- **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; and
- **Legal Risk:** the risk that contractual obligations are overturned or cannot be enforced.

2.3 Investment Advisor

- Council's Investment Advisor must be approved by Council and licensed by the Australian Securities and Investment Commission (ASIC).
- Independent advisors are required to provide written confirmation that they do not have any actual or potential conflicts of interest in relation to investments they are recommending or reviewing, including that they are not receiving any commissions or other benefits in relation to the investments being recommended or reviewed.
- Council officers may seek advice from a source other than the Council approved advisor, provided that they are ASIC licensed and meet independence requirements.

2.4 Accounting

- Council will comply with appropriate accounting standards in valuing its investments and quantifying its investment returns.
- In addition to recording investment income according to accounting standards, published reports may show a break-down of its duly calculated investment returns into realised and unrealised capital gains and losses.
- Other relevant issues will be considered in line with relevant Australian Accounting Standards, such as discount or premium to their face value, designation as held-to-maturity or on a fair value basis, and impairment.

2.5 Safe Custody Arrangements

Where necessary, investments may be held in safe custody on Council's behalf, as long as 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; or
 - An institution with an investment grade Standard and Poor's, Fitch or Moody's rating; or
 - An institution with adequate insurance, including professional indemnity insurance and other insurances considered prudent and appropriate to cover its liabilities under any agreement.

2.6 Reporting

- Documentary evidence must be held for each investment and details thereof maintained in an investment register. The documentary evidence must provide Council's 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 30 June each year.
- All investments are to be appropriately recorded in Council's financial records and reconciled at least on a monthly basis.
- 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. The monthly report will also detail the investment performance against the applicable benchmark, investment income earned versus budget year to date and confirm compliance of Council's investments within legislative and policy limits. Council may nominate additional content for reporting.

2.7 Performance Benchmarks

The performance of each investment will be assessed against the benchmarks listed in the table below. It is Council’s expectation that the performance of each investment will be greater than or equal to the applicable benchmark.

Investment	Performance Benchmark	Time Horizon
11 am Account, short dated bills, Negotiable Certificate of Deposits (NCD’s) issued by financial institutions, term deposits with a maturity date 90 days or less, maturing securities.	Bloomberg AusBond Bank Bill Index (BAUBIL)	3 months or less
Term Deposits with a maturity date between 90 days and 1 Year, ADI Floating Rate Notes (FRN’s) bought on the secondary market.	Bloomberg AusBond Bank Bill Index (BAUBIL)	3 months to 12 months
Term Deposits with a maturity date between 1 and 2 Years, ADI FRN’s bought on the secondary market.	Bloomberg AusBond Bank Bill Index (BAUBIL)	1 to 2 years
ADI FRN’s, Bonds, securities (senior ADI Debt instruments), Term deposits with a maturity date between 2 and 5 Years.	Bloomberg AusBond Bank Bill Index (BAUBIL)	2 to 5 Years
T-Corp Hour Glass Managed Funds, Inflation Linked Bonds	Fund’s Internal Benchmark or Bloomberg AusBond Bank Bill Index (BAUBIL)	5 years and greater

It is Council’s expectation that the performance of each investment will be greater than or equal to the applicable benchmark by sufficient margin to justify the investment taking into account its risks, liquidity and other benefits of the investment.

Council will seek information about both current and historical reward for the investments contemplated in the current monthly and quarterly investment portfolio performance reviews—where insufficient, it will hold cash and not impose a minimum out performance obligation as to do so mandates risk-seeking at times of minimal reward.

It is also expected that Council will take due steps to ensure that any investment, notwithstanding a yield above the benchmark rate, is executed at the best pricing reasonably possible.

Grandfathered investments (*i.e.* managed funds and securities) are allocated a performance benchmark to the appropriate time horizon based on expected maturity date and should be taken into account when allocating the rest of the portfolio.

The decision when to exit such investments are based on a range of criteria specific to the investments – including but not limited to factors such as:

- Those criteria as outlined in OLG Circular 08-10:
 - Whether the downgrade of the rating is a short term market fluctuation or long term market correction
 - The likelihood of the rating of the security changing

- The maturity date of the investment
- The preservation of capital if the investment was held to maturity
- The assessment of independent quotes for the market value of the investment
- The effect of interest received from the investment, and
- The capital loss incurred if the investment was sold.
- Competing investment opportunities
- Costs of holding
- Liquidity and transaction costs
- Outlook for future investment values.

In general, it is expected that professional advice will be sought before transacting in “grandfathered” investments.

2.8 Credit Quality Limits

The portfolio credit guidelines to be adopted will reference the Standard & Poor’s (S&P) ratings system criteria and format - however, references to the Minister’s Order also recognised Moody’s and Fitch Ratings and any of the three ratings may be used where available.

However, the primary control of credit quality is the prudential supervision and government support and explicit guarantees of the ADI sector, not ratings.

The maximum holding limit in each rating category and the target credit quality weighting for Council’s portfolio shall be:

Long Term Rating Range	Short Term Credit Ratings	Maximum Holding
AAA Category	A-1+	100%
AA Category or Major Bank	A-2	100%
A Category	A-2	60%
BBB Category & unrated ADIs	A-3	40%

2.9 Counterparty Limits

Exposure to individual counterparties/financial institutions will be restricted by their rating so that single entity exposure is limited, as detailed in the table below. It excludes any government guaranteed investments. Investments not explicitly rated, but issued by an ADI, will be grouped according to the highest rating of the parent ADI.

This table does not apply to any grandfathered managed fund or structured investment where it is not possible to identify a single counterparty exposure.

Individual Institution or Counterparty Limits	
Long Term Rating Range	Limit
AAA Category ¹	40%
AA Category	30%
A Category	15%
BBB Category	10%
Unrated Category ²	2%

¹ 100% Commonwealth Government-guaranteed deposits and securities are included in this category, but without any upper limit applying to the government as counterparty.

2.10 Term to Maturity

Council's investment portfolio shall be structured around the time horizon of investment to ensure that liquidity and income requirements are met.

Once the primary aim of liquidity is met, Council will ordinarily diversify its maturity profile as this will ordinarily be a low-risk source of additional return as well as reducing the volatility of Council's income. However, Council always retains the flexibility to change the allocation of funds from longer term to shorter term investments as per internal requirements or the economic outlook.

The factors and/or information used by Council to determine minimum allocations to the shorter durations include:

- Council's liquidity requirements to cover both regular payments as well as sufficient buffer to cover reasonably foreseeable contingencies;
- Medium term financial plans and major capital expenditure forecasts;
- Known grants, asset sales or similar one-off inflows;
- Seasonal patterns to Council's investment balances.

Investment Horizon Description	Investment Horizon - Maturity Date	Minimum Allocation	Maximum Allocation
Working capital funds (includes short term deposits)	0-3 months	10%	100%
Short term funds	3-12 months	0%	100%
Short-Medium term funds	1-2 years	0%	70%
Medium term funds	2-5 years	0%	50%
Long term funds	5 years and greater.	0%	25%

Within these broad ranges, Council relies upon assumptions of expected investment returns and market conditions that have been examined by its investment advisor.

2.11 Environmentally and Socially Responsible Investments (SRI)

Council's preference is to enter into environmentally and Socially Responsible Investments (SRI) where:

- The investment is compliant with legislation and Investment Policy objectives and parameters; and
- The rate of return is favourable relative to comparable investments on offer to Council at the time of investment.

SRI status may be in respect of the individual investment product, the issuer of the investment, or both and should be endorsed by an accredited environmentally and socially responsible industry body or institution.

The criteria for SRI are all preferred and not mandatory requirements.

Council's criteria for an SRI are those which direct investment towards the socially and/or environmentally productive activities listed below:

² This category includes unrated ADI's such as some Credit Unions and Building Societies where falling outside deposit guarantees to the extent of the uncovered exposure.

Environmentally productive activities are considered to be:

- resource efficiency-especially water and energy
- renewable energy
- production of environmentally friendly products recycling, and waste and emissions reduction

Socially productive activities are considered to be:

- fair trade and provision of a living wage
- human health and aged care
- equal opportunity employers, and those that support the values of communities, indigenous peoples and minorities
- provision of housing, especially affordable housing

Avoid investment in the socially and/or environmentally harmful activities listed below:

Environmentally harmful activities are considered to be:

- production of pollutants, toxins and greenhouse gases (either in Australia or abroad)
- habitat destruction, especially destruction of forests and marine eco-systems.
- nuclear power
- uranium mining

Socially harmful activities are considered to be:

- abuse of Human Rights and Labour Rights
- involvement in bribery/corruption
- production or supply of armaments
- manufacture of alcohol, tobacco or gambling products

3 Definitions

ADI: Authorised Deposit-Taking Institutions (ADI) are corporations that are authorised under the Banking Act 1959 (Cth) to take deposits from customers.

Bill of Exchange: A bill of exchange is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a sum certain in money to or to the order of a specified person, or to bearer.

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 and is a forward looking rate. Floating rate securities are most commonly reset quarterly to the 90-day BBSW.

Bond: A fixed rate obligation guaranteed by an eligible counter party.

Council Funds: Surplus monies that are invested by Council in accordance with section 625 of the Act.

Debenture: A debenture is a document evidencing an acknowledgement of a debt, which a company has created for the purposes of raising capital. Debentures are issued by companies in return for medium and long-term investment of funds by lenders.

OLG: NSW Office of Local Government, Department of Premier and Cabinet, or any successor.

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: A provision in the Ministerial Order dated 31 July 2008 that exempts Council's from the new regulations for those funds invested before the date of the 31 July 2008 Ministerial Order.

Hourglass: A range of managed investments offered by T Corp.

IPS: The Investment Policy Statement provides the general investment goals and objectives of Council and describes the strategies that must be employed to meet these objectives. Specific information on matters such as asset allocation, risk tolerance, and liquidity requirements are also included in the IPS.

LGGR: Local Government (General) Regulation 2005 (NSW).

Major Bank: The ADI deposit 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 (such as Bank of Western Australia Ltd) whether or not explicitly guaranteed, and brands (such as St George).

NCD: Is a short term investment in an underlying security being a negotiable certificate of deposit (NCD) where the term of the security is often for a period of 185 days or less), but occasionally longer. NCDs are generally discounted securities, meaning they are issued and on-sold to investors at a discount to their face value.

T-Corp: New South Wales Treasury Corporation.

Bloomberg AusBond Index: Bloomberg calculates a family of indices each day. The AusBond Bank Bill Index is an index representing the performance of a notional parcel of bills averaging 45 days

Each day the term to maturity of each bill, and hence the index as a whole, reduces by one day until the shortest bill matures. The face value of the maturing bill is then reinvested in a new bill with a term to maturity of 13 weeks and the term to maturity of the index as a whole lengthens by approximately seven days.

4 Key Responsibilities

Position	Directorate	Responsibility
Mayor	Council	To lead Councillors in their understanding of, and compliance with, this Policy.
General Manager	Executive	To lead staff (either directly or through delegated authority) in their understanding of, and compliance with, this Policy. To approve resources to develop, implement and review this Policy.
Group Leader	Financial Services & Logistics	To implement Council's Investment Policy.
Section Leader – Financial Planning	Financial Services & Logistics	To implement Council's Investment Policy.
Directors	All Directorates	To communicate, implement and comply with this Policy.
All Council officials	Council	To comply with this Policy.

5 References

All investments are to comply with the following:

- Local Government Act 1993 - Section 625
- Local Government Act 1993 - Order (of the Minister) dated 12 January 2011
- The Trustee Amendment (Discretionary Investments) Act 1997 Sections 14A(2), 4C(1) & (2)
- Local Government General Regulation 2005
- Office of Local Government Circulars

- Office of Local Government Investment Policy Guidelines
- Local Government Code of Accounting Practice and Financial Reporting
- Australian Accounting Standards.

6 Details of Approval and revision

- **Approval date: 24/08/2017**
- **Responsible Section: Financial Planning**
- **Superseded policies/procedures:**
- **Next review date: 24/08/2021**

Table of amendments

Amendment	Authoriser	Approval ref	Date