

STRATEGIC POLICY

2013/2014 INVESTMENT POLICY

Corporate Plan Reference:	8.1 Ethical, accountable and transparent decision-making 8.3 Strong financial management
Endorsed by Council on:	
Policy Owner and Department:	Executive Director Finance and Business
Reference number:	

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 activities of the investment officers or fund managers responsible for stewardship of Sunshine Coast Council's funds will be measured against the standards in this Policy and its objectives. Activities that defy the spirit and intent of this Policy will be deemed contrary to the Policy.

POLICY SCOPE

For the purpose of this policy, investments are defined as arrangements that are undertaken or acquired for producing income and apply only to the cash investments of Sunshine Coast Council. This policy applies to the investment of all surplus funds held by Sunshine Coast Council.

Category 2 investment power allows for investment with **QTC** or **QIC**, along with a range of other higher-rated counterparties without further approval.

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

POLICY STATEMENT

Sunshine Coast Regional Council (Council) has been granted authority to exercise Category 2 investment power under Part 6 of the *Statutory Bodies Financial Arrangement Act 1982* (the Act).

The Treasurer may from time to time constrain the investing activities of local government by limitation, caveat, restriction and/or other relevant regulation. Where this occurs, this Investment Policy will be reviewed and reissued for the subsequent change in legislation.

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*

ETHICS AND CONFLICTS OF INTEREST

Prudent Person Standard

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 Executive Director, Finance & Business, the Manager Finance, and to the Financial Planning & Performance Manager, in accordance with section 259 of the *Local Government Act 2009*, and subject to regular reviews with the Executive Director, Finance & Business and Chief Executive Officer (refer also to Delegation No. 2).

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.

In priority, the order of investment activities shall be preservation of capital, liquidity, and return.

Preservation of capital

Preservation of capital shall be the principal objective of the investment portfolio. Investments are to be performed in a manner that seeks 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.

Maintenance of liquidity

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. For these purposes, 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/securities dealers;
- sub investment grade (i.e., a lower than rating BBB- (Standard and Poor's) or equivalent), and in most cases, BBB rated investments; and
- unrated securities.

Return on investments

The portfolio is expected to achieve a market average rate of return and take into account Sunshine Coast Council's risk tolerance and 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 this Investment Policy.

Comparison of Performance

For performance purposes, the portfolio will be compared to the UBS Australia Bank Bill Index and/or the Bank Bill Swap Reference Rate over a rolling one-year period. The UBS Australia Bank Bill Index has a modified duration of 45 days and comprises thirteen 90 Day Bank Bills. 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.

In comparing performance, the portfolio will be market valued and take into account all coupons, deposits and withdrawals to/from the portfolio.

ROLES AND RESPONSIBILITIES

Authorised personnel

The Executive Director, Finance & Business, the Manager Finance and the Financial Planning & Performance Manager are authorised to invest Sunshine Coast Council's operating funds at their discretion in investments consistent with this Investment Policy and legislation.

The Manager Finance will report to Council for investment guidelines, approved lists and oversight of investment activities for the purposes of this Investment Policy.

Oversight committee

To ensure separation of duties, the Chief Executive Officer will establish an Investment Oversight Committee, which includes the Manager Finance and will generally be included under Council's finance portfolio responsibilities. This committee would function as an advisory committee to Council. Its purpose is to:

- oversee the development and update of the Investment Policy and its guidelines;
- recommend to Council annual modifications to the Investment Policy;
- monitor compliance with the Act; and
- review the quarterly investment reports to the Sunshine Coast Council.

An officer independent to the execution of investment transactions will provide compliance and investment analysis to the Investment Oversight Committee.

The oversight committee is not allowed to direct daily investment decisions, select fund managers, or become involved in the daily operations of the portfolio. The role is to review, maintain lists and processes and refer investment decisions to Council if required.

Internal controls

The Manager Finance/Executive Director, Finance & Business of Sunshine Coast Council shall establish internal controls and processes that will ensure investment objectives are met and that the investment portfolios are protected from loss, theft or inappropriate use. To this end, the Chief Executive Officer shall utilise the Investment Oversight Committee as an executive management group or review group.

The Investment Oversight Committee is responsible for maintaining the approved lists and guidelines, which are updated regularly. The guidelines set by a sub-committee may, if required, be more conservative than the policy however in no instance will they override the Investment Policy or its objectives.

The established processes will include monthly and quarterly reporting (including compliance reporting), as well as an annual review of the Investment Policy. The internal controls will address the following:

- control of collusion;
- separate the transaction authority from accounting and record keeping;
- safekeeping;
- avoid physical delivery of securities;
- clearly delegate authority to investment officers;
- confirmation requirements for settlement of securities;
- compliance and oversight of investment parameters; and
- reporting of breaches.

The internal controls will be subject to periodic reviews by Council's Internal Audit function to verify compliance with the Investment Policy and legislation.

INVESTMENT PARAMETERS

Investable funds

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).

The investable funds should match the cash flow needs of Council deemed by the Manager Finance after preparing Sunshine Coast Council's budget. Once the Manager Finance has determined that the cash flow forecast can be met, if required, funds may be invested for the required term. In this regard, it is appropriate for the Manager Finance to be conservative (i.e., it is unlikely that investments are broken to meet cash flow obligations).

It is the responsibility of the Manager Finance 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 for example QTC Capital Guaranteed Cash Fund.

Authorised investments

Without specific approval from Council or the Treasurer, investments are limited to those prescribed by Section 6 of the *Statutory Bodies Financial Arrangements Act 1982* for local governments with Category 2 investment power, which include:

- deposits with a financial institution;

- interest bearing deposits;
- commercial paper;
- bank accepted/endorsed bank bills;
- bank negotiable certificates of deposit;
- short term bonds;
- floating rate notes;
- QIC Cash Fund, Australian Fixed Interest Fund, Growth Fund, Stable Fund; and
- QTC Capital Guaranteed Cash Fund, Debt Offset Facility, Fixed Rate Deposit (up to 36 months) and QTC Working Capital Facility.

Prohibited investments

This Investment Policy prohibits any investment carried out for speculative purposes. The Manager Finance may include a prohibited investments list within the Investment Guidelines and Approved Lists.

The following investments are prohibited by this investment policy:

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

Portfolio investment parameters and credit requirements

The following table shows the credit ratings and counterparty limits for Council:

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

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.

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.

Approved lists

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

- approved banks;
- approved commercial paper and medium term note issuers;

- approved brokers/dealer and direct issuers for purchase or sale of security with a minimum credit rating of A+; and
- approved credit unions.

New investment products

A new investment product requires a full risk assessment by the Finance Manager (including compliance with the Act) and requires approval by the Investment Oversight Committee.

Breaches

Any breach of this Investment Policy is to be reported to the Executive Director Finance & Business and Manager Finance and rectified within 24 hours of the breach occurring. The investment oversight committee will report the breach to Council at the next meeting.

Where Council holds an investment that is downgraded below the minimum acceptable rating level, as prescribed under regulation for the investment arrangement, Council shall within 28 days after the change becomes known to the local government, either obtain Treasurer's approval for continuing with the investment arrangement or sell the investment arrangement (including, for example, withdrawing a deposit).

Where limits for different risk categories or where counterparty limits are breached, the Manager Finance will bring the matter to the attention of the Investment Oversight Committee with a recommendation on potential options (e.g. continuing with the investment through until maturity, or withdrawing a deposit).

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.

Criteria of authorised dealers and broker

Sunshine Coast 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.

INVESTMENT GUIDELINES

The Manager Finance may reduce these maturity limits to a shorter period, or higher ratings through internal Investment Guidelines and Approved Lists. The Manager Finance may approve limits for unrated securities after being satisfied that adequate analysis has been performed to demonstrate above average credit quality (i.e. better than BBB+).

Treasurer approval is required for investments with a period of greater than 36 months. Functionally this means approval is required from Council prior to submission to the Treasurer for approval.

The following table provides rating equivalents for Fitch, Moody’s and Standard and Poor’s:

Short term debt ratings (Short term refers to the investments with an initial maturity of less than 1 year)			
Grade	S&P	Moody's	Fitch
Superior	A1+	P-1	F1+
	A1		F1
Strong	A2	P-2	F2
Acceptable	A3	P-3	F3
Long term debt ratings (Long term refers to investments with an initial maturity of greater than 1 year)			
Grade	S&P	Moody's	Fitch
Highest Quality	AAA	Aaa	AAA
High Quality	AA+	Aa1	F1+ } AA+
	AA+	Aa2	AA
	AA-	Aa3	AA-
Above Average Quality	A+ } A1	A1 } P1	F1 } A+
	A	A2	A
Average Quality	A- } A2	A3 } P2	A- } F2
	BBB+ } A3	Baa1 } P3	BBB+ } F3
	BBB	Baa2	BBB
	BBB-	Baa3	BBB-
<i>Investment Grade</i>			
Speculative	BB+	B1	BB+
	BB+	B2	BB
	BB-	B3	BB-
Poor	CCC+	Caa	CCC
	CCC	Ca	
	CCC-	C	
Default	CC		CC
	D		DDD
			DD
			D

MEASUREMENT OF SUCCESS

REPORTING

The Manager Finance will prepare a monthly report and evaluation of the transactions, concentrations, performance and compliance of the investment portfolio. The report is to be provided to the investment oversight committee within 10 days of the period end. The report will include:

- summary of securities held at the end of the reporting period by counterparty;
- weighted average yield to maturity of the portfolio;
- liquidity of the portfolio as at reporting date;
- percentage of the portfolio held by investment risk category; and
- performance of the portfolio [relative to UBS Australia Bank Bill benchmark and/or BBSW].

On a quarterly basis, the Manager Finance will provide the oversight committee and Council with a detailed report on the investment portfolio including its statement of compliance with the Act. The report is to provide summary performance information by counterparty name and relative benchmark data.

On an annual basis, the Investment Policy will be reviewed and amended where required; any amendments are to be approved by Council prior to the implementation of the revised investment policy.

PERFORMANCE MEASUREMENT

The investment return for the portfolio shall be measured using the market value of the portfolio, including withdrawals and deposits, and total performance of the portfolio compared to the UBS Australia Bank Bill Index. This is to include changes in the capital value of assets held (where applicable), income from managed investment portfolio assets, proceeds of sales of assets sold and cost of assets acquired. The market value of the portfolio is to be calculated at least monthly to coincide with monthly reporting. In defining market value, at least two pricing sources should be included in the valuation of the securities.

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.¹

Financial Institution is defined as an authorised deposit-taking institution within the meaning of the *Banking Act 1959 (Cwlth)*, Section 5.²

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

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			21/05/2012
2.0	Annual Review			17/04/2013
	Review			

¹ 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/>

² For a list of authorised deposit taking institutions, refer to the website of the Australian Prudential Regulation Authority:

<http://www.apra.gov.au/adi/>.