Investment

Policy

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CENTRAL COAST COUNCIL

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POLICY

The Investment Policy governs the manner in which the Council invests its funds.

PURPOSE

The purpose of this Policy is to provide a framework for the prudent investment of the Council's funds, with the aim of maximising investment returns within the approved risk profile and legal responsibilities.

STANDARDS (INCLUDING RELEVANT LEGISLATION)

All investments are to be made and managed in accordance with the provisions of the:

- *Local Government Act 1993*, section 75; and
- *Trustee Act 1898*, Part II - Investments.

SCOPE

The Council has, at times, funds that are in excess of its immediate operational requirements. These funds are available for investment in terms of this Policy.

This Policy does not cover equity investments in associated entities or joint ventures.

DEFINITIONS

Authorised Deposit Taking Institution

Authorised Deposit Taking Institution (ADTI) means a body corporate granted the authority to carry on a banking business in terms of section 9 of the *Banking Act 1959* as amended).

Long-term investment

Long-term investment means an investment of longer than 12 months.

Short-term investment

Short-term investment means an investment of less than 12 months.

Security

Security Means:

- Debentures, stocks, shares, bonds or notes issued or proposed to be issued;
- Any right or option in respect of any such debentures, stocks, shares, bonds or notes;
- A prescribed interest instrument such as a unit trust.

In particular, without limiting the generality of the foregoing, this includes:

- bills of exchange;
- promissory notes;
- certificates of deposit issued by an ADTI; and
- any money or securities for money paid into or deposited in Court to the credit of any cause, matter, or account.

REVIEW

This Policy will be reviewed bi-annually, unless organisational and legislative changes require modifications that are more frequent.

RESPONSIBILITIES

The General Manager has the delegated responsibility for the implementation of the Policy from the Council in terms of the *Local Government Act 1993*.

The General Manager may delegate this authority to the Director Organisational Services to manage the day-to-day investments and the cash requirements of the Council.

INVESTING COUNCIL FUNDS

AUTHORISED INVESTMENTS

Interest bearing deposits issued by a licensed bank, building society or credit union that are ADTIs.

Securities or public funds issued by or guaranteed by the Commonwealth or any State or Territory;

Cash funds for funds invested for up to six months and cash-plus/cash enhanced/income/bond funds for funds available for investment over six months.

PROHIBITED INVESTMENTS

Derivative based financial instruments.

Principal only investments that have a risk of nil or negative cash flow.

Investments in, or having underlying futures, options, forward contracts or swaps; and

Leveraged investments;

INVESTING COUNCIL OPERATING FUNDS

The Council may invest funds with any authorised ADTI having the prescribed rating.

The Council shall endeavour at all times to invest funds at the most advantageous interest rate available to it at the time of the investment.

At least three quotations are to be obtained from ADTIs whenever a new investment is proposed.

The best quote on the day will be successful after allowing for administrative and banking costs, minimum and maximum balances as well as having regard to the limits set in this Policy.

At the time of assessing the best quote, regard must be given to the interest rate offered, the credit rating of the institution and the term of the investment.

The term of maturity of any investments can range from 'on call' to 12 months.

An assessment of the Council's cash flow requirements up until maturity of the next investment must be completed before funds are invested or reinvested.

Adequate funds must be available in the Council's operating bank account or on call accounts to meet the Council's immediate working capital requirements.

INVESTMENTS WITH FUND MANAGERS

The Council may deposit funds with the manager of a cash fund, cash enhanced fund, income or bond fund, provided the manager invests the funds so that the Council retains beneficial ownership in a security authorised by the Trustee Act.

Limits apply to the amount of the Council's investment funds, which can be invested with any single fund. The amount invested with any one rated fund should not exceed 60% of the total funds invested.

Investment advisors utilised by the Council to identify and select recommended managed fund investments must be licenced by the Australian Securities and Investments Commission.

GOVERNANCE

As trustees of public monies, the investments must be managed with due care, diligence and skill that a prudent person would exercise.

The Council must establish and maintain an Investment Register in which documentary evidence of the approved financial institutions, investment transactions, quotes and details of each investment is held.

Certificates of deposit must be obtained at 30 June if required to satisfy audit requirements.

Investments are to be subject to annual internal audit procedures to ensure compliance with this Policy.

New investment accounts must be approved by the Director of Organisational Services. Reinvestment into existing investments may be approved by the Finance Group Leader.

All transfers of funds relating to investments must be authorised by account signatories and comply with the delegated authority.

Any staff member or Councillor who has a conflict of interest or a potential conflict of interest relating to any investment or potential investment of the Council must disclose this to the General Manager. In the case of the General Manager a conflict of interest must be disclosed to the Mayor.

RISK MANAGEMENT

In order to satisfy the purpose of the Policy, the Council must take into consideration the following factors when carrying out investment functions:

(a) Existence of guarantees or security;
(b) Credit rating of the institution;
(c) Interest rate;
(d) Prior service history of the institution; and
(e) Any social or community benefit.

Risk mitigation must comply with the following criteria:

(a) Preservation of capital – the requirement for the prevention of loss in the investments total portfolio's value;

(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) Market risk – risk that the fair value of the investment or the future cash flows from the investment will fluctuate due to changes in market prices;

(d) Liquidity risk – risks that the Council will be unable redeem the fair value of the investment on demand;

(e) Maturity risk – risks relating to the term to maturity of the investment thereby exposing the investment to market volatility.

To mitigate the risks detailed above, the amount invested in any financial institution or should not exceed the following percentages of average annual funds invested.

Standard & Poor's Rating Maximum %				
Long-Term	**Short-Term**	**Of Total Investment**	**Maximum % with any one ADTI**	**Maximum term to maturity**
AAA to AA-	A1+	100%	50%	3 years
A+ to A-	A1	75%	50%	1 year
BBB+ to BBB-	A2	50%	50%	180 days

If any of the deposits/securities held are downgraded such that they no longer fall within the Council's Investment Policy guidelines, they will be divested within 30 days or as soon as is practicable.

The Council will invest its funds within the following term to maturity constraints:

Term to Maturity	Minimum	Maximum
Less than 1 year	50%	100%
Greater than 1 year	0%	50%
Greater than 3 years	0%	25%

REPORTING

On a six monthly basis a report will be prepared for the Senior Leadership Team which summarises for each investment:

. Amount and performance of each investment to the respective benchmark reported on an after fees basis;

. Comparison of the investment portfolio with exposure limits; and

. Comparison of year-to-date investment income performance to budget.

A monthly reconciliation of the Investment Ledger to the Director of Organisational Services must be produced.

Annual reports are to account for investments in accordance with the provisions of the current Accounting Standard relating to the presentation and disclosure of financial instruments.

For audit purposes, certificates may be required to be attained from all financial institutions confirming the amounts held on the Council's behalf at 30 June annually.

PERFORMANCE BENCHMARKS

Type of Fund	Benchmark
Cash	11am Cash Rate
Term Deposit	Australian Term Deposit Index (ATDI)
Fixed Interest	Australian UBS Composite Bond Index
Alternative Investments	UBS Australia Bank Bill Index

VARIATIONS TO POLICY

The General Manager and Director Organisational Services are authorised to approve variations to this Policy in exceptional circumstances, if the investment is to the Council's advantage and/or is due to revised legislation.

Any such variations to this Policy are to be listed on the next Council meeting agenda for review.

APPENDIX 1 – STANDARD AND POOR'S RATING DEFINTIONS

- Issue Credit Ratings
- Long-Term Issue Credit Ratings
- Short-Term Issue Credit Ratings

Sandra Ayton
GENERAL MANAGER

Standard & Poor's Ratings Definitions

ISSUE CREDIT RATING DEFINITIONS

ISSUE CREDIT RATINGS

A Standard & Poor's issue credit rating is a forward-looking opinion about the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations, or a specific financial program (including ratings on medium-term note programs and commercial paper programs). It takes into consideration the creditworthiness of guarantors, insurers, or other forms of credit enhancement on the obligation and takes into account the currency in which the obligation is denominated. The opinion reflects Standard & Poor's view of the obligor's capacity and willingness to meet its financial commitments as they come due, and may assess terms, such as collateral security and subordination, which could affect ultimate payment in the event of default.

Issue credit ratings can be either long-term or short-term. Short-term ratings are generally, assigned to those obligations considered short-term in the relevant market. In the U.S., for example, that means obligations with an original maturity of no more than 365 days—including commercial paper. Short-term ratings are also used to indicate the creditworthiness of an obligor with respect to put features on long-term obligations. Medium-term notes are assigned long-term ratings.

LONG-TERM ISSUE CREDIT RATINGS

Issue credit ratings are based, in varying degrees, on Standard & Poor's analysis of the following considerations:

- Likelihood of payment—capacity and willingness of the obligor to meet its financial commitment on an obligation in accordance with the terms of the obligation;
- Nature of and provisions of the obligation;, and the promise we impute.
- Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

Issue ratings are an assessment of default risk, but may incorporate an assessment of relative seniority or ultimate recovery in the event of default. Junior obligations are typically rated lower than senior obligations, to reflect the lower priority in bankruptcy, as noted above. (Such differentiation may apply when an entity has both senior and subordinated obligations, secured and unsecured obligations, or operating company and holding company obligations.)

TABLE 1	
Long-Term Issue Credit Ratings*	
Category	**Definition**
AAA	An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
AA	An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.
A	An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.
BBB	An obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.
BB; B; CCC; CC; and C	Obligations rated 'BB', 'B', 'CCC', 'CC', and 'C' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'C' the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.
BB	An obligation rated 'BB' is less vulnerable to non-payment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.
B	An obligation rated 'B' is more vulnerable to non-payment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.
CCC	An obligation rated 'CCC' is currently vulnerable to non-payment, and is dependent upon favourable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic

	conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.
CC	An obligation rated 'CC' is currently highly vulnerable to non-payment. The 'CC' rating is used when a default has not yet occurred, but Standard & Poor's expects default to be a virtual certainty, regardless of the anticipated time to default.
C	An obligation rated 'C' is currently highly vulnerable to non-payment, and the obligation is expected to have lower relative seniority or lower ultimate recovery compared to obligations that are rated higher.
D	An obligation rated 'D' is in default or in breach of an imputed promise. For non-hybrid capital instruments, the 'D' rating category is used when payments on an obligation are not made on the date due, unless Standard & Poor's believes that such payments will be made within five business days in the absence of a stated grace period or within the earlier of the stated grace period or 30 calendar days. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of similar action and where default on an obligation is a virtual certainty, for example due to automatic stay provisions. An obligation's rating is lowered to 'D' if it is subject to a distressed exchange offer.
NR	This indicates that no rating has been requested, or that there is insufficient information on which to base a rating, or that Standard & Poor's does not rate a particular obligation as a matter of Policy.
*The ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.	

TABLE 2	
Short-Term Issue Credit Ratings	
Category	**Definition**
A-1	A short-term obligation rated 'A-1' is rated in the highest category by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.
A-2	A short-term obligation rated 'A-2' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.
A-3	A short-term obligation rated 'A-3' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.
B	A short-term obligation rated 'B' is regarded as vulnerable and has significant speculative characteristics. The obligor currently has the capacity to meet its financial commitments; however, it faces major ongoing uncertainties which could lead to the obligor's inadequate capacity to meet its financial commitments.
C	A short-term obligation rated 'C' is currently vulnerable to non-payment and is dependent upon favourable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation.
D	A short-term obligation rated 'D' is in default or in breach of an imputed promise. For non-hybrid capital instruments, the 'D' rating category is used when payments on an obligation are not made on the date due, unless Standard & Poor's believes that such payments will be made within any stated grace period. However, any stated grace period longer than five business days will be treated as five business days. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action and where default on an obligation is a virtual certainty, for example due to automatic stay provisions. An obligation's rating is lowered to 'D' if it is subject to a distressed exchange offer.