



Council Policy

INVESTMENT OF SURPLUS FUNDS POLICY

Corporate Plan Reference:	<i>Long term planning for Noosa Shire</i>
Endorsed by Council:	10 July 2020
Policy Author:	Director Corporate Services

POLICY BACKGROUND

The intent of this document is to outline Noosa Shire Council's (Council) investment of surplus funds policy and guidelines regarding the investment of surplus funds, with the objective to maximise earnings within approved risk guidelines, following ethical investment principles where appropriate 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 in this policy and its objectives. Activities that defy the spirit and intent of this policy will be deemed contrary to the policy.

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 Council. This policy applies to the investment of all surplus funds held by Council.

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.

COUNCIL POLICY

Council has been granted authority to exercise Category 1 investment power under Part 6 of the *Statutory Bodies Financial Arrangement Act 1982* (the Act) without further approval.

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 policy. Investment officers are to avoid any transactions that might harm confidence in Council and will consider the safety of capital and income objectives when making investment decisions.

Ethics and conflicts of interest

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

Investment officers / employees shall refrain from personal activities that would conflict with the proper execution and management of 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 (CEO) any conflict of interest or any investment positions that could be related to the investment portfolio.

Delegation of authority

Authority for implementation of this policy is delegated by Council to the CEO 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 CEO to the Director Corporate Services and to the Financial Services Manager in accordance with section 259 of the *Local Government Act 2009*, and subject to regular reviews with the Director Corporate Services and CEO.

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 the 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. 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 officer 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 measuring the investment term against 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 Council's ethical investment appetite, risk tolerance, current interest rates, budget considerations, and the economic cycle. Any additional return target set by Council will also consider the risk limitations, ethical and prudent investment principles and cash flow characteristics identified within this policy.

Comparison of performance

For performance purposes, the portfolio will be compared to the Bloomberg AusBond Bank Bill Index and/or the Bank Bill Swap Reference Rate over a rolling one-year period. 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 Director Corporate Services and the Financial Services Manager are authorised to invest funds at their discretion in investments consistent with this policy and legislation.

The Financial Services Manager will report to Council for investment guidelines and oversight of investment activities for the purposes of this policy.

Internal controls

The Financial Services Manager in consultation with the Director Corporate Services 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.

The established processes will include monthly and quarterly reporting, as well as an annual review of the policy. The internal controls will address the following:

- control of collusion;
- accounting and record keeping;
- evidence of quotes for each investment transaction;
- delegated authority to investment officers;
- compliance and oversight of investment parameters; and
- reporting guidelines.

The internal controls will be subject to periodic reviews by Council's Internal Audit function to verify compliance with the 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 Council’s bank account balance. Included in this balance is any moneys held by Council on behalf of external parties (for example cash performance bonds).

Investable funds will be determined against the cash flow needs of Council following the adoption of the annual budget.

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 1 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; and
- QTC Capital Guaranteed Cash Fund, Debt Offset Facility, Fixed Rate Deposit (up to 12 months) and QTC Working Capital Facility.

Prohibited investments

This Policy prohibits any investment carried out for speculative purposes. The Financial Services Manager may include a prohibited investments list within the Investment Guidelines.

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	15%	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.

When considering investment options, the investment officer will establish a margin of 10 basis points in interest rate returns to give preference to those institutions considered to be responsible investors (e.g. do not invest in fossil fuel companies).

Maturity

The maturity structure of the portfolio will reflect a maximum term to maturity of no longer than 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.

Breaches

Any breach of this policy is to be reported to the CEO and rectified within 24 hours of the breach occurring.

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 Financial Services Manager will bring the matter to the attention of the Director Corporate Services 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 Financial Services and evidenced by safekeeping receipts may hold security documents.

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 Poors, Moodys or Fitch IBCA.

All transactions undertaken on behalf of the investment portfolio of Council will be executed either by 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 Council's approved list of brokers/dealers and direct issuers.

REPORTING

The Financial Services Manager will prepare a monthly report and evaluation of the transactions, concentrations, performance and compliance of the investment portfolio. The report will include:

- summary of securities held at the end of the reporting period by counterparty;
- liquidity of the portfolio as at reporting date;
- percentage of the portfolio considered ethical investment;
- percentage of the portfolio held by investment risk category; and
- performance of the portfolio [relative to Bloomberg AusBond Bank Bill Index benchmark and/or BBSW].

On an annual basis, the policy will be reviewed and amended where required, with any amendments to be approved by Council prior to implementation as part of annual budget adoption.

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 Bloomberg AusBond 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.

Bloomberg AusBond 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.

Credit Risk – is the risk of loss due to the failure of an investment issuer or guarantor

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 Noosa Shire 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.

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/>.

RELEVANT 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 on de-amalgamation from Sunshine Coast Regional Council	Y	Manager Financial Services	22/12/2013
2.0	Annual Review	Y	Manager Financial Services	02/06/2014
3.0	Annual Review	Y	Manager Financial Services	13/05/2015
4.0	Annual Review	N	Manager Financial Services	20/05/2016
5.0	Annual Review	Y	Director Corporate Services	19/05/2017
6.0	Annual Review	Y	Council	06/07/2018
7.0	Annual Review	N	Council	28/06/2019
8.0	Annual Review	Y	Council	10/07/2020