



# **AGENDA**

## **ECONOMIC DEVELOPMENT, BUSINESS AND CORPORATE COMMITTEE**

### **12 JUNE 2018**

MEMBERSHIP: Councillors J Diffey, V Etheridge, D Grant, D Gumley, A Jones, S Lawrence, G Mohr, K Parker, J Ryan and B Shields.

The meeting is scheduled to commence at .

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	Page
<b>EDBC18/32</b> <b>REPORT OF THE ECONOMIC DEVELOPMENT, BUSINESS AND CORPORATE COMMITTEE - MEETING 14 MAY 2018 (ID18/881)</b>	<b>2</b>
The Committee had before it the report of the Economic Development, Business and Corporate Committee meeting held 14 May 2018.	
<b>EDBC18/33</b> <b>INVESTMENT POLICY AND STRATEGY REVIEW (ID18/924)</b>	<b>7</b>
The Committee had before it the report dated 31 May 2018 from the Manager Financial Operations regarding Investment Policy and Strategy Review.	



**DUBBO REGIONAL  
COUNCIL**

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## **Report of the Economic Development, Business and Corporate Committee - meeting 14 May 2018**

**AUTHOR: Administration Officer - Governance**  
**REPORT DATE: 25 May 2018**

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The Committee had before it the report of the Economic Development, Business and Corporate Committee meeting held 14 May 2018.

### **RECOMMENDATION**

**That the report of the Economic Development, Business and Corporate Committee meeting held on 14 May 2018, be adopted.**



**REPORT  
ECONOMIC DEVELOPMENT, BUSINESS AND  
CORPORATE COMMITTEE  
14 MAY 2018**

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**PRESENT:** Councillors J Diffey, D Grant, A Jones, G Mohr, K Parker and J Ryan.

**ALSO IN ATTENDANCE:**

The Chief Executive Officer, the Executive Manager Governance and Internal Control, the Team Leader Governance, the Director Corporate Services, the Director Economic Development and Business (J Angus), the Manager Communication and Stakeholder Engagement, the Communications Coordinator, the Director Infrastructure and Operations, the Manager Transport and Emergency, the Director Planning and Environment, the Manager Building and Development Services, and the Director Community and Recreation.

Councillor G Mohr assumed chairmanship of the meeting.

The proceedings of the meeting commenced at 5.35pm.

**EDBC18/27 REPORT OF THE ECONOMIC DEVELOPMENT, BUSINESS AND CORPORATE  
COMMITTEE - MEETING 16 APRIL 2018 (ID18/781)**

The Committee had before it the report of the Economic Development, Business and Corporate Committee meeting held 16 April 2018.

Moved by Councillor A Jones and seconded by Councillor J Ryan

**MOTION**

**That the report of the Economic Development, Business and Corporate Committee meeting held on 16 April 2018, be noted.**

**CARRIED**

**EDBC18/28 MARCH 2018 QUARTERLY BUDGET REVIEW STATEMENTS (ID18/650)**

The Committee had before it the report dated 9 April 2018 from the Chief Executive Officer regarding March 2018 Quarterly Budget Review Statements.

Moved by Councillor A Jones and seconded by Councillor D Grant

**MOTION**

1. That the Quarterly Budget Review Statements as at 31 March 2018, as attached to the report of the Chief Executive Officer dated 9 April 2018, be adopted and such sums voted for such purpose.
2. That the Statement of the Responsible Accounting Officer that Council is in a satisfactory financial position having regard to the changes herewith to the original budget, be noted.
3. That the contracts, consultants, legal expenses and cash and investments information be noted.

**CARRIED**

**EDBC18/29 BALLIMORE FIRE STATION - TELSTRA TELECOMMUNICATION LICENCE (ID18/775)**

The Committee had before it the report dated 30 April 2018 from the Property Services Officer regarding Ballimore Fire Station - Telstra Telecommunication Licence.

Moved by Councillor J Diffey and seconded by Councillor J Ryan

**MOTION**

1. That Council enter into a licence agreement with Telstra Corporation Limited to enable them to continue to operate the Ballimore telephone exchange for a total term of 20 years.
2. That all necessary documents in relation to this matter are executed under the Chief Executive Officer's Power of Attorney.

**CARRIED**

**EDBC18/30 WELLINGTON CAVES CARAVAN PARK CLEANING AND MAINTENANCE  
CONTRACT (ID18/707)**

The Committee had before it the report dated 19 April 2018 from the Manager Visitor Experiences and Services regarding Wellington Caves Caravan Park Cleaning and Maintenance Contract.

Moved by Councillor J Ryan and seconded by Councillor A Jones

**MOTION**

**That members of the press and public be excluded from the meeting during consideration of this item, the reason being that the matter concerned information that would, if disclosed, prejudice the commercial position of the person who supplied it (Section 10A(2)(d)(i)).**

**CARRIED**

Moved by Councillor A Jones and seconded by Councillor D Grant

**MOTION**

- 1. That in accordance with Section 55(3)(i) of the Local Government Act 1993, Council not call tenders for the cleaning and after hours operations contract of the Wellington Caves Caravan Park due to extenuating circumstances to allow Council to undertake a review of its management process of the Wellington Caves Complex and Caravan Park.**
- 2. That Mickey D's Cleaning be offered an extension of the existing contract for the cleaning, maintenance and after hours operations of the Wellington Caves Caravan Park for a period of 12 months to allow the review of the management of the business operations including a valuation to occur.**
- 3. That the terms of the 12 month extension of the contract be the following:**
  - a. The contract be extended until 30 June 2019 for a contract price of \$228,900 ex GST.**
  - b. That the existing Contract Conditions are to remain unchanged.**
- 4. That all documents for extension of the Contract be executed under the Chief Executive Officer's Power of Attorney.**
- 5. That the documents and considerations in regard to this matter remain confidential to the Council.**

**CARRIED**

**EDBC18/31 LEAVE OF ABSENCE**

Requests for leave of absence were received from Councillors D Gumley and B Shields who were absent from the meeting on Council Business and Councillors V Etheridge and S Lawrence who were absent from the meeting for personal reasons.

Moved by Councillor A Jones and seconded by Councillor D Grant

**MOTION**

**That such requests for leave of absence be accepted and Councillors V Etheridge, D Gumley, S Lawrence and B Shields be granted leave of absence from this meeting.**

**CARRIED**

The meeting closed at 5.40pm.

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CHAIRMAN



DUBBO REGIONAL  
COUNCIL

## **REPORT: Investment Policy and Strategy Review**

**AUTHOR:** Manager Financial Operations  
**REPORT DATE:** 31 May 2018  
**TRIM REFERENCE:** ID18/924

### **EXECUTIVE SUMMARY**

This report covers the review and update of Council's Investment Policy and Investment Strategy and recommends the adoption of the draft Investment Policy and Strategy as attached to this report.

The major change to the Policy is the inclusion of Environmentally and Socially Responsible Investments where Council will consider such investment opportunities where the investment return is favourable relative to alternate investment options.

There are some other minor changes to Council's Investment Policy around updating titles and dates. The Investment Strategy has been updated with current capital works and returns to March 2018. The Strategy is focused on Council maintaining a portion of investments in the medium-term allocation and the use of primarily Floating Rate Notes in the near term.

Monthly reporting to Council will also now include detail of any Environmental and Socially Responsible investments which have been placed.

### **ORGANISATIONAL VALUES**

Customer Focused: This report centres on maximising return from interest on investments based on a conservative investment approach to ensure that sufficient revenue is generated to support the adopted budget and service delivery.

Integrity: The proposed Investment Policy and Strategy require the officers delegated to carry out their duties without conflict of interest and with due diligence.

One Team: The investment portfolio is managed and coordinated across all of Council's operations.

### **FINANCIAL IMPLICATIONS**

Income from interest on investments has been incorporated within the 2018/2019 Operational Plan.

### **POLICY IMPLICATIONS**

Once adopted the attached draft Investment Policy will become a Policy of Council.

**RECOMMENDATION**

- 1. That the draft Investment Policy June 2018 and the Draft Investment Strategy June 2018 attached as Appendix 1 and Appendix 2 to the report of the Manager Financial Operations dated 31 May 2018 be adopted.**
- 2. That Council's Investment Policy and Investment Strategy be again reviewed and submitted to Council for determination in December 2018.**
- 3. That the monthly report to Council regarding Investment also include detail on any Environmental and Socially Responsible investments.**

*Jane Bassingthwaight*  
Manager Financial Operations



## **BACKGROUND**

Council at its Ordinary meeting held in December 2017 resolved as follows:

1. *That the draft Investment Policy December 2017 and the Draft Investment Strategy December 2017 as Appendix 1 and Appendix 2 attached to this report of the Manager Financial Operations dated 4 December 2017 be adopted.*
2. *That Council's Investment Policy and Investment Strategy be again reviewed and submitted to Council for determination via Council's Economic Development, Business and Corporate Committee in June 2018.*

## **REPORT**

The Investment Policy and Strategy documents (attached as **Appendix 1 and Appendix 2**) have been reviewed with advice from CPG Advisory Pty Ltd.

Council's Investment Policy establishes the framework within which investment principles are applied to the investment of Council funds. The Policy provides overarching directions on how Council funds are to be invested and details objectives, benchmarks, risks and the legislative framework.

Council's Investment Strategy details current market conditions, the structure of Council's Investment Portfolio, risk management, return outlook and objectives.

The major change to the Policy is the inclusion of an Environmentally and Socially Responsible Investments where 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.

There are some other minor changes to Council's Investment Policy around updating titles and dates. The Investment Strategy has been updated with current capital works and returns to March 2018. The Strategy proposes that Council will work towards maintaining a portion of investments in the medium-term allocation and primarily Floating Rate Notes in the near term.

As required within Council's Investment Policy monthly reporting to Council is provided detailing the current investment portfolio, returns to date, any Environmental and Socially Responsible investments and holdings by maturity.

## **SUMMARY**

The review of the Investment Policy and Strategy has been completed and is now submitted for adoption.

Appendices:

- 1 [↓](#) Investment Policy June 2018 Draft
- 2 [↓](#) Dubbo Investment Strategy June 2018 Draft



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# COUNCIL POLICY

## INVESTMENT POLICY

**Date** 1 June 2018

**Council Resolution Date**

**Clause Number**

**Responsible Position** Manager Financial Operations

**Branch** Financial Operations

**Division** Corporate Services

**Version**

**TRIM Reference Number**

**Review Period** 6 months (or when a change in either regulation or market conditions necessitate a review)

**Review Date** December 2018

**Consultation**

Document Revision History	
Description	Date
<b>Notes</b>	

## POLICY

### PURPOSE

The purpose of this document is to establish the framework within which investment principles are to apply to the investment of Council funds. It details:

- Council Funds covered by this Investment Policy;
- Council's objectives for its investment portfolio;
- how investments are to be undertaken;
- the applicable risks to be managed;
- any constraints and other prudential requirements to apply to the investment of Funds having regard to the applicable legislation and regulations governing Council investment;
- the manner in which compliance with the Policy & Strategy will be monitored and reported; and
- appropriate benchmarks for each category of investments.

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 of 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 there are sufficient liquid funds to meet all reasonably anticipated cash flow requirements; and
- To generate income from the investment that exceeds the performance benchmarks mentioned later in this document.

### BACKGROUND AND RELATED LEGISLATION

All investments are to comply with the following:

- Local Government Act (1993);
- Local Government (General) Regulation (2005);
- 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 statement 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 approved by Council. This Investment Policy will be reviewed in July and December each year, or when a change in either regulation or market conditions necessitate a review.

**DEFINITIONS**

<b>Term</b>	<b>Definition</b>
<b>Act</b>	<i>Local Government Act, 1993</i>
<b>ADI</b>	Authorised Deposit-Taking Institutions (ADIs) are corporations that are authorised under the Banking Act 1959 (Commonwealth) to take deposits from customers.
<b>AusBond BBI</b>	Formerly the UBS BBI. The UBS Australia index family was acquired by Bloomberg from Q3 2014, and while branding changed the benchmark is unaltered. 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.
<b>Bill of Exchange</b>	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.
<b>BBSW</b>	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
<b>Council Funds</b>	Surplus monies that are invested by Council in accordance with section 625 of the Act
<b>Debenture</b>	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.
<b>FRN</b>	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.
<b>Chief Executive Officer</b>	Refers to the statutory executive of the Council as defined in s335 of the Act, including where on an Interim or Acting basis, and under any

Term	Definition
	alternative titles.
LGGR	Is an investment in an underlying security, being a negotiable certificate of deposit (NCD) where the term of the security is often for a period of 185 days or less (but occasionally longer terms). Short NCDs are generally discount securities, meaning they are issued and on-sold to investors at a discount to their face value. Sometimes also "transferable certificate of deposit" (TCD).
OLG	NSW Office of Local Government (Department of Premier & Cabinet), including historical references to previous Divisions or Departments.
RAO	Responsible Accounting Officer of a council means a member of the staff of the council designated by the Chief Executive Officer. (LGGR, clause 196)
TCorp	New South Wales Treasury Corporation (NSW TCorp) including the TCorp Investment Management arm which manages the TCorpIM funds (formerly Hour-glass).

## POLICY

All investments 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 portfolios to safeguard the portfolio in accordance with the intent of this Investment Policy only.

### *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.

### *Authorised Investments*

All investments must be denominated in Australian Dollars. Authorised Investments are limited to those allowed by the Ministerial Investment Order issued in January 2011, currently:

- Commonwealth / State / Territory Government securities e.g. bonds;
- Interest bearing deposits / senior securities issued by an eligible ADI;
- Bills of Exchange (< 200 days duration) guaranteed by an ADI;
- Debentures issued by a NSW Council under Local Government Act (1993);
- Deposits with NSW TCorp &/or Investments in NSW TCorpIM Funds; and
- Existing investments grandfathered under the Ministerial Investment Order.

### *Prohibited Investments*

This Investment Policy prohibits the following types of investment:

- Derivative based instruments;
- Principal only investments or securities that provide potentially nil or negative cash flow; and
- Standalone securities issued that have underlying futures, options, forwards contracts and swaps of any kind.
- Investment trusts other than TCorpIM Funds, even where the trusts' underlying assets adhere to the Minister's Order fully; and
- Any other investment written out of the Minister's Order.

This Policy also prohibits any investment with speculative purposes, including the use of leveraging (borrowing to invest) for an investment. However, nothing in the policy shall prohibit the short-term investment of loan proceeds where the loan is raised for non-investment purposes and there is a delay prior to the expenditure of loan funds.

#### ***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 an institution runs out of cash, 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);
- 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;
- 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.

#### ***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 socially responsible investments (SRI) criteria. SRI 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 SRI 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 SRI 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

#### ***Investment Advisor***

The Council's investment advisor is appointed by the Chief Executive Officer and must be licensed 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 is 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.



**Accounting**

Council will comply with appropriate accounting standards in valuing its investments and quantifying its investment returns. In addition to recording investment income according to accounting standards, published reports may show a break-down of its duly calculated investment returns into realised and unrealised capital gains and losses, and interest.

Other relevant issues will be considered in line with relevant Australian Accounting Standards, such as discount or premium, designation as held-to-maturity or on a fair value basis and impairment.

**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.

**Credit Quality Limits**

The portfolio credit guidelines to be adopted will reference the Standard & Poor's (S&P) ratings system criteria and format - but references in the previous Minister's Orders also recognised Moody's and Fitch Ratings and any of the three ratings may be used where available.

However, the primary control of credit quality is the prudential supervision and government support and explicit guarantees of the Authorised Deposit Institution (ADI) sector, not ratings.

The maximum holding limit in each rating category and the target credit quality weighting for Council's portfolio shall be:

Long Term Rating Range (or Moody's equivalent)	Maximum Holding
AAA Category <sup>1</sup>	100%
AA Category or Major Bank* <sup>2</sup>	100%
A Category	50%
BBB+ and Lower Categories	25%

\*For the purpose of this Policy, "Major Banks" are currently defined as:

The ADI deposits or senior guaranteed principal and interest ADI securities issued by the major Australian banking groups:

- Australia and New Zealand Banking Group Limited
- Commonwealth Bank of Australia
- National Australia Bank Limited
- Westpac Banking Corporation

including ADI subsidiaries whether or not explicitly guaranteed, and brands (such as St George).

Similarly, where other ADI groups (such as Bendigo & Adelaide Bank) own multiple banking licences, rating categories are based on the parent bank even if the subsidiary is not explicitly rated. Council may ratify an alternative definition from time to time.

Standard & Poor's ratings attributed to each individual institution 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 in assessing compliance with portfolio Policy limits, but for conservatism shall apply the lower in assessing new purchases.

Grandfathering provisions apply to those investments currently held that complied with the investment policies of the former Council's (Dubbo City and Wellington) but do not comply with the newly adopted Dubbo Regional Council Policy. Similarly, Council will grandfather any deposit investments that cease to comply through downgrades but will review any tradeable investments downgraded.

#### **Counterparty Limits**

Exposure to individual counterparties/financial institutions will be restricted by their rating so that single entity exposure is limited, as detailed in the table below.

Limits do not apply to Federal or NSW-guaranteed investments, which are uncapped. It should be noted that the NSW government does not guarantee the capital value or unit price of the TCorpIM Funds. Operational cash in or linked to Council's operating cheque account are also excluded from

<sup>1</sup> AAA Category includes NSW TCorpIM Cash Fund, which typically maintains a credit score consistent with a AAA<sup>f</sup> rating.

<sup>2</sup> AA Category includes NSW TCorpIM Strategic Cash Fund, which typically maintains a credit score consistent with a AA<sup>f</sup> rating.

the counterparty limits. Limits do not also apply to any managed fund or structured investment where it is not possible to identify a single counterparty exposure.

Individual Institution or Counterparty Limits	
Long Term Rating Range (or Moody's equivalent)	Limit
AAA Category	40%
AA Category or Major Bank*	30%
A Category	20%
BBB+ Category	10%
Lower Rated, or Unrated	1%

\* The definitions are as per the previous section.

Council may ratify an alternative definition from time to time.

The Category below BBB+ is for investment in Financial Institutions that are community-based within the Dubbo Regional Council area, and the interest rates offered must be competitive with rates offered by other institutions for the same investment amount and term.

Any allocation to diversified or sector growth funds are to be specifically ratified by Council prior to investment.

#### **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. It is also expected that 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, AAA Category Funds Accounts	11am Official Cash Rate	3 months or less
Short dated bills, Term Deposits of appropriate remaining term, FRN's nearing maturity, TCorpIM Strategic Cash.	AusBond Bank Bill Index (BBI)	3 months to 12 months
Term Deposits with a maturity date between 1 and 2 Years, FRN's.	AusBond Bank Bill Index (BBI)	1 to 2 years

Investment	Performance Benchmark	Time Horizon
FRN's, Bonds, Term deposits with a maturity date between 2 and 5 Years.	AusBond Bank Bill Index (BBI)	2 to 5 Years
TCorpIM Managed Funds (Diversified or growth asset sectors).	Fund's Internal Benchmark	3 Years (M/T Growth) 5+ Years (L/T Growth or Growth Sector Funds)

Grandfathered investments (i.e. managed funds and securities) are allocated to the appropriate horizon based on expected or average maturity 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**

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

For audit purposes, certificates must be obtained from the banks/fund managers/custodian confirming the amounts of investment held on Council’s behalf as at the end of the Financial Year.

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

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.

#### **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.

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.

Investment Horizon Description	Investment Horizon - Maturity Date	Minimum Allocation	Maximum Allocation
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%

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

#### RESPONSIBILITIES

Authority for 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 in turn delegated the day-to-day management of Council's investments to the Director of Corporate Services and the Manager Financial Operations who must ensure adequate skill, support and oversight is exercised in the investment of Council funds.

Officers' delegated authority to manage Council's investments shall be recorded and they are required to acknowledge they have received a copy of this policy and understand their obligations in this role.



Investment  
Strategy

June

2018

# Contents

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Contents	2
General	3
Purpose of Document	3
Related Documents	3
Effective Date	3
Investment Strategy	4
Cash flow expectations	4
Diversification	4
Ratings	4
Economic Background	5
<i>Term Deposit Market</i>	6
<i>Senior FRNs &amp; Bonds</i>	6
Existing Portfolio Status	7
Risk Management Guidelines	8
Performance Benchmarks	9
Delegations/Responsibilities	9
Review of Strategy	9

# General

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## PURPOSE OF DOCUMENT

Having outlined the framework for investment in the Investment Policy, this document sets out:

- current market conditions;
- how Council is responding to structure its investment portfolio;
- realistic objectives for the investment portfolio;
- risk management

This strategy has been prepared with consultation services of Andrew Vallner, Managing Director at CPG Research & Advisory.

## RELATED DOCUMENTS

This Strategy relates to implementation of the portfolio within the constraints set out in the Investment Policy. It has been prepared to recognise the legislative requirements and obligations for the investment of Council's funds. The legislative requirements are listed in the Investment Policy.

Council will comply with investment regulations and directions of the Office of Local Government, which will prevail in the event of any inconsistencies with published Policy and Strategy.

## EFFECTIVE DATE

This document replaces any previous Strategy document approved by Council.

The effective date of this Strategy is 12 June 2018 and will be reviewed in July and December each year or when a change in either regulation or market conditions necessitates a review.



# Investment Strategy

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Council's Investment Strategy is set in relation to the following parameters:

## Cash flow expectations

Council anticipates the following major capital expenditure in 2018-19:

- Community & Recreation \$21M
- Airport \$13M
- Stormwater \$2M
- Water Augmentation \$7M
- Sewage Augmentation \$6M
- Road Network \$15M
- Property Development 4M
- Fire and Emergency \$2M

These projects are being funded from either grants or restricted assets and impact on the overall cash available for investment.

As at 31 March 2018, Council held ~\$13.5 million of liquid cash or notice accounts and \$14.7m in liquid Senior Floating Rate Notes (FRN's) available to meet short term cash flow requirements in addition to ~\$13.5 million of near-term deposit maturities which are available to fund Council's operational working capital requirements.

## Diversification

Council's investments are diversified only within the fixed interest sector, across cash, term deposits and senior securities (bonds and Floating Rate Notes (FRN)). It is still dominated by term deposits (86%), although there has been some diversification into securities.

It is not Council's current intention to diversify further across other asset classes through TCorpIM Growth facilities, but should this change it will be ratified by Council resolution.

## Ratings

Council now has a moderate allocation to BBB+ banks (on S&P ratings). Aggregate BBB+ range exposure and individual limits on BoQ have over \$10m capacity to the Policy limits.

There is minimal exposure to further downgrades. There are no holdings at A-. While major banks could be downgraded to A range on a sovereign downgrade, they would retain their current Policy limits as a special case.

# Economic Background

Touching 3.04%, US Treasuries were yielding well over double the post-Brexit lows and matched the highs of the end of 2013.

In 2013, the US had a zero interest rate policy, and was still conducting quantitative easing to loosen monetary conditions further. Today, there is a credible path for US rates to reach 3% by 2019. Bond yields have been lower, but fundamentals are quite different 5 years later in the economic cycle policy settings, inflation expectations, central bank flows, geo-political conditions.

US unemployment reached new multi-decade records at 3.9%. The major concern is whether the Trump Administration has stimulated the economy with tax cuts too late in the cycle, or whether this will be offset by 3-4 rate hikes from the Federal Reserve.

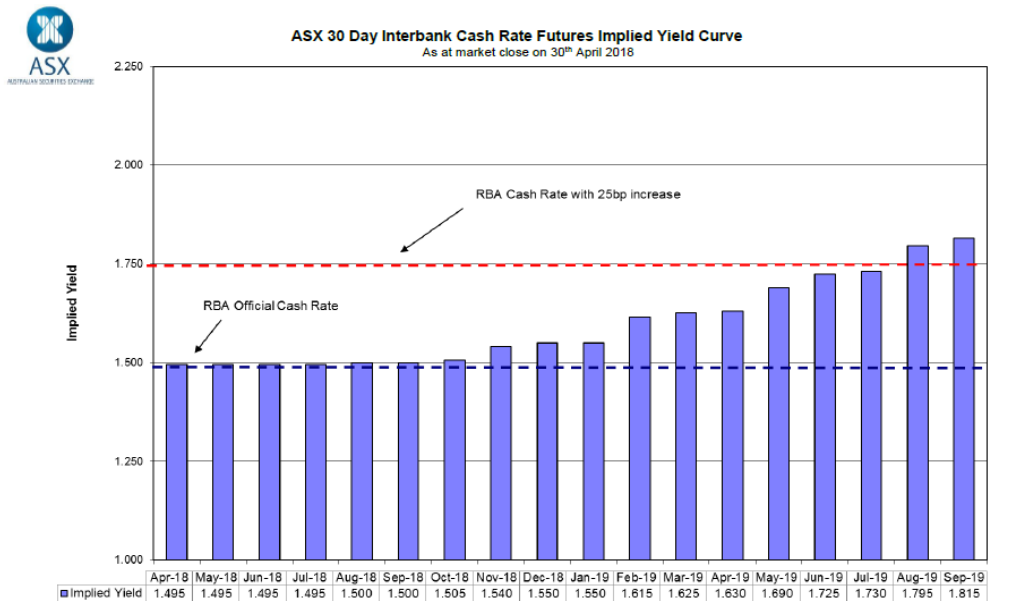
Australian 10-year bonds lost ground, but did better than US bonds as yields rose +18bp to 2.77%. Australian bonds continue to trade inside US yields, and the gap has widened. They still appear poor value in a rising global interest rate environment.

Divergence of policy continues, with the RBA on hold again in its May meeting and guiding a rate increase only on lower unemployment and visibility of 2.5% core CPI. Quarter 3 will likely to see warnings ahead of potential rate rises around Quarter 4.

## Return Outlook

Overall, the RBA’s patient approach should see rates on hold through most of 2018 as low interest rates continue to be needed to support the Australian economy. It will be increasingly difficult to keep rates unchanged as the US moves towards 3% rates. The RBA has compromised by admitting rates will rise but putting in place high hurdles that tends to delay any move. The market has interpreted statements as an easing of guidance.

Figure 1 – ASX Future Cash Rate



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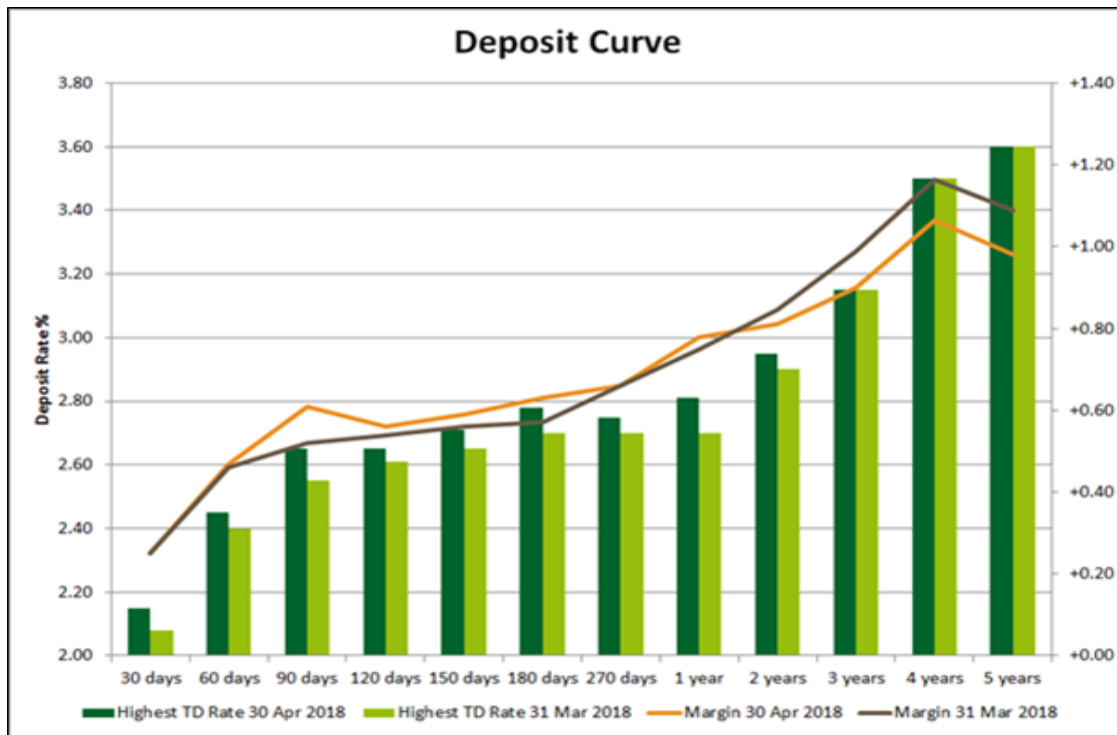
Council’s return outlook is considerably better. As at March, deposits had an average term of approximately 1.6 years (having lengthened in the period of rising yields in late 2016), and returning, on average, 3.05% p.a. This is more than double the official cash rate. The strategy over recent years has made a dramatic difference to Council’s income – inevitably as the current deposits mature, this will tend to adjust lower. Council has sufficient deposit duration in place to see it through to higher interest rates.

### Term Deposit Market

Deposit yields have increased slightly from all-time lows, but have not tracked bonds.

Spreads were tighter at the longer end, as swap rates moved higher in April but deposit rates were little changed. FRNs can now challenge fixed rates for current income out to at least 2 years, and even longer for the smaller institutions.

Figure 2



The deposit curve is very flat; only in the out years is there any material compensation for term.

### Senior FRNs & Bonds

FRN spreads have widened in Q1 2018 as sentiment suffered during the stockmarket correction, but recovered somewhat in April. Bank credit caught up to other risk assets such as shares and speculative-grade credit. Major banks are currently trading +90bp at 5 years, having ranged from +75 to +100bp in 2018.

There is a wide gap between a larger regional bank like BoQ, and spreads on smaller demutualised credit unions.

In other observations:

- FRNs are yielding slightly higher than deposit margins on a held to maturity basis for AA banks, and considerably wider for BBBs;
- Pickup from majors to the regional banks has tightened to +25bp after spiking wider on the 2017 downgrades;

On a 2-year trading view, there is an additional 30bp p.a. in major banks, and somewhat more from the BBB+ institutions.

Council has not actively sold/traded existing major bank FRNs prior to maturity. Since the FRN premium for credit rating is far more substantial than the term deposit premium, it may be appropriate to tilt FRNs towards lower rated entities and use the BBB Policy capacity in this way.

Where secondary FRN's can be sourced at a discount, they will be evaluated as a "Held to Maturity" investment. Council reserves the right to sell existing FRNs prior to maturity.

## EXISTING PORTFOLIO STATUS

The Strategy throughout the past few years has been to prioritise long-dated deposits ahead of significant cuts to interest rates. This was justified by the pair of RBA rate cuts delivered over 2015 and 2016. Interest rates have now been stable for a record 21 months. Council's duration has carried interest receipts through this period, and the cash portfolio earns around twice the official rate.

Reduced income risk could be mitigated at no cost - indeed, the higher yields available from long-dated deposits have been an added benefit.

It is no longer clear that this will be true in future. Long duration deposits are unlikely to produce less than benchmark given the ~1% additional spread, but there may be preferable floating rate strategies.

Currently, credit rating is no longer a portfolio stress. Downgrades of two major issuers to BBB by S&P and Moody's created temporary overweights. Council's current allocation in that space increased initially, but maturities and portfolio growth have addressed that comfortably.

As at March, Council's deposits yielded 3.05% p.a., an excellent result – this is consistent with much longer maturity profiles, and lower credit quality in today's market.

To maximise performance, the intention is to pursue the following actions during this strategy period (subject to conditions broadly outlined in this document).

### *New Investments*

- **Ratings:** are less of a priority, as Council now has the most capacity for some years
- **Cash:** Sourcing high yielding at-call accounts or cash notice accounts, checked against existing accounts or fixed rates. At time of writing, a spike in the bank bill rate has seen higher notice account yields.

- **Deposits:** Short-term investments (3-12 months) will most likely continue to be invested into fixed term deposits, with rates well ahead of running yields for TCorpIM Strategic Cash.
- Some A or AA banks offer rates that appear attractive relative to interest rate outlook at the shorter terms and broker specials can assist with securing retail pricing.
- **Floating Rate Notes:** For additional funds excess to liquidity requirements medium-term (3-5 years) liquid FRNs going forward become the default preference.
- With a 6% “BBB” capacity available, lower rated FRNs can also be considered, trading somewhat wider than deposit spreads and offering full participation in rate movements. Given rising rates globally and a current record low, the risks should be to the upside out to 2020.
- Council will work towards maintaining a portion of investments in the medium-term allocation, primarily FRNs in the near term.

The ability to transact quickly is important for new issues. To support this, Council has the ability to utilise existing at-call reserves (to be replenished from subsequent deposit maturities).

There is no current intention at this time to invest in the long term (greater than 5 years) investments, being TCorpIM Growth Funds. However, Council will contemplate complying FRNs which in some cases are issued at terms slightly above 5 years for convenience.

## RISK MANAGEMENT GUIDELINES

The strategy addresses risk management as outlined below:

### *Preservation of Capital*

Council has already enacted major strategies to manage capital risk given the portfolio is now 100% compliant with the Minister’s Order. With the current composition of the portfolio consistent with the Minister’s Order, there will be very minimal capital risk going forward.

### *Credit Risk*

Credit rating profile is currently strong. The majority (over 80%) of investments are rated “A” or higher.

Policy rating constraints can comfortably be met despite the downgrades of some existing assets, but there are fewer high rated banks to choose from after mergers. It is expected that Council will prioritise careful management of credit quality during the term of this Strategy.

### *Diversification*

Investments are currently diversified within the fixed interest sector, fixed deposits, senior FRNs, at-call and cash notice accounts.

There is no current intention to diversify outside the fixed interest sector.

### *Liquidity Risk*

Council's portfolio is highly liquid, from at-call accounts, near-term maturities and tradeable FRNs. Approximately 36% matures within 12 months.

Council has been in a position to extend the duration of deposit investments during recent years, sacrificing some liquidity in the portfolio in exchange for income protection and budgeting certainty.

### *Market Risk*

Along with credit risk, market risk has now been substantially reduced by the exit from managed credit.

### *Maturity Risk*

Council's long-term investments are primarily in a mix of term deposits and floating rate investments, minimising the effect of maturity risk as there is a regular maturity pattern and spread of maturity dates. The FRNs are also saleable so that funds can be accessed within 2 business days.

### *Rollover Risk*

Council has reduced this risk through a very long deposit portfolio duration of 1.6 years. It includes assets maturing as late as December 2022.

This is a very strong level of protection against rollover risk, and will continue to help anchor the 2018 income support returns in 2019. This should be long enough to get through the trough of the interest rate cycle. Council may not be exposed to dramatically lower income for a period.

Council is well within its required limits for working capital and short-term funds, which together account for around 36% of the portfolio (including cash).

Longer term holdings are conservative relative to portfolio limits, and there is capacity for further investments as opportunities at a suitable yield, and availability of cash, permit.

## PERFORMANCE BENCHMARKS

Council's overall portfolio (including cash) is currently yielding approximately 0.95% above the benchmark return. Deposits are higher still, at close to 1.04% above benchmark - supported by extremely high yields on deposits from ahead of the current interest rate cycle.

This yield is very strong given the high credit ratings targeted. Returns are almost certain to fall over time, as official interest rates are expected by the market to increase slowly over the long term.

## DELEGATIONS/RESPONSIBILITIES

Within the Policy rules, strategic or execution decisions are delegated to the Director Corporate Services and Manager Financial Operations.

## REVIEW OF STRATEGY

The Strategy will be reviewed in July and December each year, or as required in the event of legislative change or as a result of significantly changed economic/market conditions. Council is in regular contact with its advisors and is able to adjust strategy as market conditions dictate.