

## STRATEGIC POLICY

### 2014/15 INVESTMENT POLICY

<b>Corporate Plan Reference:</b>	<b>Corporate Plan Theme: <i>Great Governance</i></b> <b>Emerging Priority:</b> 8.1 Ethical, accountable and transparent decision-making <b>Emerging Priority:</b> 8.3 Strong financial management
<b>Endorsed by Council on:</b>	
<b>Policy Owner and Department:</b>	Director Corporate Services, Corporate Services Department
<b>Reference Number:</b>	

#### POLICY PURPOSE

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

#### POLICY OUTCOME

The objectives of this Policy are to maximise investment earnings within investment parameters whilst ensuring the security of funds.

#### POLICY SCOPE

**This policy applies to the investment of all funds held by Sunshine Coast Council (hereafter "Council").**

#### POLICY STATEMENT

Council will maintain an active investment strategy with the following goals:

- Maximise investment returns from investment activities
- Exceed the benchmark of the United Bank of Switzerland (UBS) 90 day Bank Bill rate
- Invest only in investments as authorised under current legislation
- Invest only with approved institutions
- Invest to protect capital value of investments

#### GUIDING PRINCIPLES

Council's overall objective is to invest its funds at the most advantageous rate of interest available to it at the time, for that investment type, and in a way that it considers most appropriate given the circumstances. 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 being required to sell an investment.

Investment activities shall preserve capital as a principal objective of the investment portfolio. Investments will be performed in a manner that seek to ensure security of principal of the overall portfolio. This would include managing credit and interest rate risk with given risk management parameters and avoiding any transactions that would prejudice confidence in council or its associated entities.

**Credit Risk**

Council will evaluate and assess credit risk prior to investment. Credit risk is the risk of loss due to the failure of an investment issuer or guarantor. The investment officer will minimise credit risk in the investment portfolio by prequalifying all transactions including the brokers/securities dealers with which they do business, diversify the portfolio and limit 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 portfolio because of a change in interest rates. This would be achieved by considering the cash flow requirements of council and structuring the portfolio accordingly. This will avoid having to sell securities prior to maturity in the open market. Secondly, interest rate risk can be limited by investing in shorter term securities.

**INVESTMENT PARAMETERS AND GUIDELINES**

For the purposes of this policy, investable funds are the moneys available for investment at any one time and include the Sunshine Coast Council’s bank account balance. Included in this balance is any moneys held by council on behalf of external parties (for example developer contributions).

Council investments are limited to those prescribed by Section 6 of the *Statutory Bodies Financial Arrangements Act 1982* (hereafter “SBFAA”) for local governments with Category 2 investment powers, which allows for investment with Queensland Treasury Corporation or Queensland Investment Corporation, along with a range of other higher-rated counterparties without further approval.

The SBFAA includes a list of prohibited investments without first seeking the Treasurer approvals, including, but not conclusive list, derivative based instruments, non-Australian dollars and maturity maximum greater than three years.

It is noted that for the purposes of this investment portfolio, the percentage limits apply effective from the date of purchase as a percentage of the market value of the portfolio. No more than 20 per cent of the portfolio is to be invested in Floating Rate Notes.

The following table sets council’s investment parameters, where maximum percentage of funds can be invested within each category:

<b>Short Term Rating (Standard &amp; Poor’s) or equivalent</b>	<b>Individual Counterparty Limit</b>	<b>Total Limit</b>
QIC / QTC Pooled Cash Management Fund	100%	100%
A1+ - Financial Institutions	35%	100%
A1+ - Bond Mutual Funds	30%	50%
A1 – Financial Institutions	30%	40%
A2 – Financial Institutions	15%	35%
A3 – Financial Institutions	5%	10%
Unrated	Nil	Nil



## **Maturity**

The maturity structure of the portfolio will reflect a maximum term to maturity of three (3) years and includes an interest rate reset of no longer than twelve (12) months.

## **Liquidity requirement**

Given the nature of the funds invested, no more than 20 per cent of the investment portfolio will be held in illiquid securities and at least 10 per cent of the portfolio can be called at no cost or will mature within 0-7 days.

## **AUTHORITY**

Council has been granted authority to exercise Category 2 investment power under Part 6 of the SBFAA.

Authority for implementation of the Investment Policy is delegated by council to the Chief Executive Officer. The Chief Executive Officer has then delegated authority to the Director Corporate Services, Manager Finance and the Coordinator Treasury & Rates in accordance with the *Local Government Act 2009*, Section 257 (1) (b) – Delegation of local government powers.

For the purposes of the appointment of an external fund manager pursuant to Section 59 of the SBFAA, to operate in a manner consistent with this policy will constitute compliance.

## **New investment products**

A new investment product requires a full risk assessment by the Manager Finance and Coordinator Treasury and Rates (including compliance with the Act).

## **Breaches**

Deposits are in the first instance deemed to be “unbreakable”, that is, no early exit. Where council holds an investment that is downgraded below the minimum acceptable rating level, as prescribed under regulation for the investment arrangement, or where limits for different risk categories or where counterparty limits are breached, an assessment will be undertaken once the change becomes known. Any breach of this Investment Policy is to be reported to the Director Corporate Services and Manager Finance.

## **ROLES AND RESPONSIBILITIES**

The Director Corporate Services, the Manager Finance and the Coordinator Treasury and Rates are authorised to invest Sunshine Coast Council’s operating funds at their discretion in investments consistent with this Investment Policy and legislation. The Treasury team are responsible for the operations and management of the funds.

The standard of prudence is to be used by investment officers when managing the overall 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 being reviewed and overseen regularly.

Investment officers are to manage the investment portfolios not for speculation, but for investment and in accordance with the spirit of this Investment Policy. Investment officers are to avoid any transaction that might harm confidence in council. They will consider the safety of capital and income objectives when making an investment decision.

## **Ethics and conflicts of interest**

Consideration will be given to ethical investment principles in determining the approved counterparty lists for investment of funds.

Investment officers/employees shall refrain from personal activities that would conflict with the proper execution and management of Sunshine Coast Council’s investment portfolio. This includes activities that would impair the investment officer’s ability to make impartial decisions.

This policy requires that employees and investment officials disclose to the Chief Executive Officer any conflict of interest or any investment positions that could be related to the investment portfolio.

### **Delegation of authority**

Authority for implementation of the Investment Policy is delegated by council to the Chief Executive Officer in accordance with the *Local Government Act 2009*, Section 257 (1) (b) – Delegation of local government powers.

Authority for the day-to-day management of Council's Investment Portfolio is to be delegated by the Chief Executive Officer to the Director Corporate Services, the Manager Finance, and to the Coordinator Treasury and Rates, in accordance with Section 259 of the *Local Government Act 2009*, and subject to regular reviews from the Chief Executive Officer.

### **Criteria of authorised dealers and broker**

Council will maintain a list of authorised financial institutions and securities brokers that the investment officers may deal with. These financial intermediaries must have a minimum long term rating of at least either A+/A1/A+ from Standard and Poor's, Moody's or Fitch IBCA.

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

### **Safekeeping and custody**

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

## **REPORTING**

A summary of investments, amount invested and comparison above benchmark, at a minimum, is included in the monthly Financial Performance Report to council Ordinary Meetings.

The benchmark target is to be set equal to or above the benchmark yield and consider the expected types of securities held in each portfolio, that is, the portfolio will be compared to the UBS Australia Bank Bill Index and/or the Bank Bill Swap Reference Rate.

## **DEFINITIONS**

**BBSW** – Bank Bill Swap Rate – This is the daily calculation of the yields on bank bills of 1, 2, 3, 4, 5, and 6 month maturities used for the setting of financial arrangements.

**Ethical Investment Principles** – Investment in companies or industries that promote positive approaches to environmental, social and corporate governance issues; or the avoidance of investment in industries deemed harmful to health or the environment. These principles have been recognised by the United Nations Principles for Responsible Investment.<sup>1</sup>

**Financial Institution** is defined as an authorised deposit-taking institution within the meaning of the *Banking Act 1959 (Cwlth)*, Section 5.<sup>2</sup>

**Investments** are defined as arrangements that are undertaken or acquired for producing income and apply only to the cash investments of Sunshine Coast Council.

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<sup>1</sup> Further information on the United Nations Principles for Responsible Investment, including a schedule of Australian signatories, can be obtained from the following website <http://www.unpri.org/principles/>

<sup>2</sup> For a list of authorised deposit taking institutions, refer to the website of the Australian Prudential Regulation Authority: <http://www.apra.gov.au/adi/>.

**Market Value** of the portfolio is the book value of fixed term fixed interest deposits plus a market value assessment of commercial paper, bank bills, and bonds or floating rate notes.

**QIC** – Queensland Investment Corporation.

**QTC** – Queensland Treasury Corporation.

**UBS Bank Bill Index** – widely considered to be the industry benchmark for short term cash fund performance and is used by market participants as a means of comparing the returns generated by the various cash funds available in the market.

## RELATED POLICIES AND LEGISLATION

*Statutory Bodies Financial Arrangements Act 1982*

*Statutory Bodies Financial Arrangements Regulation 2007*

*Local Government Act 2009*

*Banking Act 1959 (Cwlth)*

### Version control:

Version	Reason/ Trigger	Change (Y/N)	Endorsed/ Reviewed by	Date
1.0	Create new	N	Coordinator Treasury & Rates	14/4/2014
	Review	N	Manager Finance	22/4/2014
	Endorsement		Council May 2014 OM	