



## Strategic Policy

### 2019/20 Investment Policy

Corporate Plan reference:	5.6 Information, systems and process underpin quality decisions and enhance customer relationships 5.6.19 – Sustainable financial position maintained
Endorsed by Council on:	23 May 2019 Reference Number:
Manager responsible for policy:	Chief Financial Officer, Business Performance Group

### Policy purpose

The intent of this document is to outline Sunshine Coast Council's investment policy and guidelines regarding the investment of surplus funds and the management of Council's foreign exchange (FX) exposure with the objective to maximise earnings within approved risk guidelines and to ensure the security of funds.

### Policy outcome

Maximised 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 (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 Bloomberg AusBond Bill (BAUBIL) Index
- Invest only in investments as authorised under current legislation
- Invest only with approved institutions
- Invest to protect capital value of investments
- Minimise risk exposure by holding foreign currency in approved Foreign Exchange (FX) accounts
- Invest only in FX accounts as authorised by the Queensland Treasurer

- Ensure transaction and translation exposures on Council's Financial Statements are identified and managed as per AASB 121 *The Effects of Change in Foreign Exchange Rates*.

## 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 recall an investment.

Investment activities shall preserve capital as a principal objective of the investment portfolio. Investments will be performed in a manner that seeks to ensure security of principal of the overall portfolio. This would include managing credit risk, interest rate risk and FX risk within 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 officers 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 to avoid having to recall securities prior to maturity. Secondly, interest rate risk can be limited by investing in shorter term securities (i.e. less than 12 months).

### **FX Risk**

Council will hold foreign currency in approved FX accounts to minimise the FX risk to cash balances. FX or exchange rate risk is a financial risk that exists when a financial transaction is denominated in a currency other than that of the Council.

AASB 121 *The Effects of Change in Foreign Exchange Rates* provides guidance on the presentation of foreign currency transactions on the Financial Statements. AASB 121 requires FX transactions to be recorded in Council's Financial Statements in AU\$ using the spot exchange rate on the date of the transaction.

## Investment Parameters and Guidelines

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 high-rated counterparties without further approval.

The SBFAA includes a list of prohibited investments that require Treasurer approval including derivative based instruments, non-Australian dollars and maturity maximum greater than three years.

Council will ensure appropriate approvals are obtained prior to investing in FX accounts.

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:

<i>Short Term Rating (S&amp;P Global Ratings) or equivalent</i>	<i>Individual Counterparty Limit</i>	<i>Total Limit</i>
QIC / QTC Pooled Cash Management Fund	100%	100%
A-1+ Financial Institutions	60%	100%
A1+ Bond Mutual Funds	30%	50%
A-1 Financial Institutions	50%	100%
A-2 Financial Institutions	45%	90%
A-3 Financial Institutions	10%	30%
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.

### **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 Group Executive Business Performance Group, and Chief Financial Officer 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 Chief Financial Officer and Coordinator Financial Accounting (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 Group Executive Business Performance Group and Chief Financial Officer.

### Reporting on FX Transactions

Council is required upon opening the FX Account to provide a quarterly report to the Department of Local Government, Racing and Multicultural Affairs (DLGMA), which states the following:

- (i). All transactions using the FX Account; and
- (ii). The balance of the FX Account/s; and
- (iii). All Australian dollar transactions.

AASB 121 requires FX transactions to be recorded in Council's Financial Statements in AU\$ using the spot exchange rate on the date of the transaction. Term deposits held as at the 30<sup>th</sup> June each year will be translated to AU\$ on the Statement of Financial Position using the closing rate. Any exchange differences relating to FX currency monetary items will be recognised in the Statement of Comprehensive Income as exchange gains or losses in the period in which they arise.

### Roles and responsibilities

The Group Executive Business Performance Group, and the Chief Financial Officer are authorised to invest Sunshine Coast Council's operating funds at their discretion in investments consistent with this Investment Policy and legislation. The Financial Accounting and Treasury Unit are responsible for the operations and management of the funds.

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 monitor and manage cash flow 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 officers disclose to the Chief Executive Officer any conflict of interest on 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 Group Executive Business Performance Group, and the Chief Financial Officer, 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 BBB+ (S&P Global Ratings) or the equivalent Fitch or Moody's ratings of BBB+ and Baa1 respectively.

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 (AFS) 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.

### Measurement of success

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 Bloomberg AusBond Bank Bill (BAUBIL) Index.

### Definitions

**BBSW** – The **Bank Bill Swap Rate**, commonly known as **BBSW**, is simply the *short term swap rate*. In Australia, BBSW is the term used for interest rate swaps of six months or less, anything dated longer than six months is simply referred to as a *swap rate*.

**Bloomberg AusBond Bank Bill (BAUBIL) 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.

**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.

**Market Value** is the price at which an instrument can be purchased or sold in the current market.

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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/>

**QIC** – Queensland Investment Corporation.

**QTC** – Queensland Treasury Corporation.

**Closing Rate** – is the spot exchange rate at the reporting date

**Foreign Exchange Risk** – (also known as FX Risk) is the financial risk of change in value due to changes in currency exchange rates

**Spot Exchange Rate** – is the exchange rate for immediate delivery.

## Related policies and legislation

*Statutory Bodies Financial Arrangements Act 1982*

*Statutory Bodies Financial Arrangements Regulation 2007*

*Local Government Act 2009*

*Banking Act 1959 (Cwlth)*

*AASB 121 The Effects of Change in Foreign Exchange Rates*

Version control:

Version	Reason/ Trigger	Change (Y/N)	Endorsed/ Reviewed by	Date
1.0	Created	N	Special Statutory Budget Meeting	9/6/2014
1.1	Annual Review	Y	Manager Finance	19/2/2016
1.1	Endorsement		Council	
1.2	Annual Review	Y	Manager Finance	
1.2	Endorsement		Council	18/5/2017
1.3	Annual Review	Y	Chief Financial Officer	12/4/2018
1.3	Endorsement		Council	17/5/2018
1.4	Annual Review	Y	Chief Financial Officer	
1.4	Endorsement		Council	23/5/2019

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