Investment Policy

Relevant Legislation:	*Local Government Act 2009* *Local Government Regulation 2012*
Reviewed:	June 2020
To be reviewed:	June 2021
Responsible Officer:	Director Corporate & Community Services

1 Overview

1.1 Preamble

Torres Shire (Council) has been granted authority to exercise Category 1 investment power under Part 6 of the Statutory Bodies Financial Arrangement Act 1982 (SBFA Act).

The Queensland Government Treasurer may, from-time-to-time, constrain the investing activities of local governments by limitation, caveat, restriction and/or other relevant regulation. Where this occurs, this Investment Policy (the Policy) will be reviewed and reissued to reflect such changes.

1.2 Intent

The intent of this policy is to outline Council's investment policy and guidelines regarding the investment of surplus funds, with the objectives to maximise earnings within approved risk guidelines and to ensure the security of funds.

The activities of the investment officers or fund managers responsible for stewardship of Council's funds will be measured against the standards and objectives outlined in the Policy.

1.3 Scope

For the purpose of the Policy, investments are defined as arrangements that are undertaken or acquired with the expectation of achieving a financial return through interest, profit or capital growth.

The Policy applies to the investment of all surplus funds held by Council.

Amounts of less than $5 million are to be invested in a capital guaranteed cash fund or an approved cash management product. Category 1 investment power allows for investment at call or for a fixed term up to one year in the Queensland Treasury Corporation (QTC) Capital Guaranteed Cash Fund or the Queensland Investment Corporation (QIC) Cash Fund

without further approval.

2 Policy statement

2.1 Authority

All investments are to be made in accordance with: Statutory Bodies Financial Arrangements Act 1982; Statutory Bodies Financial Arrangements Regulation 2007; Local Government Act 2009; Local Government Regulation 2012.

2.2 Ethics and conflicts of interest

2.2.1 Prudent Person Standard

Prudence is to be used by Council's Finance Manager when managing the investment portfolio. Investments will be managed with the care, diligence and skill that a prudent person would exercise in managing the affairs of other persons. This includes having in place appropriate reporting requirements that ensure the investments are reviewed regularly.

The Finance Manager is to manage the investment portfolio in accordance with the spirit of the Policy, and not for speculation. The Finance Manager is to avoid any transaction that might harm confidence in Council. The Finance Manager will consider the security of capital and income objectives when making an investment decision.

2.2.2 Ethics and conflicts of interest

The Finance Manager shall refrain from personal activities that conflict with the proper execution and management of Council's investment portfolio. This includes activities that impair the Finance Manager's ability to make impartial decisions.

The Policy requires that the Finance Manager discloses to the Chief Executive Officer (CEO) any conflict of interest or any holding of investment positions that could be related to the investment portfolio.

2.2.3 Delegation of Authority

Authority for the implementation of the Policy is delegated by Council to the CEO in accordance with section 257(1)(b) of the Local Government Act 2009.

Authority for the day-to-day management of Council's investment portfolio is delegated by the CEO to the Finance Manager.

2.3 Investment objectives

Council's overall objective is to invest its surplus funds at the most advantageous rate of interest available at the time, and in a way that it considers most appropriate given the circumstances.

In order of priority, the objectives of undertaking investment activities shall be preservation of capital, maintenance of liquidity, and return on investments.

2.3.1 Preservation of capital

Preservation of capital shall be the principal objective of the investment portfolio, and investments are to be undertaken in a manner that seeks to ensure security of principal of the overall portfolio. This includes managing credit risk and interest rate risk within given risk management parameters and avoiding any transactions that would prejudice confidence in Council.

Credit Risk

Council will evaluate and assess credit risk prior to undertaking an investment. Credit risk is the risk of loss due to the failure of an investment issuer or insurer. The Finance Manager will minimise credit risk by pre-qualifying all transactions and the brokers/securities dealers with whom they do business, diversifying the investment portfolio and limiting transactions to secure investments.

Interest rate risk

The investment officers shall seek to minimise the risk of a change in the market value of the investment portfolio due to a change in interest rates, by considering the cash flow requirements of Council and structuring the portfolio accordingly. This will avoid the need to sell securities prior to maturity in the open market. Interest rate risk can also be limited by investing in shorter term securities.

2.3.2 Maintenance of liquidity

Pursuant to section 31 of the SBFA Act, Council maintains a deposit and withdrawal account with the National Australia Bank for its day-to-day operating transaction requirements.

In addition to the balances held in its bank account, the investment portfolio will maintain sufficient liquidity to meet all reasonably anticipated operating cash flow requirements of Council as and when they fall due, without incurring significant transaction costs due to any need to sell an investment.

Illiquid investments are defined as investments that are not publicly traded in sufficient volume to facilitate, under most market conditions, prompt sale without severe market price effect. Examples include:

- investment in private placements;
- a security that is not supported or priced by at least two approved brokers or securities dealers;
- sub investment grade securities i.e. a lower than rating BBB - (Standard & Poor's) or equivalent; and
- unrated securities.

2.3.3 Return on investments

The investment portfolio's expected return on investments to achieve a market average rate of return, considers Council's risk tolerance, current interest rates, budget considerations, and the economic cycle. Any additional return target set by Council will also consider the risk limitations, prudent investment principles and cash flow characteristics identified within the Policy.

Council should ensure it achieves value-for-money or a competitive price after considering the costs of the investment.

The investable funds should match the cash flow needs of Council, as determined by the Finance Manager after the DCCS prepares Council's budget. In this regard, it is appropriate for the Finance Manager to be conservative so that where possible, investments should not be broken to meet cash flow obligations.

2.4 Portfolio implementation

2.4.1 Authorised Personnel

The Finance Manager is authorised to invest Council's surplus funds in investments that are consistent with the Policy and relevant legislation. The Finance Manager will report to Council, which will provide the investment guidelines and approved lists for the purposes of the Policy.

2.4.2 Investment Oversight

The Finance Manger shall establish internal controls and processes that will ensure investment objectives are met and that the investment portfolios are protected from loss, theft or misuse. The investment processes set by the Finance Manager may be more conservative than the Policy; however, the processes cannot override the Policy. The Director Corporate and Community Services (DCCS), who does not have authority for the execution of investment transactions, will provide compliance and investment analysis to the Finance Manager. The DCCS is not required to direct daily investment decisions, select fund managers, or become involved in the daily operations of the investment portfolio. The DCCS role is to review and refer investment decisions, if required, to the CEO who will refer these matters to Council.

The internal controls will address the following:

- collusion;
- separation of transaction authority from accounting and record keeping;
- safekeeping of records;
- avoidance of physical delivery of securities;
- clear delegation of authority to investment officers;
- confirmation requirements for the settlement of securities;
- compliance and oversight of investment parameters; and
- reporting of breaches of the Policy.

The established processes will include monthly and quarterly reporting (including compliance reporting), as well as an annual review of the Policy.

The Finance Manager with the assistance of the DCCS shall conduct an annual audit of the activities of the investment portfolio to verify compliance with the Policy and relevant legislation. A copy of the audit report is to be provided to the CEO, Council, and the Internal Auditor.

2.5 Investment parameters

2.5.1 Investable funds

For the purposes of the Policy, investable funds are the surplus funds available for investment at any one time, including Council's bank account balance. However, the Policy does not apply to monies held on trust for third parties, where those funds are subject to specific conditions.

The investable funds should match the cash flow needs of Council, as determined by the Finance Manager after the DCCS prepares Council's budget. In this regard, it is appropriate for the Finance Manager to be conservative so that where possible, investments should not be broken to meet cash flow obligations.

It is the responsibility of the Finance Manager to assess the cost of direct investment management by Council relative to the return generated. This should be compared with the cost of investing funds with a capital guaranteed cash fund, such as the QTC Capital Guaranteed Cash Fund.

2.5.2 Authorised Investments

Investments are limited to those prescribed by Part 6 of the SBFA Act for local governments with Category 1 investment power, which include:

- interest bearing deposits;
- commercial paper;
- bank accepted/endorsed bank bills;
- bank negotiable certificates of deposit;
- short term bonds;
- floating rate notes;
- QIC Cash Fund; and
- QTC Capital Guaranteed Cash Fund, Debt Offset Facility, Fixed Rate Deposit and Working Capital Facility.

All investments will be either at call or for a fixed term of no more than one year.

2.5.3 Prohibited Investments

The Policy prohibits any investment carried out for speculative purposes. The Finance Manager may include a prohibited investments list within the investment guidelines and approved lists (established pursuant to section 2.4.1 of the Policy).

The following investments are prohibited:

- derivative based instruments (excluding floating rate notes);
- securitised debt instruments;
- structured products;
- principal only investments or securities that provide potentially nil or negative cash flow;
- stand-alone securities that have underlying futures, options, forward contracts and swaps of any kind; and
- securities issued in non-Australian dollars.

2.5.4 Portfolio investment parameters and credit requirements

The following table shows the credit ratings: Short Term Rating (Standard & Poor's) or equivalent

	Total Limit (Max % of Portfolio)	Maximum Funds (Any one institution)
A1+	100%	$2.0M
A1	50%	$1.5M
A2 - Financial Institutions only	30%	$1.0M
A3 – Financial Institutions only	10%	$500,000
All other approved deposit taking institutions regulated by APRA.	10%	$250,000

QIC/QTC Pooled Cash Management Funds	100%	Unlimited

A Financial Institution is defined as an authorised deposit taking institution within the meaning of the Banking Act 1959 (Commonwealth), Section 5.

It is noted that for the purpose of this investment portfolio, the percentage limits apply effective from the date of purchase as a percentage of the total value of the portfolio.

No more than 20 percent of the portfolio is to be invested in Floating Rate Notes.

Whenever an investment is proposed, a minimum of two (2) quotes will be obtained from authorised institutions achieving a Standard & Poors or Moody rating of "AA" or better. The Queensland Treasury Corporation must be included as one of these quotes.

The institution offering the best quotation, net of costs, will generally be successful in attracting Council's investment. Council may deviate from this arrangement in situations where it wishes to support local financial institutions, whose investment interest rate may not exactly match its larger competitors.

Investments held with the Queensland Treasury Cash Fund will be benchmarked against other investments or quoted investment rates at the end of each calendar month to ensure Council is receiving the most advantageous rate given the risk/return trade off.

Investments with unrated institutions are covered by the Australia Government Financial Claims Scheme (FCS) which protects depositors of authorised deposit-taking institutions (ADI), (banks building societies and credit unions incorporated in Australia), providing protection to depositors up to $250,000 per account-holder per ADI.

2.5.5 Maturity

The maturity structure of the investment portfolio will reflect a maximum term to maturity of one year and include an interest rate reset of no longer than six months (185 days).

2.5.6 Liquidity requirement

Given the nature of the funds invested, a maximum of 20 per cent of the investment portfolio will be held in illiquid securities, and at least 10 per cent of the portfolio will be held in investments that can be called at no cost or that will mature within 7 days.

2.5.7 Approved lists

The Finance Manager shall prepare and maintain the following approved counterparty lists for the investment of surplus funds:

- banks;
- commercial paper and medium term note issuers;
- brokers/dealers and direct issuers for purchase or sale of security with a minimum Standard & Poor's long-term credit rating of A+ (or equivalent), and
- credit unions.

2.5.8 New investment products

A new investment product requires a full risk assessment and approval by Council.

2.5.9 Breaches

Any breach of the Policy is to be reported to the CEO and Finance Manager and rectified within 24 hours of the breach occurring. The CEO will report the breach to Council at the next meeting.

Where Council holds an investment arrangement that is downgraded below the minimum acceptable rating level as prescribed under regulation, Council shall within 28 days after the change becomes known, either obtain the Queensland Treasurer's approval for continuing with the investment arrangement, or sell/redeem/withdraw the investment arrangement.

2.5.10 Safekeeping of records

Each transaction will require written confirmation by the broker/dealer/bank. Council will hold all security documents, or alternatively a third party custodian authorised by the Finance Manager may hold security documents.

2.5.11 Authorised dealers and brokers

The Finance Manager will maintain a list of authorised financial institutions and securities brokers with whom the investment officers may deal. These financial intermediaries must have a minimum long-term rating of at least either A+ (Standard & Poor's), A1 (Moody's), or A+ (Fitch).

All transactions undertaken on behalf of the investment portfolio will be executed either by Council directly, or through securities brokers registered as Australian Financial Service Licensees with an established sales presence in Australia, or issuers that directly issue their own securities which are on Council's approved list of brokers/dealers and direct issuers.