
ATTACHMENTS DISTRIBUTED UNDER SEPARATE COVER

CCL 25/08/20 – INVESTMENT AND BORROWING POLICY ANNUAL REVIEW

PAGE 3 **ITEM-58** **Attachment A:** Updated Investment and Borrowing
Policy

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Policy

Investment and Borrowing Policy

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Part A Preliminary

1 Purpose

- 1.1 The purpose of the Policy is to provide a framework for the investing and borrowing functions of Council.
- 1.2 The Policy framework will ensure that management of Council's capital is carried out in a manner that provides due consideration to:
 - 1.2.1 Legislative requirements;
 - 1.2.2 Prudent financial management and governance principals;
 - 1.2.3 Council's strategic objectives; and
 - 1.2.4 Risk management and mitigation.

Part B Investments

2 Purpose

- 2.1 The purpose of the Investments subsection of the Policy is to provide a framework for the investment function of Council.

3 Scope

3.1 Delegation of authority

- 3.1.1 The Chief Executive Officer, Director Governance, Chief Financial Officer, Manager Corporate Finance, and Manager Business Partnering are responsible for the day-to-day management of Council's investments in accordance with this Policy, Council's Investment Strategy, the Ministerial Investment Order and section 625 of the Local Government Act 1993.
- 3.1.2 Officers' delegated authority to manage Council's investments shall be recorded and officers will be required to acknowledge they have received a copy of this Policy and that they understand their obligations in this role.
- 3.1.3 Any new capital contribution or withdrawal made by Council to or from a TCorpIM Growth Fund will require written authority from any two of the Council officers with delegated authority (refer 4.1.1).

3.2 Prudent Person standard

- 3.2.1 The investment portfolio 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 portfolio to safeguard the portfolio in accordance with the spirit of this Investment Policy, and not for speculative purposes.

3.3 Ethics and conflicts of interest

- 3.3.1 Delegated Officers shall refrain from decision making activities that could be perceived as being in conflict with proper management and decision making in relation to the investment portfolio.
- 3.3.2 Disclosure of any conflict of interest should be made in accordance with Council's Code of Conduct Policy.
- 3.3.3 Independent advisors are required to declare, prior to engagement or as circumstances arise, any actual or perceived conflict of interest.

4 Principles

- 4.1 To provide a framework for the investing of Council's funds at the most favourable rate of interest available to Council at the time whilst having due consideration of risk and security for that investment type and ensuring that its liquidity requirements are being met.
- 4.2 While exercising the power to invest, consideration is to be given to the preservation of capital, liquidity and the return of investment.
- 4.3 Preservation of capital is the principal objective of the investment portfolio. Investments are to be placed in a manner that seeks to ensure security and the safeguarding of the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters.
- 4.4 Investments should be allocated to ensure there is sufficient liquidity to meet all reasonably anticipated cash flow requirements, as and when they fall due, without incurring the risk of significant costs due to the unanticipated sale of an investment.
- 4.5 Investments are expected to achieve a market average rate of return in line with Council's risk tolerance. Risk tolerance thresholds are identified within clause 7
- 4.6 Delegated Officers are to manage all the investments with a contracted term and maturity date as a hold to maturity investment. Deviation from this method of operation (ie sale of an investment prior to maturity) is permissible for either risk management purposes, to meet unforeseen liquidity requirements, or if deemed advantageous to do so.
- 4.7 All investments are to comply with the following:
 - 4.7.1 *Local Government Act 1993 (NSW) - Section 625*
 - 4.7.2 *Local Government (General) Regulation 2005 (NSW)*
 - 4.7.3 Prevailing Ministerial Investment Order
 - 4.7.4 Local Government Code of Accounting Practice and Financial Reporting
 - 4.7.5 Office of Local Government Investment Circulars; and
 - 4.7.6 Australian Accounting Standards.

5 Investment Types and Restrictions

5.1 Authorised investments

- 5.1.1 Investments are limited to those allowed by the most current Ministerial Investment Order that has been issued by the NSW Minister for Local Government.
- 5.1.2 When placing a new investment a minimum of three quotations are to be obtained on comparable investments. If three comparable quotations are unavailable documentary evidence must be recorded justifying how a fair market price was determined and obtained.

5.2 Prohibited investments

- 5.2.1 In accordance with the Ministerial Investment Order, this investment policy prohibits but is not limited to any investment carried out for speculative purposes including:
 - 5.2.1.1 Derivative Based Instruments. Examples: structured debt obligations, swaps, futures, options, caps, floors, collars, forwards;
 - 5.2.1.2 Principal only investments, or securities, that provide potentially nil or negative cash flow. Example: Principal Protected Notes, and
 - 5.2.1.3 Stand-alone securities issued that have underlying futures, options, forward contracts and swaps of any kind.
- 5.2.2 This policy also prohibits the use of leveraging (borrowing to invest) of an investment.

5.3 Grandfathering

- 5.3.1 Grandfathering means a situation in which an old rule continues to apply to some existing situations, while a new rule will apply to all future situations.
- 5.3.2 In situations where compliant investments change to fall outside of either Council's Investment and Borrowing Policy and/or the prevailing Ministerial Investment Order the Delegated Officers may continue to hold to maturity (I.e. Grandfather the investment so long as Grandfathering is permitted under the Ministerial Investment Order), redeem or sell the investment. Such occurrences will be reported to the Elected Council in the monthly report.

5.4 Legal title

- 5.4.1 When entering into a financial instrument, it is required that Council clearly demonstrate the financial instrument is held in the registered name of Council.

6 Risk Management Framework

- 6.1 The Risk Management Framework mandates minimum and maximum exposure limits applicable to the daily management of CN's unconsolidated cash and investment portfolio.
- 6.2 The purpose of the Risk Management Framework is to manage CN's risk tolerance in alignment with its Investment Principles (Section 4).
- 6.3 Overarching risk management exposure limits are as per the following table:

Investment Category	Minimum Exposure	Maximum exposure
Income producing / Defensive	80%	100%
Capital Growth	0%	20%

6.4 Income producing / Defensive Category

- 6.4.1 The Income producing / Defensive category includes all interest-bearing deposits, debentures, bonds, bills of exchange, and TCorpIM Funds (mandating investment solely in the previously stated financial assets) permissible as per the prevailing Ministerial Investment Order.
- 6.4.2 Income producing /defensive financial assets tend to carry lower risk levels, and therefore generate a lower average return over the long term in comparison to Capital Growth Financial assets.
- 6.4.3 Generally, defensive assets are expected to provide returns in the form of income.
- 6.4.4 Mandated risk limits apply to this category as per the Credit and Market risk framework; and maturity risk framework.
- 6.4.5 Credit and Market risk framework
- 6.4.5.1 Credit Risk means the risk that an investor fails to receive the entire principal and/or interest associated with that investment when it falls due.
- 6.4.5.2 Market Risk means the risk of an investor experiencing losses due to factors that affect the overall performance of the financial markets.
- 6.4.5.3 To control the credit quality of the investments contained within this category the following credit framework limits apply:

Long Term Credit Rating (Standard and Poors)	Maximum exposure	Maximum exposure to any one counterparty
AAA	100%	30%
AA band or Major Banks	100%	30%
A band (and ratings below)	60%	15%
BBB+ to BBB (and below)	50%	10%
Non Rated, BBB- or below	10%	5%

6.4.5.4 New Investments are to be placed in accordance with the credit risk limits at the time of entering into the transaction.

6.4.5.5 In the event that an entity is unrated by Standard and Poor's but rated by Moody's and/or Fitch the Standard and Poor's equivalent to the lowest Fitch/Moody's credit rating is to be utilised in the above framework.

6.4.5.6 Investments in Non Rated Category ADIs are restricted to those institutions with a minimum total asset size of \$500m.

6.4.6 Maturity risk framework

6.4.6.1 The Maturity risk framework specifies the Minimum and Maximum percentages of Council's total investment portfolio that can be held within the various Term to Maturity bands.

6.4.6.2 The thresholds are established in order to manage Maturity Risk and limit Liquidity Risk, whilst also allowing for Diversification of the portfolio and recognising the need to facilitate matching of investment duration with long term liabilities

Term to Maturity	Minimum	Maximum	Minimum rating of Investment at purchase
<1 Year	25%	100%	
>1 Year	0%	75% (maximum of 30% to BBB)	BBB
>3 Years	0%	50% (maximum of 10% to BBB)	BBB
>5 Years	0%	20%	AA- (or major bank)

6.5 Capital Growth Category

6.5.1 The Capital Growth category encompasses all TCorpIM Growth Funds permissible as per the prevailing Ministerial Investment Order.

6.5.2 Capital Growth financial assets are designed to grow the capital value of the asset. They tend to carry higher levels of risk with returns strongly influenced by market fluctuations and can therefore vary considerably over shorter time frames. Although Capital Growth assets carry higher levels of risk, they have the potential to deliver higher returns over longer investment time frames.

6.5.3 Should the prevailing Ministerial Investment Order be amended to permit additional Capital Growth assets they are not permissible investments to Council until explicitly specified within Annexure A – Definitions of the Policy.

6.6 Liquidity guidelines

6.6.1 Delegated Officers are to ensure that combined sufficient funds are retained within Council's general fund and high interest at call account combined to meet foreseen creditor payments as they fall due with a buffer for reasonable unforeseen payments.

6.7 Diversification guidelines

- 6.7.1 Delegated Officers are responsible for the continual maintenance of a well-diversified portfolio with respect to institution, term to maturity and product.
- 6.7.2 The management and monitoring of diversification is via adherence to the specified Risk management frameworks identified within this section of the Policy.

7 Environmentally and Socially Responsible Investments (SRI)

7.1 Environmental and SRI guidelines

7.1.1 Council's preference is to enter into environmentally and Socially Responsible Investments (SRI) where:

7.1.1.1 The investment is compliant with legislation and Investment and Borrowing Policy objectives and parameters; and

7.1.1.2 The rate of return is at least equal to comparable investments on offer to Council at the time of investment.

7.1.2 SRI status may be in respect of the individual investment product, the issuer of the investment, or both and should be endorsed by an accredited environmentally and socially responsible industry body or institution where possible.

7.1.3 Council's criteria to an SRI are those which direct investment towards the socially and/or environmentally productive activities listed below:

Environmentally productive activities are considered to be:	Socially productive activities are considered to be:
<ul style="list-style-type: none"> • resource efficiency-especially water and energy • renewable energy • production of environmentally friendly products • recycling, and waste and emissions reduction 	<ul style="list-style-type: none"> • 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

7.1.4 Avoid investment in the socially and/or environmentally harmful activities listed below:

Environmentally harmful activities are considered to be:	Socially harmful activities are considered to be:
<ul style="list-style-type: none"> • production of pollutants, toxins and greenhouse gases (either in Australia or abroad) • habitat destruction, especially destruction of forests and marine eco-systems. • nuclear power • uranium mining 	<ul style="list-style-type: none"> • abuse of Human Rights and Labour Rights • involvement in bribery/corruption • production or supply of armaments • manufacture of alcohol, tobacco or gambling products

8 Investment Advisor

8.1 Investment advisor selection

- 8.1.1 Council's investment advisor must be 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 the Investment and Borrowings Policy.
- 8.1.2 The investment advisor is required to provide written confirmation that they do not have any actual or potential conflicts of interest in relation to the investments that 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. This confirmation is required prior to entering into a contract with the advisor.

9 Measurement

9.1 Performance measurement

- 9.1.1 The Key Performance Indicator (KPI) for the Income producing / Defensive category is benchmarked at 0.50% above the 12month rolling Bloomberg AusBond Bank Bill Index or its successor or equivalent index.
- 9.1.2 Actual performance is measured using the weighted average return of the investment portfolio over a historical 12 month period. This is measured on a rolling monthly basis to coincide with monthly reporting.
- 9.1.3 The Key Performance Indicator (KPI) for the Capital Growth category is benchmarked at a rate equal to the long term performance objective, set by TCorp, for each separately identifiable TCorpIM Growth Fund. These are set at a margin above Inflation (Inflation being the Consumer Price Index (CPI)).
- 9.1.4 The returns generated on Grandfathered Investments will be regularly reviewed by an independent financial advisor by benchmarking and assessing their market value. The market value is to be assessed once a month to coincide with monthly reporting.

10 Reporting of Investments

10.1 General reporting

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

10.1.2 The documentary evidence must provide Council legal title to the investment.

10.1.3 All investments are to be appropriately recorded in Council's financial records and reconciled on at least a monthly basis.

10.2 Monthly reporting

10.2.1 Council must comply with clause 212 of the Local Government (General) Regulation 2005.

10.2.2 Clause 212 of the Regulation requires that the delegated officer:

10.2.2.1 Provide the elected council with a written report (setting out details of all money that council has invested under section 625 of the Act) to be presented in one ordinary meeting of the elected council held in the month.

10.2.2.2 Include in the report a certificate as to whether or not investments have been made in accordance with the Act, the regulations and the Council's Investment and Borrowing Policy.

10.2.2.3 The report must be made up to the last day of the month immediately preceding the meeting.

10.2.3 In addition, the monthly report will detail actual performance of the investment portfolio in comparison to budgeted interest return and KPI, and key data summarising compliance with the risk management framework outlined within this Policy.

10.3 Annual reporting

10.3.1 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.

10.3.2 As at 30 June each year an independent financial assessment of the value of all investments classified as being available for sale is to be received.

Part C Borrowing

11 Purpose

11.1 To provide a framework and procedures for:

11.1.1 Determination and funding of Council's Annual Loan Borrowing Program;

11.1.2 Determination of an appropriate debt service level;

11.1.3 Borrowing by way of overdraft limit; and

11.1.4 Internal loans.

12 Scope

12.1 Council's external borrowing is subject to the Local Government Act 1993, the Local Government (General) Regulation 2005 and the approval of the Minister for Local Government.

13 Principles

13.1 Council commits itself to the following principles:

13.1.1 New borrowing for capital works purposes should only occur when Council deems the annual debt service expense to be affordable in the context of the annual management planning process and Council's long term financial capacity.

13.1.2 It is considered that a Debt Service Cover ratio as per the Industry benchmark of Greater than 2x is appropriate within current budget constraints and allows for current service levels to be maintained.

14 Process

14.1 Legislative Requirements

14.1.1 The borrowing of loan funds by Local Government authorities is regulated under Section 621-624 of the Local Government Act 1993 and the Local Government (General) Regulation 2005.

14.1.2 Section 377 of the Local Government Act 1993 empowers only the elected Council with the power to approve the borrowing of loan funds. This function of Council cannot be delegated.

14.1.3 Council is required to advise the Chief Executive Officer, Office of Local Government, of amounts borrowed at the time loans are taken out in accordance with clause 230 of the *Local Government (General) Regulation 2005*.

14.1.4 The Minister for Local Government has issued a Ministers Borrowing Order imposing restrictions on borrowings by councils.

14.2 Annual Loan Borrowing Program

- 14.2.1 As part of the annual Operational Plan process Council shall initially determine its proposed loan borrowing program and disclose any proposed new money borrowings.
- 14.2.2 Subsequent to this approval the Council Chief Executive Officer shall negotiate and raise loan funds on the most financially attractive terms and conditions for Council.
- 14.2.3 Where there is a requirement to increase borrowings during the financial year, not included in the annual Operational Plan, council should advise TCorp by resubmitting the Borrowing Return with an additional comment on the purpose of the increased borrowings. The additional borrowings are to be resolved by Council prior to resubmitting.

14.3 Borrowing by way of Overdraft Limit

- 14.3.1 Section 622 of the Local Government Act 1993 allows Council to borrow by way of an overdraft or loan or by any other means approved by the Minister.
- 14.3.2 As at the date of Policy approval Council does not have an Overdraft facility in place nor does it have any intention to pursue one. Should the requirement for an Overdraft facility arise approval will be sought in accordance with the guidelines established within this Policy.

14.4 Internal loans

- 14.4.1 An internal loan from reserve funds is a funding option that can be considered by Council to finance projects in lieu of borrowing externally.
- 14.4.2 In accordance with Council's Reserve Funds Policy internal borrowing should only be considered where:
 - 14.4.2.1 The cash funds in reserve are not required over the period of the loan; and
 - 14.4.2.2 The rate of interest is market competitive and a disciplined repayment plan is established by agreed loan instalments.
- 14.4.3 In accordance with Section 410 of the Local Government Act 1993 money raised by special rates or charges that is not yet required for the purpose for which it was received may be lent (by way of internal loan) for use for any other purpose if, and only if, its use for that purpose is approved by the Minister. This requirement is not imposed for internal loans from any other source of funds.

Part D Policy Review

- 14.5 This Policy will be reviewed at least once a year or as required in the event of legislative changes.
- 14.6 The 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.
- 14.7 Any amendment to the Policy must be by way of Council resolution.

Annexure A - Definitions

Authorised Deposit Taking Institution (ADI) means a corporation authorised under the Australian Banking Act 1959 to receive deposits in Australia. ADIs include banks, building societies and credit unions.

CEO means Chief Executive Officer of the City of Newcastle and includes their delegate or authorised representative.

References to the Chief Executive Officer are references to the General Manager appointed under the *Local Government Act 1993* (NSW).

City of Newcastle (CN) means Newcastle City Council.

Council means the elected Council.

Debt Service Cover ratio is calculated in accordance with the prevailing Local Government Code of Accounting Practice and Financial Reporting.

Delegated Officer means the officers listed at clause 4.1.1.

Derivative Based Instruments means investments whose value is derived from the performance of underlying market factors, such as interest rates, currency exchange rates, and commodity, credit and equity prices. Derivative investments include structured debt obligations, swaps, futures, options, caps, floors, collars, forwards and a various combination thereof.

Diversification means setting of limits for investing funds with ADIs and Australian Federal, State and Local Governments and any other investments permissible under the Policy.

Internal Loans refers to those monies transferred within Council to cover identified projects, where the money is to be repaid to the restricted fund from a specified source.

Investment Risk means the value of investments may go up or down - sometimes rapidly and unpredictably - which may result in a capital loss upon redemption, or a lower than expected return.

Liquidity Risk means the risk an investor is unable to redeem the investment at a fair price within a timely period.

Long Term Credit Rating means a guide or standard for an investor, which indicates the ability of a debt issuer or debt issue to meet the obligations of repayment of interest and principal over a period greater than one year.

Major Banks means ANZ, CBA, NAB and Westpac or any of their wholly owned and guaranteed subsidiary banks carrying the same credit rating as the major bank.

Maturity Risk means the risk relating to the duration of an investment. The longer the investment term to maturity, the greater the length of exposure and risk to market volatilities.

New money borrowings are broadly defined to include the entire range of financing arrangements available to Council. These include conventional loans, deferred payment arrangements, finance leases and any other forms of raising new capital funds.

Non Rated Category means an Australian Prudential Regulation Authority regulated defined Authorised Deposit Taking Institution (ADI) that does not currently have a credit rating from a major recognised credit ratings agency (currently, Standard & Poor's, Moody's or Fitch).

Prudent Person means someone who will manage the investment portfolio in a wise, skilful, diligent and careful manner. They always exercise due care in making decisions and act in moderation.

Reserve funds refers to those funds which have either an external restriction (legislative or otherwise) or an internal restriction (Council adopted resolution to hold monies for a specific purpose) governing the management and future application of these funds.

TCorp means New South Wales Treasury Corporation (as part of the New South Wales Government) and is the central financing authority for the New South Wales public sector. Its principal objective is to provide financial service for, or for the benefit of, the New South Wales Government, public authorities and other public bodies.

TCorpIM Growth Funds means both the Medium Term Growth Fund and Long Term Growth Fund which are diversified funds that invest in a blend of growth and defensive asset classes. These funds are designed for investors with longer term time horizons and are able to take additional investment risk in order to generate higher potential returns.

Unless stated otherwise, a reference to a section or clause is a reference to a section or clause of this Policy.

Annexure B - Policy Authorisations

Function	Position Number / Title
Invest funds on behalf of CN	Chief Executive Officer
Invest funds on behalf of CN	Director Governance
Invest funds on behalf of CN	Chief Financial Officer
Invest funds on behalf of CN	Manager Corporate Finance
Invest funds on behalf of CN	Manager Business Partnering

Document Control

Policy title	Investment and Borrowing Policy
Policy owner	Director Governance / Chief Financial Officer
Policy expert/writer	Treasury Accountant
Associated Procedure Title (if applicable)	N/A
Procedure owner (if applicable)	N/A
Prepared by	Finance
Approved by	Council
Date approved	To be completed by Legal
Policy approval form reference	ECM# TBA
Commencement Date	To be completed by Legal
Next revision date (date policy will be revised)	12months from date of approval
Termination date	To be completed by Legal (one year post revision date)
Version	4
Category	Financial
Keywords	Investments, Risk Management, Interest Rates, Surplus Funds, Legislation, Cash Flow, Borrowings, Loans
Details of previous versions	Investment and Borrowing Policy (2017, ECM#5289317) Investment and Borrowing Policy (2018, ECM#6514597) Investment and Borrowing Policy (2019, ECM#6061433)
Legislative amendments	N/A
Relevant strategic direction	Open and Collaborative Leadership
Relevant strategy	List any related CN strategy

Relevant legislation/codes (reference specific sections)	Local Government Act 1993 (NSW) Local Government (General) regulation 2005 Ministerial Investment Order Ministerial Borrowing Order Local Government Code of Accounting Practice and Financial Reporting Australian Accounting Standards Division of Local Government - Investment Policy Guidelines - May 2010
Other related policies/ documents/ strategies	Code of Conduct Register of Delegations Restricted Cash Policy
Related forms	N/A
Required on website	Yes
Authorisations	Functions authorised under this Policy at Annexure B