



Policy: Council

INVESTMENT POLICY



INVESTMENT POLICY

Policy Statement

Blue Mountains City Council will invest funds that are surplus to Council's immediate requirements at the most favourable rates available to maximise returns having regard to the risk, liquidity and the preservation of capital in accordance with legislation, the current Ministerial Order and this Policy. Council and its representatives will exercise the care, diligence and skill that a prudent person would exercise in investing Council funds.

The policy reinforces Council's ongoing commitment to maintain a conservative risk and return portfolio, an important component of its ongoing prudent financial management practices.

Policy Ref. No:	24	PCT Endorsement Date:	30 August 2019
TRIM Record No:	19/161964	ELT Meeting Date:	25 September 2019
Distribution:	Public	Public Exhibition Details:	N/A
Status:	Draft Stage Awaiting Adoption	Council Meeting Date:	29 October 2019
Scope:	Staff & Councillors	Council Minute No:	339
Lifespan:	4 years (aligning to the Council term)	Responsible Directorate:	Strategy & Corporate Services
Next review:	August 2020	Contact Position:	Manager, Strategic Resource Allocation

Version History

Version	Adoption Date	Reason for Change
2019	29 October 2019 (Minute no. 339)	Interim Review
2017	17 October 2017 (Minute no. 340)	Periodic update.
2013	23 July 2013 (Minute no. 296)	Periodic update.

Definitions

Term	Definition
the Act	<i>Local Government Act 1993</i> (NSW)
ADI	Authorised Deposit-taking Institution
AFS	Australian Financial Services (licence)
ASIC	Australian Securities & Investments Commission
Ausbond Bank Bill Index	A daily Bank Bill Index calculated to represent the performance of a notional rolling parcel of bills averaging 45 days.
Council	Blue Mountains City Council
Credit Rating	A short term or long term summary assessment of the credit worthiness of a debt issue or of a specific issue.
ESRI	Environmentally and Socially Responsible Investments
Hour-Glass Cash	Short-term cash deposit with TCorp
Hour-Glass Strategic Cash	Medium- to longer-term cash deposits with TCorp
LTFP	Long Term Financial Plan
Major Banks	Major Australian banking groups issuing ADI deposits or senior-guaranteed principal and interest ADI securities, limited to: <ul style="list-style-type: none"> • Australia and New Zealand Banking Group Limited • Commonwealth Bank of Australia • National Australia Bank Limited • Westpac Banking Corporation including ADI-licensed subsidiaries whether or not explicitly guaranteed, and brands (such as St George Bank).
Official Cash Rate	Overnight money market interest rate.
OLG	NSW Office of Local Government, Department of Planning, Industry and Environment.
the Regulation	<i>Local Government (General) Regulation 2005</i> (NSW)
RAO	Responsible Accounting Officer, a member of council staff designated by the General Manager
TCorp	NSW Treasury Corporation

Related Documents

This document should be read in conjunction with:

- Council's Strategic Investment Plan;
- Council's Long Term Financial Plan;
- Office of Local Government, Investment Policy Guidelines, May 2010;
- Australian Accounting Standards; and
- *Local Government Code of Accounting Practice and Financial Reporting*.

Related Legislation

All investments are to comply with the following:

- *Local Government Act 1993* (NSW);
- *Local Government (General) Regulation 2005* (NSW);
- *Ministerial Investment Order* (dated 12th January 2011); and
- *The Trustee Amendment (Discretionary Investments) Act 1997*.

Policy details and information

BACKGROUND

In line with the Policy Statement on page (i), the purpose of this policy is to provide a framework for the investing of Council's surplus funds at the most favourable return available to it at the time whilst having due consideration of risk and security for that investment type and ensuring that its liquidity requirements are being met.

While exercising the power to invest, consideration needs to be given to the preservation of capital, liquidity and the return on investment. Through compliance with legislation, regulations, and the prudent person tests of the *Trustee Act 1925* (NSW) and by applying best practice guidelines, this Policy aims to deliver the following outcomes:

- a) **Preservation of Capital:** Investments are to be placed in a manner that seeks to ensure security and safeguards the capital and integrity of the investment portfolio. Council officers are to manage the portfolio in accordance with this Investment Policy and the Ministerial Investment Order. Investments may not be made for any speculative purposes.
- b) **Maintenance of Liquidity:** The investment portfolio will be structured to ensure there is sufficient liquidity to meet all reasonably anticipated cash flow requirements without incurring significant 'break' costs due to the unanticipated sale of an investment.
- c) **Achievement of Acceptable Rates of Return:** Investments are to achieve an acceptable rate of return that exceeds the benchmarks set in this document, having regard to Council's risk tolerance and prevailing market conditions.

INVESTOR PROFILE

As a holder of public monies (effectively in trust) and by regulation, Council is a conservative investor, investing primarily in low-risk securities such as fixed income and money market securities.

Council has a low to moderate risk tolerance partly due to its commitment to maintaining the principal value of funds invested and the legislative environment in which it operates.

As a reflection of this low to moderate risk tolerance, a significant portion of Council's investment portfolio is invested in short to medium-term investments but with some exposure to longer term investments from time to time.

PORTFOLIO AND RETURN PROFILE

Council's investment portfolio consists of unrestricted day-to-day working funds and restricted funds that are not, for the time being, required by Council for any other purpose.

Investments are recorded in accounting records as: (i) externally restricted cash assets; (ii) internally restricted cash assets; and (iii) unrestricted cash assets.

The types and forms of investments in which Council can invest are prescribed and regulated by a Ministerial Investment Order, which may be reissued from time to time.

Income from investments represents less than 1% of income from continuing operations with the rate of return largely governed by the investment type and the period for which funds are invested.

INVESTMENT CRITERIA

Council will take into account the following considerations prior to making any investments:

1. **Prudent Person Standard:** The investment process will be managed with the care, diligence and skill that a prudent person would exercise. As trustees of public monies, Council officers are to manage Council's investment portfolio to safeguard the portfolio in accordance with this Policy and not for speculative purposes.
2. **Ethics and Conflicts of Interest:** Council officers shall refrain from personal activities that would conflict with the proper execution and management of Council's investment portfolio. Disclosure of any conflict of interest will be made in writing in accordance with the Code of Conduct. Independent advisors must declare any actual or perceived conflicts of interest and must ensure that they receive no inducements in relation to Council's investments.
3. **Level of Sophistication:** Council's staff should be understood to have limited technical and investment expertise to evaluate investment alternatives. As such, Council deems itself to have a low level of investment sophistication in relation to financial instruments beyond the basic money market accounts and term deposits. To supplement Council's level of sophistication, Council may engage an investment advisor where appropriate either on a retained or project basis. Council may also seek to obtain additional independent advice beyond their retained advisor if Council deems this appropriate.
4. **Authorised Investments:** All of Council's investments must be denominated in Australian Dollars. Council may only invest money in the forms of investment detailed in the relevant Ministerial Investment Order as may be revised from time to time.
5. **Prohibited Investments:** This investment policy prohibits the following types of investment: Derivative based instruments (e.g. Collateralised Debt Obligations - CDO); Principal-only investments or securities that provide potentially nil or negative cash flow; Stand-alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind. This Policy also prohibits the use of leveraging (borrowing to invest) of an investment.

6. **Environmentally and Socially Responsible Investments (ESRI):** Council is committed to the principles of environmental and social responsibility and has embraced these principles in relation to its investments. Under this Policy, preference will be given to investing with environmentally and socially responsible institutions, and institutions identified as not dealing with fossil fuel companies, where:
- the investment is compliant with legislation and this Policy; and
 - the rate of return is equal to comparable risk-based investments on offer to Council at the time of investment.

Disclosures of such investments will be made through monthly investment reporting at each ordinary meeting of the Council. ESRI will be assessed on the same basis as other investment opportunities and the City will select the investment that best meets its overall investment selection criteria.

The selection criteria relating to an ESRI are those which direct investment towards the socially and environmentally responsible activities listed below.

Environmentally responsible activities may include:

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

Socially responsible activities may include:

- fair trade and provision of a living wage;
- equal opportunity employment, including those that support the values of communities, indigenous peoples and minorities; and
- provision of housing, especially affordable housing.

7. **Credit and Maturity Guidelines:** Investments are to comply with the following portfolio credit rating limits:

(i) Overall Portfolio and Institutional Credit Rating Group Limits

To control the credit quality on the entire portfolio, the following credit framework limits the percentage of the portfolio exposed to any particular credit rating category.

Maximum Thresholds		
Credit Rating	Description*	% of Portfolio
AAA	Investments with an extremely strong capacity to meet financial commitments	Maximum 100%
AA	Investments with a very strong capacity to meet financial commitments	Maximum 100%
A	Investments with a strong capacity to meet financial commitments	Maximum 40%
BBB	Investments with an adequate capacity to meet financial commitments	Maximum 40%
Unrated	Speculative investments not supported by Council	Maximum 0%

* Source: spratings.com

Limits do not apply to Federal or NSW-guaranteed investments, which are uncapped. The NSW government does not guarantee the capital value or unit price of any TCorp Hour-Glass Fund. They are not explicitly rated. Hour-Glass Cash has a large allocation to government paper, and generally maintains a credit quality similar to an AAA fund. It is treated as an AAA non-government investment. Similarly, Hour-Glass Strategic Cash is similar to an AA fund, and is treated as AA category.

Ratings attributed to each individual ADI 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 rating in assessing compliance with investment portfolio limits, but for conservatism shall apply the lower in assessing new purchases.

Exposure to an individual institution will be restricted to a maximum of 45% of Council funds, so that single entity exposure is limited. There is no limit to investments fully guaranteed by the NSW or Federal government.

If any of the Council's investments are downgraded such that they no longer fall within this Policy, they will be divested where practicable. Council will seek consultation from its investment advisor (if applicable) as to the costs of doing so prior to any divestment decision undertaken.

(ii) 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.

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 returns as well as reducing the risks to Council's income. However, Council always retains the flexibility to invest as short a term 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 a 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; and
- Seasonal patterns to Council's investment balances.

Overall Portfolio Term to Maturity	
Term	% of Portfolio
< 1 year	Maximum 100%
1-2 years	Maximum 60%
3-5 years	Maximum 30%
>5 years	Maximum 0%

Within these broad ranges, Council relies upon assumptions of expected investment returns and market conditions in developing its Strategic Investment Plan.

Where an investment (such as a TCorp Hour-Class Fund) has no fixed maturity date, or if Council's Strategic Investment Plan nominates specific assets as intended to be held for a shorter term, an *investment horizon* will be substituted in the assessment of portfolio duration.

Council will undertake cash flow forecasting to match investment maturities to cash flow requirements to minimise early liquidation and associated penalties. Investments will be acquired with the intention of holding them through to maturity, and cash liquidity requirements will be managed to ensure that Council avoids forced sales of these assets.

Generally, Council will hold its investments until the maturity date. However there may be occasions where it is deemed advantageous to redeem, switch to alternative investments, or to otherwise amend its investments when investment parameters have been breached due to a change in the overall size of the investment portfolio, investment credit risk amended or for any other reason. In these circumstances, Council has the authority to make the necessary arrangements to withdraw from the investment as soon as practicable.

Council may sell assets prior to maturity in the following circumstances:

- If the asset is liquid, easily tradeable, can be sold without significant loss and was purchased as part of a 'liquidity buffer' against the event of unforeseen and unexpected liquidity requirements; or
- If the RAO judges that:
 - i. the asset has deteriorated in credit quality;
 - ii. that there is a material risk of loss on the asset if held to maturity; and
 - iii. if Council is advised by a competent and reputable external advisor that a sale of the asset is in the best interests of Council for risk management purposes.

For the avoidance of doubt, Council will not adopt an active trading strategy of buying and selling assets on broker recommendations for the purposes of enhancing returns through the accumulation of capital profits.

8. **Performance Benchmarks and Measurement:** The performance of the investment portfolio shall be measured against the industry standards, which are the Bloomberg AusBond Bank Bill Index and/or the Official Cash Rate.

The investment return for the portfolio is to be assessed at least once a month to coincide with monthly reporting. This assessment may be performed by an independent investment advisor if so appointed. 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 ADVISOR

Any investment advisor engaged by Council must hold an Australian Financial Services (AFS) licence from the Australian Securities & Investments Commission (ASIC). The advisor must be fully independent with no conflicts of interest in relation to investment products being recommended. This investment advisor will be free to recommend the most appropriate products that comply with this Policy.

This investment advisor is required to provide written confirmation annually that they do not have any conflicts of interest in relation to investments being recommended or reviewed and that neither they nor any associate, receive any commissions or other benefits.

STRATEGIC INVESTMENT PLAN

On an annual basis and in conjunction with this Policy and Councils Long Term Financial Plan (LTFFP), a Strategic Investment Plan will be developed which takes into consideration the following:

- Council's future cash flow requirements and identifying surplus funds, as reflected in Councils LTFFP, and implications for the portfolio liquidity profile;
- Allocation of investment types, credit quality, counterparty exposure and terms to maturity;
- Current and projected market conditions and any likely impacts on relative positioning in terms of the portfolio and any necessary policy implications;
- Relative return outlook, risk-reward considerations, assessment of the market cycle and resultant constraints on risk;
- Appropriateness of overall investment types relative to Council's portfolio; and
- The projected investment portfolio level for the forthcoming year.

The Strategic Investment Plan is to be reviewed and amended as required.

REPORTING AND REVIEWING OF INVESTMENTS

Documentary evidence must be held for each investment and details thereof maintained in an Investment Register.

All documentary evidence of investments must state that Council holds the legal title to the investment. All investments are to be appropriately recorded in Council's financial records and reconciled at least on a monthly basis.

Certificates must be obtained from the financial institutions in which Council invests which confirm the amounts of investments held on the Council's behalf as at 30 June each year. These statements must be reconciled to the Investment Register.

A monthly report of investments will be provided to each ordinary meeting of the Council. This report will detail the investment portfolio in terms of:

- holdings by maturity;
- reconciliation of movements by Financial Statements Note 6 category returns generated for the portfolio compared to the AusBond Bank Bill Index; and
- comparison with budget.

The monthly report will also confirm compliance of Council's investments within legislative and Policy limits. Council may, by resolution, nominate additional content for reporting.