

# Investment Policy

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## 1. OUTCOMES

- 1.1 The purpose of this policy is to provide a basis for the optimum investment of Queanbeyan-Palerang Regional Council's funds at the most favourable rate of interest available to it at the time and maximising returns, while having due consideration of risk, liquidity and security for its investments.

## 2. POLICY

- 2.1 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 several primary objectives for its investment portfolio:

- (a) Compliance with legislation, Ministerial Orders, regulations, the prudent person tests of the Trustee Act and best practice guidelines.
- (b) Preservation of capital is the principal objective of the investment portfolio. Investments are to be placed in a manner that seeks to ensure security and safeguarding the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters.
- (c) Allocation of investments to ensure there is sufficient liquidity to meet all reasonably anticipated cash flow requirements, as and when they fall due, without incurring the risk of significant costs due to the unanticipated sale of an investment.
- (d) Generation of income from the investment to exceed the AusBond BBI performance benchmark.

## 3. SCOPE OF THE POLICY

- 3.1 This policy applies to all Council officials.

## 4. DEFINITIONS

*Act* - 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.

*AusBond BBI* - The Bloomberg AusBond Bank Bill Index represents the performance of a notional rolling parcel of bills averaging 45 days and is the widely used benchmark for local councils and other institutional cash investments.

*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 certain sum of 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. Floating rate securities are most commonly reset quarterly to the 90-day BBSW.

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

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*Council official* - includes councillors, members of staff of a council, administrators, council committee members and delegates of council.

*Counterparty limit* - The limit imposed to cap the maximum possible exposure to any one ADI.

*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.

*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* - Investments held by Council that were allowed under any previous Investment Policy but were Grandfathered (i.e. eligible to retain but not add to or restructure existing investments) when the policy was revised.

*IP* - 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.

*LGGR* - Local Government (General) Regulation 2005 (NSW).

*Major Banks* - 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 including ADI subsidiaries whether or not explicitly guaranteed, and brand:

- (i) Australia and New Zealand Banking Group Limited
- (ii) Commonwealth Bank of Australia
- (iii) National Australia Bank Limited
- (iv) Westpac Banking Corporation.

*NCD* - 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 referred to as "transferable certificate of deposit" (TCD).

*OLG* - NSW Office of Local Government, Department of Premier and Cabinet

*Portfolio Limit* – The limit imposed to restrict the credit exposure of the investment portfolio, with reference to the credit quality ratings.

*RAO* - Responsible Accounting Officer of a council means a member of the staff of the council designated by the General Manager.

*Securities* - For financial markets there are many types of financial instruments (i.e. documents) that are traded in financial markets (except futures contracts) e.g. bills of exchange, transferable certificates of deposit, negotiable certificates of deposit, and floating rate notes.

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T-Corp - New South Wales Treasury Corporation.

## 5. LEGISLATIVE OBLIGATIONS AND/OR RELEVANT STANDARDS

- *Local Government Act 1993*
- *Local Government (General) Regulation 2005*
- Ministerial Investment Order
- The Trustee Amendment (Discretionary Investments) Act (1997) – Section 14
- Local Government Code of Accounting Practice and Financial Reporting
- Australian Accounting Standards
- Office of Local Government Investment Policy Guidelines
- Office of Local Government Circulars.

## 6. CONTENT

### 6.1 *Authority for Delegation*

6.1.1 Authority for implementation of the Investment Policy is delegated by Council to the CEO/General Manager in accordance with the *Local Government Act 1993*.

6.1.2 The CEO/General Manager may in turn delegate the day-to-day management of Council's investments to the RAO and ensure adequate skill, support and oversight.

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

### 6.2 *Prudent Person Standard*

6.2.1 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.

### 6.3 *Ethics and Conflicts of Interest*

6.3.1 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 CEO/General Manager.

6.3.2 Independent advisors are also required to declare that they have no actual or perceived conflicts of interest and receive no inducements in relation to Council's investments.

### 6.4 *Authorised Investments*

6.4.1 Investments are limited to those allowed by the most current Ministerial Investment Order that has been issued by the NSW Minister for Local Government.

6.4.2 All investments must be denominated in Australian Dollars. Authorised Investments are limited to those allowed by the Ministerial Investment Order, currently:

- (a) Commonwealth / State / Territory Government securities e.g. bonds
- (b) Interest bearing deposits / senior securities issued by an eligible ADI
- (c) Bills of Exchange (< 200 days duration) guaranteed by an ADI

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- (d) Debentures issued by a NSW Council under the *Local Government Act (1993)*
- (e) Deposits with T-Corp &/or Investments in T-Corp Hour-Glass Facility
- (f) Existing investments grandfathered under the Ministerial Investment Order.

## 6.5 **Prohibited Investments**

6.5.1 In accordance with the Ministerial Investment Order, this investment policy prohibits but is not limited to any investment carried out for speculative purposes including:

- (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) Mortgage of land.
- (e) Investments with Local Government Financial Services.

6.5.2 This policy also prohibits any investment with speculative purposes, including 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.

## 6.6 **Risk Management Guidelines**

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

- (a) Preservation of Capital – the requirement for preventing losses in an investment portfolio's total value (considering the time value of money).
- (b) 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.
- (c) 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.
- (d) Market Risk - the risk that the 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.
- (e) 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).
- (f) Maturity Risk - the risk relating to the length of term to maturity of the investment. The larger the term, the greater the length of exposure and risk to market volatilities.
- (g) Rollover Risk - the risk that income will not meet expectations or budgeted requirement because interest rates are lower than expected in future.

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## 6.7 **Investment Advisor**

- 6.7.1 The Council's investment advisor must be approved by Council and licensed by the Australian Securities and Investment Commission. The advisor must be an independent person who has 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 the investment policy.
- 6.7.2 The independent advisor is required to provide written confirmation that they do not have any actual or potential conflicts of interest in relation to the 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, except as fully rebated to Council promptly.
- 6.7.3 Council must conduct an open tender process every five years for the provision of an independent advisory service.

## 6.8 **Accounting**

- 6.8.1 Council will comply with appropriate accounting standards in valuing its investments and quantifying its investment returns.
- 6.8.2 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.
- 6.8.3 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.

## 6.9 **Safe Custody Arrangements**

- 6.9.1 Where necessary, investments may be held in safe custody on Council's behalf, as long as the following criteria are met:
- (a) Council must retain beneficial ownership of all investments;
  - (b) Adequate documentation is provided, verifying the existence of the investments;
  - (c) The custodian conducts regular reconciliation of records with relevant registries and/or clearing systems; and
  - (d) The institution or custodian recording and holding the assets will be:
    - (i) The custodian nominated by T-Corp
    - (ii) Austraclear
    - (iii) An institution with an investment grade Standard and Poor's or Moody's rating or
    - (iv) An institution with adequate insurance, including professional indemnity insurance and other insurances considered prudent and appropriate to cover its liabilities under any agreement.

## 6.10 **Credit Quality Limits**

- 6.10.1 Council will observe the following limitations for investment funds. The combined investments having a Long Term Debt Rating outlined in Column A of the following table will comply with the:

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- (a) Portfolio Limit (Column B);
- (b) Counterparty Limit (Column C); and
- (c) Maximum Tenor (Column D).

Column A Long Term Debt Rating	Column B Portfolio Limit	Column C Counterparty Limit	Column D Maximum Tenor
TCorp	100%	100%	Not applicable
AAA	100%	100%	Not applicable
AA+ to AA-	100%	100%	5 years
A+ to A	100%	100%	3 years
A-	40%	20%	3 years
BBB+	35%	10%	3 years
BBB		5%	12 months
BBB- and below	0%	0%	-

6.10.2 The BBB rate sub limit of 15% shall apply when calculating the portfolio limit for BBB+ and BBB investments.

6.10.3 Standard & Poor's (or equivalent Moody's or Fitch) ratings attributed to each individual institution will be used to determine maximum holdings.

6.10.4 In the event of disagreement between two agencies as to the rating band ("split ratings") Council shall use the lower of the ratings. Where more than two ratings exist, Council shall use the mid-point rating.

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

### 6.11 *Investments held under a previous investment policy*

6.11.1 The above limitations with respect to the Maximum Tenor for Investment Funds shall not apply to the following investments which are permitted to be held until their maturity:

- (a) Credit Union Australia \$1m Floating Rate Note ("FRN") purchased on 4 March 2019 and maturing on 4 March 2022;
- (b) Auswide Bank \$5m Term Deposit invested on 11 March 2020 and maturing on 9 March 2022;
- (c) ME Bank \$2.5m FRN purchased on 18 July 2019 and maturing on 18 July 2022;
- (d) Newcastle Permanent Building Society \$1.25m FRN purchased on 6 February 2018 and maturing on 6 February 2023;
- (e) Credit Union Australia \$1.1m FRN purchased on 21 February 2020 and maturing on 21 February 2023;
- (f) Auswide Bank \$2.5m FRN purchased on 17 March 2020 and maturing on 17 March 2023;
- (g) and Macquarie \$3m FRN purchased on 12 February 20 and maturing on 12 February 2025.

### 6.12 *Term to Maturity*

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

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- 6.12.2 “Horizon” represents the intended minimum term of the investment; it is open for an Investment Strategy to define a target date for sale of a liquid investment (e.g. FRN or fixed bond).
- 6.12.3 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 invest as short as required by internal requirements or the economic outlook.
- 6.12.4 The factors and/or information used by Council to determine minimum allocations to the shorter durations include:
- (a) Council’s liquidity requirements to cover both regular payments as well as sufficient buffer to cover reasonably foreseeable contingencies
  - (b) Medium term financial plans and major capex forecasts
  - (c) Known grants, asset sales or similar one-off inflows
  - (d) Seasonal patterns to Council’s investment balances.

## 6.13 *Reporting*

- 6.13.1 Documentary evidence must be held for each investment and details thereof maintained in an investment register. The documentary evidence must provide Council legal title to the investment.
- 6.13.2 For audit purposes, certificates must be obtained from the ADIs/fund managers/custodian confirming the amounts of investment held on Council’s behalf at 30 June each year.
- 6.13.3 All investments are to be appropriately recorded in Council’s financial records and reconciled at least on a monthly basis.
- 6.13.4 A monthly report will be provided to Council in accordance with legislative requirements. This 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 AusBondBBI performance benchmark, investment income earned versus budget year to date and confirm compliance of Council’s investments within legislative and policy limits.

## 7. **REVIEW**

- 7.1 The Investment Policy will be reviewed annually and as required in the event of legislative change or as a result of significantly changed economic/market conditions.
- 7.2 The Investment Policy may also be changed as a result of other amendments that are to the advantage of Council and in the spirit of this policy.
- 7.3 Any amendment to the Investment Policy must be by way of Council resolution.
- 7.4 Council may seek expert financial advice from its investment advisor when undertaking the annual Investment Policy review.