

PUBLIC NOTICE

Public Exhibition of Amended Investment Policy Shellharbour City Council

Council at its meeting on 2 February 2021 resolved to place the Amended Investment Policy on public exhibition for a period of 28 days.

On Exhibition

The document is available for inspection below.

Public Submissions

Submissions are invited and will be received from Thursday 11 February 2021 until 4:00pm Wednesday 10 March 2021.

Submissions must be received in writing and addressed to

Chief Executive Officer
Locked Bag 155
Shellharbour City Centre, 2529

or sent by email to council@shellharbour.nsw.gov.au

Carey McIntyre
Chief Executive Officer

INVESTMENT POLICY

Policy Owner: Manager Financial Services	
Date Last Adopted/Amended: TBA	Review Date: TBA

1. Policy Statement/Objective(s)

The purpose of this Policy is to provide a framework for the investment of Shellharbour City 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 for 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.

2. Scope

This policy applies to the investment of Council's excess funds.

3. References

- *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), 14C(1) & (2);*
- *Local Government General Regulation 2005;*
- *Office of Local Government Circulars;*
- *Local Government Code of Accounting Practice and Financial Reporting;*
- *Australian Accounting Standards; and*
- *Division of Local Government Investment Policy Guidelines May 2010*

4. External Consultations

Imperium Markets Pty Ltd

5. Definitions

ADI	Authorised Deposit-Taking Institutions (ADI) are corporations that are authorised under the Banking Act 1959 (Cwth) to take deposits from customers.
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.
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. They are tradeable prior to maturity.
OLG	NSW Office of Local Government.
Grandfathered	Investments held by Council that were previously allowed under the Minister’s Order but were Grandfathered when the NSW State Government changed the list of Approved Investments
Horizon	A tradeable investment can be designated as “held-for-trading”. Council may choose to hold some investments on an investment horizon shorter than its maturity date. This may occur where complying senior securities are sold prior to their maturity date to take advantage of a capital profit from the sale, from which the proceeds are then reinvested into a higher yielding complying asset.
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).

RAO	Responsible Accounting Officer of a council means a member of the staff of the council designated by the Chief Executive Officer (General Manager in accordance with the Local Government Act 1993), or if no such member has been designated, the Chief Executive Officer. (LGGR, clause 196).
T-Corp	New South Wales Treasury Corporation.
AusBond BBI	The 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.

6. Variation and Review

Council reserves the right to review, vary or revoke this policy.

Review History

Date Policy first adopted – version 1	21/05/2002
Date amendment adopted – version 2	17/04/2007
Date amendment adopted – version 3	20/04/2010
Date amendment adopted – version 4	30/09/2014
Date amendment adopted – version 5	12/06/2018
Date amendment adopted – version 6	24/12/2019
Date amendment adopted – version 7	TBA

7. Policy

Delegation and Variation to Policy

Authority for implementation of the Investment Policy is delegated by Council to the Chief Executive Officer in accordance with the Local Government Act 1993.

The Chief Executive Officer may in turn delegate the day-to-day management of Councils investment to the RAO or senior staff, subject to regular reviews.

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.

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.

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 Chief Executive Officer.

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.

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 NSW Local Government;
- Deposits with T-Corp &/or Investments in T-Corp Managed Funds; and
- Investments grandfathered under the Ministerial Investment Order.

Prohibited Investments

This investment policy prohibits the following types of investment¹:

- 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
- 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.

Exclusion of an investment by replacement regulation would not normally require divestment unless specifically directed. Generally, existing holdings are grandfathered, and nothing in this Policy is intended to imply a presumption of divestiture. However, in such cases it is appropriate to formally review the investments affected, and formulate a strategic approach to maximising their value. The decision on when to exit such investments are based on a

¹ Prohibited investments are not limited to the list below and extends to any investment carried out for speculative purposes.

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; and
- Outlook for future investment values.

Professional advice will be sought before transacting in “grandfathered investments”. The overriding principle used in dealing with grandfathered assets is maximising public interest (having regard to risk of the assets).

Risk Management Guidelines

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

- **Credit Risk** – The risk that a party 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 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
- **Rollover 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 contract when the security matures and needs to be reinvested, thereby resulting in a reduction of income over time.

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 the above mentioned 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 and/or its investment advisor should continuously monitor the list of Authorised Investments that may be used to invest Council’s surplus funds.
- Council will establish its credit quality limits 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 adviser 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;

Credit Quality Limits

The portfolio credit guidelines to be adopted will be based on the Standard & Poor’s (S&P) ratings system criteria². The maximum holding limit in each rating category for Council’s portfolio shall be:

Long Term Credit Ratings	Maximum Holding
AAA Category	100%
AA Category or Major Bank*	100%
A Category	60%
BBB Category	40%
Unrated ADI	15%

*For the purpose of this Policy, “Major Banks” are currently defined as the ADI deposits or senior guaranteed principal and interest ADI securities by the major Australian banking groups:

- Australia and New Zealand Banking Group Limited (ANZ)
- Commonwealth Bank of Australia (CBA)
- National Australia Bank Limited (NAB)
- Westpac Banking Corporation (WBC)

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.

² Or Moody’s/Fitch equivalent ratings if an S&P rating is not available

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 Credit Ratings	Direct Securities Maximum Limit
AAA Category ³	40%
AA Category or Major Bank*	25%
A Category	15%
BBB Category	12.5%
Unrated Category	10%

Investment Horizon Limits

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

"Horizon" represents the intended minimum term of investment; it is open to define a target date for sale of a liquid investment if appropriate and in the best interests of Council.

Once the primary aim of liquidity is met, Council will diversify its maturity profile to maximise the overall return of the investment portfolio, whilst considering the various risks as identified in the Risk Management Guidelines. 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 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.

³ 100% Commonwealth Government and Government-guaranteed deposits are included in this category

Investment Horizon Description	Investment Horizon/Maturity Date	Minimum Allocation	Maximum Allocation
Working capital funds	0-3 months	5.0%	100.0%
Short term funds	3-12 months	0%	100.0%
Short-Medium term funds	1-2 years	0%	70.0%
Medium term funds	2-5 years	0%	65.0%
Long term funds	5-10 years	0%	10.0%

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

Investment Advisor

The Council's investment advisor must be approved by Council and licensed by the Australian Securities and Investment Commission – 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.

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 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 (AASB136).

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;
 - The Custodian nominated by NSW TCorp for their funds;
 - An institution with an investment grade Standard and Poor's or 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 be 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.

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.

Investment	Performance Benchmark	Time Horizon
At-Call Account, short dated bills, deposits issued by financial institutions of term.	AusBond Bank Bill Index (BBI)	Working Capital 3 months or less
Term Deposits of appropriate remaining term, FRN's nearing maturity.	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.	AusBond Bank Bill Index (BBI)	Medium 2 to 5 Years
T-Corp Hour Glass Managed	Fund's Internal Benchmark	3-5 Years (M/T Growth) 5+ Years (L/T Growth)

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 financial institutions confirming the amounts of investments held on Council's behalf at 30th June each year, and reconciled to the Investment register.

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 performance, percentage exposure of total portfolio maturity date 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 and confirm compliance of Council's investments within legislative and policy limits.

Review of Policy

The Investment Policy will be reviewed at least annually or as required in the event of legislative change or as a result of significantly changed economic/market conditions. 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. Any amendment to the investment Policy must be by way of Council resolution.

8. Related Forms/Documents

Nil

9. Attachments

Nil

Policy Authorised by:

Name: Ordinary Council Meeting – Resolution No. 8

Date: 2 February 2021