

## INVESTMENT POLICY

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Description	Date
<b>Notes</b>	

# POLICY

## Purpose

The Policy provides a framework for the optimum investment of Council's funds. 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:

- Compliance with legislation, regulations, the prudent person tests of the *Trustee Act* and best practice guidelines;
- The preservation of the amount invested;
- To ensure the investment portfolio holds sufficient liquidity to meet all reasonably anticipated cash flow requirements, as and when they fall due, without incurring significant costs due to the unanticipated sale of an investment;
- To generate income from the investment that exceeds the performance benchmarks mentioned later in this document;
- To set boundaries for the exposure to market risk, credit risk and interest rate risk within the investment portfolio and the 'counterparty' exposure of the portfolio to individual institutions or products; and
- To establish a framework for monitoring investments.

In addition, Council may nominate, and take account of, secondary objectives that are to the benefit of the community's broader interests. These can include:

- Environmental, social and governance (ESG) or similar responsible investment and impact objectives.
- Adhering to investment conditions of concessional loans from the State government.

## BACKGROUND AND RELATED LEGISLATION

All investments are to comply with the following:

- *Local Government Act (1993)*;
- *Local Government (General) Regulation (2021)*;
- 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*; and
- Office of Local Government Circulars;

Council's Investment Strategy will run in conjunction with this Investment Policy.

## **SCOPE**

This Policy has been prepared to recognise the legislative requirements and obligations for the investment of Council's funds.

Council will comply with investment regulations, and directions of the Office of Local Government which will prevail in the event of inconsistencies with the adopted Policy. This document replaces any previous Investment Policy document adopted by Council. This Investment Policy will be reviewed at least annually in March each year, or when a change in either regulation or market conditions necessitate a review.

## **DEFINITIONS**

Refer to Appendix 1.

## **POLICY**

### **Policy statement**

Council's investment objective is to ensure funds that are surplus to Council's immediate requirements are invested within acceptable risk parameters to optimise interest income and the community's best interests, while ensuring the security of these funds.

### **Investment governance**

The following internal control practices are in place to ensure adequate governance and allow transparent and clear performance measurement for the management of Council's cash and investment portfolio:

- financial planning and cash-flow management;
- delegated authorities and investment approval;
- measurement of investment performance;
- performance benchmarks;
- reporting and review; and
- audit oversight.

These internal control practices are explained in more detail below.

### **Financial planning and cash-flow management**

Funds that are surplus to Council's immediate cash requirements will be managed in accordance with the long, medium and short-term financial cash requirements.

Long term financial plans are developed to ensure the long-term financial sustainability of Dubbo Regional Council. These plans will incorporate forecasts of cash inflows and outflows to:

- estimate cash surpluses and shortages in future periods
- identify the longer and medium term investment horizon for surplus funds.

Shorter term financial plans are used to predict funds availability and monitor the Council's cash management needs throughout the year. These cash flow models are monitored daily to facilitate informed investment decisions and to ensure that sufficient liquidity exists to satisfy Council's financial commitments.

In accordance with section 409 of the Local Government Act, money and property held in the Council's Consolidated fund may be applied towards any purpose allowed by the Act, however in accordance with subsection (3), money received for the specific purpose of water supply or sewerage services may only be used for the specific purpose of water supply and sewerage services. Accordingly, Council holds investments within its Investment Register separately for General fund, Water fund and Sewerage fund and must ensure that sufficient General fund operating cash is available to cover General fund, Water fund and Sewerage fund requirements.

### **Delegated authorities and investment responsibilities**

Authorities and investment responsibilities are defined within Council's Delegation Authority register. Authority for the 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 has also delegated authority to invest surplus funds as follows:

- Director Organisational Performance (DOP);
- Chief Financial Officer (CFO);
- other senior financial officers who have the requisite skills to undertake investment functions (as per the Delegations Register).

Officers with delegated authority are required to acknowledge they have received a copy of this Policy and understand their obligations in this role.

### **Investment responsibilities**

When determining surplus funds available for investments, Council's Revenue Section must reasonably determine that Council's general fund cash liquidity can meet cash flow requirements including water fund and sewer fund.

Council's Revenue Section prepares investment recommendations in accordance with this Policy and the Investment Strategy. To achieve the best value for Council's investments, recommendations will consider:

- credit risk;
- forecast cash requirements;
- alternative investments with comparable risk;
- liquidity and maturity profiles.

Where investing directly, Council shall demonstrate reasonable endeavours to ensure best execution, having regard to competing rates. Council will have regard to:

- the range of ADIs of acceptable quality;
- sources of deposits (treasury department direct, brokers, retail rates, branches, *etc.*) and tradeable securities (brokers, primary issuance);
- relative value at various terms;
- the character and competing merits of managed funds (TCorpIM) and direct investments.

Two authorised signatories, with appropriate delegation limits, must approve each investment recommendation. Recommendations must be retained on file as a permanent record.

**Cash** - Council retains funds for daily operational payment needs in a combination of a cheque account and sweep account. A sweep facility manages savings and day-to-day spending money by automating transfers between linked transaction and savings accounts. Council sets a lower and upper limit for its transaction account balance. A sweep facility automatically moves money from higher interest saver accounts to maintain a minimum transaction account balance. At the upper limit, money is automatically transferred to savings.

**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. Officers must 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.

#### **Measurement of investment performance**

Investment performance includes both interest returns and any change in the underlying capital value of the investments.

Interim fluctuations of capital value are excluded from the monthly measurement of investment performance on the basis that:

- fixed investments have no mechanism for realising gains prior to maturity, and tradeable securities are held on a multi-year perspective – not actively traded;
- there is no certainty that these returns will be realised, until the point of maturity or sale of the asset and so they should not be spent;
- cash liquidity requirements are structured and managed to ensure that Council is not in a financial position that will require a forced sale of these assets.

Notwithstanding the above position, changes in capital value are relevant and the monthly investment report will therefore provide Council with indicative market valuations of each investment. In the event that the capital value of any investment becomes permanently impaired, or a capital loss or gain is actually realised (through disposal), the loss or gain of value will be recognised within that month's financial accounts.

## 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 whilst taking into account its risks, liquidity and other benefits. Council will take due steps to ensure that any investment is executed at the best pricing reasonably possible.

Investment	Performance Benchmark	Time Horizon
Funds held in overnight accounts - 11 am Account including TCorpIM Cash Fund, Cash Management Accounts.	AusBond Bank Bill Index (BBI)	3 months or less
Short dated bills, Term Deposits of appropriate remaining term, FRNs nearing maturity, TCorpIM Short Term Income.		3 months to 12 months
Term Deposits, FRNs with a maturity date between 1 and 2 Years.		1 to 2 years
FRNs, Bonds, Term deposits with a maturity date between 2 and 5 Years.		2 to 5 Years
TCorpIM Managed Funds (Diversified or growth assets).	Fund's Internal Benchmark	3 Years (M/T Growth) 5+ Years (L/T Growth or other Growth)

Grandfathered investments are allocated to the appropriate horizon based on expected or average exit 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; and
- Risk of defaulting payment.

In general, it is expected that professional advice will be sought before transacting in "grandfathered" investments. This Policy does not presume disposal; however, the removal of an asset from the Minister's Order would warrant a review of its suitability for retention.

## Reporting and Review

Documentary evidence must be held for each investment and details thereof maintained in the investment register. The documentary evidence must provide Council legal title to the investment.

Council will maintain a separate record of money it has invested under section 625 of the *Local Government Act 1993*, in accordance with the criteria defined by the *Local Government Code of Accounting Practice and Financial Reporting*.

A monthly investments report will be provided to Council. The 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 the budget. The monthly report will also confirm compliance of Council's investments within legislative and Policy limits.

In accordance with the *Local Government Code of Accounting Practice & Financial Reporting*, Council will undertake at least an annual review of its Investment Policy and Investment Strategy.

If there are any significant changes to the Act, regulations, issued guidelines, or if the market changes to a degree that warrants an earlier examination, the Policy and/or Strategy will be reviewed and brought back to Council for its consideration.

### **Audit oversight**

Council's external auditors will review Council's investments as part of the Annual Financial Reports. This includes seeking independent certification from the relevant financial institutions (banks, fund managers, etc.) to confirm the balance of investments held on Council's behalf at the end of the financial year, and the adequacy of their internal control procedures.

Council's Internal Audit unit will also periodically review the adequacy of the Investment Policy, Strategy and management's internal controls as part of the internal audit program.

### **Investment criteria**

This section sets out the criteria for investments to be considered for inclusion within Council's portfolio. In particular, it defines the mandatory investment criteria which all investments must satisfy.

Current investment regulations require Councils to invest with governments, NSW Treasury Corporation (NSW TCorp and NSW TCorpIM) or in specified investments with Approved Deposit-taking Institutions (ADI) such as Australian banks or branches of foreign owned banks, credit unions and/or building societies as it acknowledges the additional assurance that arises from their regulation by the Australian Prudential Regulation Authority (APRA).

### **Mandatory investment criteria**

#### ***Scope***

Investments must comply with legislative authorities.

#### ***Currency***

Investments must be denominated in Australian Dollars.

## **Ownership**

Investments must be held in the name of Dubbo Regional Council. This includes beneficial ownership, where invested through a custodian.

## **Portfolio Credit rating framework**

Direct investments beyond government guaranteed deposits must have a credit rating, with the exception of a permitted allocation to a local financial institutions that are unrated as per the investment limit table.

The credit rating structure of individual investments and the total portfolio must comply with the maximum tenor as listed in the following table, which also applies differential tenor limits by rating:

<b>Investment Class</b>	<b>Portfolio Limits</b>	<b>Counterparty Limit</b>	<b>Max Term</b>
TCorp	100%	100%	N/A
AAA Rated	100%	100%	N/A
AA+ to AA- Rated including the 4 major banks	100%	40%	5 years
A+ to A- Rated	60%	35%	5 years
BBB+ to BBB- Rated	35%	15%	5 years
Unrated	10%	5%	12 months
Unrated – Local ADI	5%	5%	12 months

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

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 discard the lowest rating and then use the lower of the higher two ratings when assessing new purchases.

Credit ratings can apply to either, products and institutions. However, this Policy requires the rating applicable to the institution responsible for the product (*e.g.* guarantor) to be taken as the relevant rating given this represents the underlying risk to Council. Rating criteria use the best applicable guide where an investment is not explicitly rated. For example, the TCorpIM fixed interest funds are assessed based on the underlying investment mix. In some ADIs (such as Rabobank Australia) a rating is only held by a parent institution.

Notes:

- Credit ratings must be monitored regularly by Finance staff to ensure ongoing compliance. Investments with credit ratings downgraded to an extent that they no longer comply will be divested as soon as practicable, in accordance with grandfathering under this Policy.



- Credit risk investment parameters are based on credit rating bands as published by the Standard and Poor's credit rating agency. If not rated by S&P, Moody's or Fitch Ratings may be used instead.

### ***Risk Management Guidelines***

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

- ***Preservation of Capital*** – the requirement for preventing losses in an investment portfolio's total value;
- ***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 that Council 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) either through investment in fixed term products, products with long redemption periods, or failure of the counterparty of honour intended liquidity terms;
- ***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;
- ***Legal Risk*** – inability to enforce a contract, resulting in loss;
- ***Fidelity Risk*** – inadequate procedures and controls, resulting in fraud by internal or external parties;
- ***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; and
- ***Rollover Risk*** – the risk that income will not meet expectations or budgeted requirement because interest rates are lower than expected in future.

### ***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 NSW TCorp for TCorpIM 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.

### ***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 the investment, which can be designated as shorter than the legal maturity in case of an expectation of earlier call or the intention to sell the investment. (Such a designation may have accounting implications which must be taken into account.)

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 cashflow 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 surplus funds.

In addition to the term limits of investments based on rating (above), the aggregate portfolio should comply with the following:

<b>Investment Horizon Description</b>	<b>Investment Horizon - Maturity Date</b>	<b>Minimum Allocation</b>	<b>Maximum Allocation</b>
Working capital funds	0-3 months	10%	100%
Short term funds	3-12 months	20%	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%

<sup>^</sup>Council’s Working Capital Funds are inclusive of NAB Professional Fund Account, 31 Day AMP notice saver account and any other similar notice saver accounts with other financial institutions.

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

### ***Environmentally and Socially Responsible Investments***

Council will consider the purpose of an investment opportunity in terms of environmental and social outcomes when investing funds where the investment return is favourable relative to

alternate investment opportunities.

Subject to compliance with legislation and Investment Policy objectives and parameters, Council will consider investment securities and financial institutions that meet our environmentally and socially responsible investments (ESRI) criteria. ESRI status may be in respect of the individual investment, the issuer of the investment, or both and should be endorsed by an accredited environmentally and socially responsible industry body or institution.

Environmentally and socially responsible investments will be assessed on the same basis as other investment opportunities and the Council will select the investment that best meets its overall investment selection criteria.

The Council's criteria relating to an ESRI are those which:

- Direct investment towards the socially and environmentally productive activities listed below;
- Avoid investment in the socially and environmentally harmful activities listed below. The criteria for ESRI are all preferred and not mandatory requirements.

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.

Environmentally harmful activities are considered to be:

- Production of pollutants, toxins and greenhouse gases (coal, oil and gas);
- 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.

Council will advocate for the further development of ESRI options through engagement with financial institutions.

### ***Investment Advisor***

The Council's investment advisor is appointed by the Chief Executive Officer and must operate under a licence issued by the Australian Securities and Investment Commission. 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 are free to choose the most appropriate product within the terms and conditions of the Investment Policy. 'Independence' includes receiving no commissions or other benefits in relation to the investments being recommended or reviewed, unless such remuneration is rebated 100% to Council, promptly. Council will make all decisions in relation to the placement of investments as described in the below table shown as **Appendix 1**

<b>Appendix 1</b>	
<b>Term</b>	<b>Definition</b>
Act	<i>Local Government Act 1993</i>
ADI	Authorised Deposit-Taking Institutions (ADIs) are corporations that are authorised under the Banking Act 1959 (Commonwealth) to take deposits from customers.
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.
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. These can be underwritten by banks, to become “bank bills” on which the benchmark return is calculated.
BBSW	The Bank Bill Swap reference rate (BBSW) is the midpoint of the nationally observed best bid and offer for AFMA Prime Bank eligible securities. The BBSW is calculated daily. Floating rate securities are most commonly reset quarterly to the 90-day BBSW.
Chief Executive Officer	Refers to the statutory executive of the Council as defined in section 335 of the Act, including where on an Interim or Acting basis, and under any alternative titles.
Council Funds	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.
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.
TCorp	New South Wales Treasury Corporation (NSW TCorp) including the TCorp Investment Management arm which manages the TCorpIM funds (formerly Hour-glass).