



## *Our Vision*

Nambucca Valley ~ Living at its best

## *Our Mission Statement*

'The Nambucca Valley will value and protect its natural environment, maintain its assets and infrastructure and develop opportunities for its people.'

---

### **1. Purpose of the Policy**

The purpose of this policy is to establish the framework of principles that are to apply to the investment of Council funds. It details:

- Council Funds covered by this Investment Policy;
- Council's objectives for its investment portfolio/s;
- How investments are to be undertaken;
- The applicable risks to be managed;
- Any constraints and other prudential requirements to apply to the investments of Funds having regard to the applicable legislation and regulations governing Council's investments;
- The manner in which compliance with the Policy will be monitored and reported;
- Appropriate benchmarks for each category of investments.

### **2. Policy Objectives and Coverage**

The purpose of this policy is to provide a framework for investing Council's funds at the most favourable rate of interest available to it at the time to maximise returns, whilst having due consideration of risk tolerance, liquidity and security of its investments.

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

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

### **3. Legislative and Regulatory References**

This document has been prepared to recognise the legislative requirements and obligations for the investment of Council's funds. The legislative requirements are listed in the Investment Policy adopted by Council from time to time. It is Council's intention to comply with investment regulation and nothing in this policy is to override these obligations.

---

All investments are to comply with the following:

- Local Government Act 1993 – Section 625
- Local Government Act 1993 – Investment Order (of the Minister) as in force from time to time;
- The Trustee Amendment (Discretionary Investments) Act 1997 – Sections 14A(2), 14C(1) & (2);
- Local Government (General) Regulation 2005 – Clause 212
- Office of Local Government Investment Policy Guidelines
- Office of Local Government Circulars
- Trustees Act 1925
- Local Government Code of Accounting Practice & Financial Reporting; and
- Australian Accounting Standards

#### **4. Delegation of Authority**

Authority for implementation of the Investment Policy is delegated by Council to the General Manager in accordance with the Local Government Act (1993).

The General Manager has in turn delegated the day-to-day management of Councils investments to the Chief Financial Officer (RAO) and his/her delegates who must ensure adequate skill, support and oversight is exercised in the investment of Council funds.

Officers' delegated authority to manage Council's investments shall be recorded and they are required to acknowledge they have received a copy of this policy and understand their obligations in this role.

#### **5. 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.

#### **6. 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 and receive no inducements in relation to Council's investments.

#### **7. Definitions**

For the purposes of this policy:

**"Act"**                    *The Local Government Act 1993.*

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

**BBSW**                    The Bank Bill Swap Rate (BBSW), or Bank Bill Swap Reference Rate, is a short-term interest rate used as a benchmark for the pricing of Australian dollar derivatives and securities, most notably floating rate securities. The BBSW is

calculated daily. Floating rate securities are most commonly reset quarterly to the 90-day BBSW.

<b>Fair Value</b>	The Australian Accounting Standards Board defines Fair Value as the <i>price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.</i>
<b>FRN</b>	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.
<b>Grandfathered</b>	Investments held by Council that were removed from the Minister’s Order but could be retained when the NSW State Government changed the list of Approved Investments as a result of the Cole enquiry (or which are similarly treated in any future amendments).
<b>IP</b>	The Investment Policy 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 IP.
<b>LGGR</b>	<i>Local Government (General) Regulation 2005 (NSW).</i>
<b>OLG</b>	NSW Office of Local Government.
<b>NCD / TCD</b>	Is a short term investment in an underlying security being a negotiable certificate of deposit (NCD) where the term of the security is usually for a period of 185 days or less (sometimes up to 2 years). NCDs are generally discount securities, meaning they are issued and on-sold to investors at a discount to their face value. Sometimes also known as “transferable certificate of deposit” (TCD).
<b>RAO</b>	Responsible Accounting Officer of a council means a member of the staff of the council designated by the General Manager, or if no such member has been designated, the General Manager. (LGGR, clause 196)
<b>T-Corp</b>	New South Wales Treasury Corporation.

## 8. Principles/Body

### 8.1 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 / senior securities issued by an eligible 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-Corp Managed Funds; and
- Existing investments grandfathered under the Ministerial Investment Order.

## 8.2 Prohibited Investments

This investment policy prohibits the following types of investment<sup>1</sup>:

- Derivative based instruments;
- Principal only investments or securities that provide potentially nil or negative cash flow; and
- Stand-alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind.
- Other investments excluded by the Ministerial Investment Order.

This policy also prohibits 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 expenditure of loan funds.

## 8.3 Risk Management Guidelines

Investments obtained are to be considered in light of the following key criteria:

- **Credit Risk** – The risk that a party or guarantor to a transaction will fail to fulfil its obligations. In the context of this document it relates to the risk of loss due to the failure of an institution/entity with which an investment is held to pay the interest and/or repay the principal of an investment;
- **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 institution runs out of cash, is unable to redeem investments at a fair price within a timely period, and thereby Council 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 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.
- **Rollover/Reinvestment Risk** – The risk that income will not meet expectations or budgeted requirement because interest rates are lower than expected in future. Deposits and bank securities are offered at a margin above a bank bill swap rate. The "rollover risk" for these securities is that the margins (or fixed rates) contract when the security matures and needs to be reinvested, thereby resulting in a reduction of income over time (the converse of Maturity Risk).

## 8.4 Investment Advisor

The Council's investment advisor is appointed by the General Manager and must be licensed by the Australian Securities and Investment Commission (ASIC). The role shall not extend beyond advice to a discretionary or dealing mandate. The advisor must be independent and must confirm in writing that they have no actual or potential conflict of interest in relation to investment products being recommended and is free to choose the most appropriate product within the terms and conditions of investment policy.

This includes receiving no commissions or other benefits in relation to the investments being recommended or reviewed, and having no involvement in the structuring or distribution. All remuneration received from investments must be rebated to Council in full.

---

<sup>1</sup> Prohibited investments are not limited to the list below and extend to any investment carried out for speculative purposes

## **8.5 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, and interest.

Other relevant issues will be considered in line with relevant Australian Accounting Standards, such as discount or premium, designation as held-to-maturity or on a fair value basis and impairment.

## **8.6 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 at inception, in regular statements and for audit;
- 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:
  - The Custodian nominated by TCorp for their managed funds;
  - Austraclear;
  - An institution with an investment grade Standard and Poor's, Moody's or Fitch 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.

Council's assets must be entirely separate, and not mingled with the assets of the advisor or any other counterparty in a sub-account. Council will have regard to costs and other consequences of any arrangements.

## **8.7 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 by sufficient margin to justify the investment taking into account its risks, liquidity and other benefits of the investment.

It is also expected that Council will take due steps to ensure that any investment is executed at the best pricing reasonably possible.

<b>Investment</b>	<b>Performance Benchmark</b>	<b>Time Horizon</b>
At Call Account, short dated bills, deposits issued by financial institutions of appropriate term.	Bloomberg AusBond - Bank Bill Index (BBI)	Working Capital 3 months or less
Term Deposits of appropriate remaining term, FRN's nearing maturity.	Bloomberg AusBond - Bank Bill Index (BBI)	Short Current Financial Year
FRN's, Bonds, Term deposits with a maturity date beyond the financial year and up to 5 Years. Grandfathered Income Funds.	Bloomberg AusBond - Bank Bill Index (BBI)	Medium 2 to 5 Years
Other TCorpIM Funds	Fund's Internal Benchmark	3-5 Years (M/T Growth) 5+ Years (L/T Growth)

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

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

- Returns expected over the remaining term
- Fair values
- 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.

## **8.8 Reporting**

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.

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<sup>th</sup> June each year.

All investments are to be appropriately recorded in Council's financial records and reconciled at least on a monthly basis, including fair value movements.

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, including investments divested during the financial year. 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.

## 8.9 Risk Management

All investments carry a trade-off between risk, liquidity and return. Further, risks can either be amplified or reduced when investments are combined within a portfolio. To address these risks the following mechanisms are in place:

- Council’s Investment Policy is the key risk control document, setting out counterparty risk limits, minimum credit quality of the portfolio and relevant restrictions on particular investment types.
- Council has determined a list of Authorised Investments that may be used for Council funds.
- Council will establish its credit quality allocations and term to maturity profile to ensure that liquidity and income requirements are met in a well-diversified investment portfolio.
- Council will receive professional assistance with evaluation and monitoring investments to ensure they will meet Council needs. The advisor shall also assist Council to ensure that the commercial terms on which Council is offered investments by fund managers, issuers and brokers are fair and reasonable.
- Council will receive professional assistance with portfolio construction so that:
  - The overall risk of the portfolio can be appropriately assessed;
  - The portfolio can be adjusted over time as circumstances warrant;
  - Regulatory changes are accommodated.

### 8.9.1 Credit Quality Limits

The portfolio credit guidelines to be adopted will be based on the Standard & Poor’s (S&P) ratings system criteria (or Moody’s/Fitch equivalents ratings if an S&P rating is not available).

The maximum holding limit in each rating category for Council’s portfolio shall be:

Long Term Rating Range	Maximum Holding
AAA Category <sup>1</sup>	100%
AA Category or Australian major banks <sup>2</sup>	100%
A Category	60%
BBB Category	40%
Unrated ADI’s <sup>3</sup>	10%

- 1 100% Commonwealth Government and Government-guaranteed deposits are included in this category.
- 2 Should the Australian major banks(including their brands and subsidiaries) be downgraded below AA range, they would continue to hold the limits prescribed for AA
- 3 This category includes unrated ADI’s such as Credit Unions and Building Societies to the extent not Commonwealth-guaranteed.
- 4 “Major Banks” are currently defined as:  
  
The ADI deposits or senior guaranteed principal and interest ADI securities issued by the major Australian banking groups:  
  
  - Ø Australia and New Zealand Banking Group Limited (ANZ)
  - Ø Commonwealth Bank of Australia (CBA)
  - Ø National Australia Bank Limited (NAB)
  - Ø Westpac Banking Corporation (WBC)
 including ADI subsidiaries whether or not explicitly guaranteed, and brands (such as St George).
- 5 100% Commonwealth Government and Government guaranteed deposits are included in this category, but without any upper limit applying to the government as counter party.

### 8.9.2 Counterparty Limits

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

Long Term Rating Range	Direct Securities Maximum Limit
AAA Category <sup>4</sup>	40%
AA Category or Australian major banks <sup>2</sup>	30%
A Category	20%
BBB Category	15%
Unrated Category <sup>3</sup>	5%

### 8.9.3 Term to Maturity/Investment Horizon

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 method of obtaining additional return as well as reducing the risks to Council's income. However, Council always retains the flexibility to invest as short as required by 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 capex 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	0-3 months	10.0%	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	5-10 years	0%	25%

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

### 9.0 Review of Policy

The Investment Policy will be reviewed every 12 months and as required in the event of legislative change or as a result of significantly changed economic/market conditions.

Any proposed amendment to the Investment Policy must be approved by the General Manager and Chief Financial Officer.

### 10.0 History

<b>Department:</b>	Corporate Services	<b>Last Reviewed</b>	<b>Resolution Number</b>
<b>Policy Category</b>	Organisational	18 January 2007	
<b>Endorsed By:</b>	AGMCS	26 July 2012	(TRIM 17684/2012)
<b>Approval Authority</b>	General Manager	11 September 2013	(TRIM 21604/2013)
<b>Policy Owner</b>	Finance	30 July 2015	952/15
<b>Contact Officer</b>	CFO	16 August 2018	344/18
<b>Document No.</b>	28621/2018		
<b>First Adopted</b>	19 April 2001		
<b>Resolution No:</b>	?		
<b>Review Date:</b>	August 2019		