

DOCUMENT ON EXHIBITION

Policy: Investments

**Exhibition period: 28 days
18 November – 26 December**

**Please address any queries to:
Financial Planning Coordinator**

**Please submit your feedback in writing
addressed to the General Manager**

Email:
council@midwestern.nsw.gov.au

Post:
Mid-Western Regional Council
PO Box 156
Mudgee NSW 2850

ADOPTED		REFERENCE	2.2
COUNCIL MEETING MIN NO	<u>277#2#TBC</u>	REVIEW DATE	<u>SEPTEMBER 2022TBC</u>
DATE:	<u>15-SEPTEMBER-2024TBC</u>	FILE NUMBER	FIN300032

Objective

The objective of this policy is to provide a framework for managing the investment of Council funds. It aims to ensure Council:

- Complies with the relevant legislative and regulatory requirements
- Identify risks, risk management strategies and establish tolerable levels of exposure to risk
- Give due consideration to the preservation of capital
- Maintain sufficient liquidity to meet all cash flow requirements
- Maximise the rate of return in line with all requirements of this policy
- Establish guidelines in relation to monitoring and reporting on investments
- Confirm delegations of authority and other governance matters in relation to investments

Legislative and regulatory requirements

- Local Government Act 1993 (NSW) Section 625
- Local Government (General) Regulation 2005 (NSW) Clause 212
- Ministerial Local Government Investment Order dated 12 January 2011
- The Trustee Amendment (Discretionary Investments) Act 1997 (NSW)
- Local Government Code of Accounting Practice and Financial Reporting
- Australian Accounting Standards
- Office of Local Government Investment Policy Guidelines
- Office of Local Government Circulars

Approved Investments

Investments are limited to those allowed by the Ministerial Investment Order and must be denominated in Australian Dollars. Approved investments include:

- public funds or securities issued by or guaranteed by, the Commonwealth, any State of the Commonwealth or a Territory;
- debentures or securities issued by a NSW Council;
- interest bearing deposits with, or any debentures or bonds issued by, an authorised deposit-taking institution, but excluding subordinated debt obligations;

- bills of exchange issued by or accepted by an authorised deposit-taking institution and not more than 200 days to maturity;
- a deposit with the New South Wales Treasury Corporation or investments in an Hour-Glass investment facility of the New South Wales Treasury Corporation.

Prohibited Investments

This policy prohibits any investment carried out for speculative purposes including:

- Derivative based instruments;
- 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).

Related policies and plans

- Statement of Business Ethics
- Conflicts of Interest Policy

Policy

Delegation of Authority

Authority for implementation of the Investments 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 Council's investments to the:

- Chief Financial Officer (Responsible Accounting Officer)
- Manager Finance
- Financial Planning Coordinator
- Financial Operations Coordinator
- Manager Revenue and Property

A minimum of two price quotations of like or similar investments must be obtained for the acquisition of all market investments in order to verify the fairness of the purchase price. Two authorised signatories, with appropriate delegation limits must approve each investment recommendation. Recommendations must be retained on file as a permanent record.

Any single investment exceeding \$5M, or, with a maturity term that exceeds 2 years must be authorised by the Responsible Accounting Officer or General Manager.

The General Manager must approve delegations in writing and record them in the Register of Delegations. Delegated officers are required to acknowledge that they have received a copy of this policy and understand their obligations in this role when investing funds on behalf of Council in accordance with this policy.

Adequate controls are in place to safeguard Council's assets, such as the separation of duties in relation to authorising and executing transactions through the requirement of two authorised signatories for each transaction.

Conflicts of Interest

Officers shall refrain from activities that would conflict with the proper execution and management of Council's investment portfolio. Council's Conflicts of Interest Policy provides guidance for recognising and disclosing any conflicts of interest.

In accordance with Council's Statement of Business Ethics, any independent investment advisors are also required to disclose any actual or perceived conflicts of interest.

Investment Risk

Investment risk can take many forms:

Credit risk – the risk that the institution Council has invested in fails to pay the interest and or repay the principal of an investment.

Liquidity risk – the risk an investor is unable to realise the investment at short notice due to the illiquid nature of a particular investment. This could potentially result in Council being unable to meet payments as and when they fall due.

Market risk – the risks associated with changes in market prices such as interest rates, currency and commodity prices.

Legislative risk – the risk of laws changing that affect investment value.

Risk Management Strategies

There are risks associated with all investments. Council's primary consideration is the reduction of credit and liquidity risks. The following strategies aim to reduce these risks.

CREDIT QUALITY LIMITS

To reduce credit risk, Council will only invest in products with a Standard and Poor's (S&P) long-term credit rating of BBB- or stronger, with the exception of TCorp's Hour-Glass Funds and long-term credit rating of BBB- for Local ADI's only. Investments in BBB- that are not Local ADI's or are unrated entities will be restricted to the limits of the Commonwealth Guarantee (Financial Claims Scheme).

To further reduce risk Council's policy includes maximum holding limits for each rating category. Individual counterparties/financial institution limits are also established to ensure portfolio diversification which reduces the risk of being over exposed to a particular institution.

The following table applies to restrict investments in institutions by the S&P long-term credit rating. Percentage limits in the table refer to percentages of the total portfolio.

Formatted: Font: 9 pt, Bold, Font color: Accent 1, English (Australia)

Long-Term Credit Rating	Portfolio Limit	Limit Per Institution
AAA to AA-	100%	40%
A+ to A-	50%	20%
<u>A-</u>	<u>40%</u>	<u>20%</u>
BBB+	20%	10%
BBB	10%	5%
<u>BBB- : Local ADI's</u>	5%	5%
<u>BBB- : Other</u>	<u>5%</u>	<u>Limited to the Commonwealth Guarantee amount</u>
TCorp's Hour-Glass Growth Funds (No Rating)	15%	Not Applicable
TCorp's Hour Glass Short Term Income Fund (No Rating)	15%	Not Applicable
TCorp's Hour-Glass Cash Fund (No Rating)	30%	Not Applicable
No Rating	5%	Limited to the Commonwealth Guarantee amount

Credit guidelines to be adopted reference the S&P ratings system criteria and format. Credit ratings measure relative credit strength and in no way do they guarantee the Council against investment losses. Despite this challenge, credit ratings provide the best independent information available to assess exposure to credit risk. The format of S&P rating criteria is shown in the below table.

S&P		RATING DESCRIPTION	
LONG-TERM	SHORT-TERM		
AAA	A-1+	PRIME	INVESTMENT-GRADE
AA+		HIGH GRADE	
AA			
AA-			
A+	A-1	UPPER MEDIUM GRADE	
A			
A-			
BBB+	A-2	LOWER MEDIUM GRADE	
BBB			
BBB-			

NR	NR	NO RATING	NO RATING HAS BEEN REQUESTED
----	----	-----------	------------------------------

Investments graded lower than BBB- are not shown as they are considered non-investment grade speculative and therefore would be prohibited under this policy.

TERMS TO MATURITY FRAMEWORK

The term to maturity framework is structured around the cash requirements of the Council and the management of liquidity and market risk. The portfolio liquidity parameters specify the maximum and minimum amounts or percentages of the total investment portfolio that can be held within the various investment maturity bands. The liquidity/maturity profile of the total investment portfolio must comply with the parameters shown in the table below.

Period to Maturity	Cumulative Minimum % of Total Portfolio
< 3 months	Greater of 20% or \$15 million
< 1 year	40%
< 2 years	50%
< 4 years	85%

The minimum requirement for short term access to investments is set at a minimum of \$15 million to ensure adequate funds are available to meet Council's expected liabilities based on the current budget.

Term to Maturity	Maximum % of Total Portfolio
< 3 months	100%
3 months to 1 year	80%
1 to 2 years	60%
2 to 4 years	50%
Greater than 4 years	15%

The term to maturity of individual investments will also be limited according to the institutions credit rating, as shown in the table below.

Long-Term Credit Rating	Maximum Term
AA- or above	5 years
A+ to A	3 years
A- to BBB+	2 years
Below BBB+	1 year

PROCEDURE FOR THE BREACH OF LIMITATIONS OR THRESHOLDS

Where a breach of threshold or limitation occurs due to an unavoidable change in the total investment portfolio or downgrade in credit rating, the following process will apply:

- an immediate freeze is imposed on the acquisition of new investment in the relevant category until the portfolio can be effectively managed back to accord with the requirements of this policy
- the relevant category of investments must be managed back in accord with the policy limits within a period that takes into account any adversity created by market, liquidity and credit risk.

The immediate forced sale of the investment in breach of limits or thresholds will not be required.

Performance Benchmarks

Investment performance will be measured quarterly against the following benchmarks according to the term of investment.

Term of Investment	Benchmark
< 2 years	Bloomberg Ausbond Bank Bill Index (Quarterly and 1 year)
2 years and over	Bloomberg Ausbond Composite 2-5 year Index

Reporting

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.

Details to be included in the Investment Register:

- The source and the amount of money invested;
- Particulars of the security or form of investment in which the money is invested;
- The term of the investment; and
- The rate of interest to be paid, and the amount of money that Council has earned, in respect of the investment.

Certificates must be obtained from the financial institutions confirming the amounts of investments held on Council's behalf as at 30 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 monthly.

Council will be provided with a written report each month setting out details of the entire investment portfolio. The report will confirm compliance of Council's investments with legislative and policy requirements. The report will be made up to the last day of the month immediately preceding the meeting.

As part of the quarterly budget review process, Council will be provided with a detailed commentary and performance benchmarking of the portfolio.

Review of Policy and Investments

ANNUAL REVIEW

In accordance with the Office of Local Government Investment Policy Guidelines, Council will review the Investments Policy annually or in the event of significant legislative or market changes.

PROFESSIONAL ADVICE

Council may from time to time use the services of suitably qualified investment professionals to provide assistance in investment strategy formulation, portfolio implementation and monitoring.

Any such 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 this Investment Policy.

Any independent advisor engaged by Council 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.

Definitions

Term	Meaning
Authorised Deposit-Taking Institution	Authorised Deposit-Taking Institutions are corporations which are authorised under the <i>Banking Act 1959</i> to accept deposits and conduct banking activities.
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.
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.
Bloomberg Ausbond Bank Bill Index	The Bloomberg Ausbond Bank Bill Index is a leading benchmark for the fixed income market in Australia.
Commonwealth Guarantee (Financial Claims Scheme)	The Financial Claims Scheme (FCS) is an Australian Government scheme that protects depositors of authorised deposit-taking institutions (banks, building societies and credit unions) and policyholders of general insurance companies from potential loss due to the failure of these institutions. For banks, building societies and credit unions incorporated in Australia, the FCS provides protection to depositors up to \$250,000 per account-holder per ADI. The Scheme seeks to provide depositors with timely access to their protected deposits in the unlikely event of the failure of their ADI.

Formatted: Font: 9 pt, Bold, Font color: Accent 1, English (Australia)

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’s Hour-Glass Funds	New South Wales Treasury Corporation (TCorp) is the financial markets partner for New South Wales public sector agencies. Hour-Glass Funds are permitted under Ministerial Local Government Investment Order. Hour-Glass Funds are ready made Unit Trusts catering to most investment objectives.