

SPECIAL BUDGET MEETING 25 JUNE 2018	7
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INVESTMENT POLICY

K Robertson | 17/25/2-13 | #5757609

RECOMMENDATION:

That Council adopts the Investment Policy.

EXECUTIVE SUMMARY:

This report provides an update of the Investment Policy for adoption with the annual budget.

The following changes have been made since the Investment Policy was last adopted by Council in June 2017:

- change to the requirement for the Chief Financial Officer to report investment performance to Council annually (previously the requirement was quarterly)
- inclusion of a heading for Councils “Overall Risk Philosophy” to meet strict legislative requirements. No change has been made to Council’s Overall Risk Philosophy, this change relates merely to the inclusion of a heading
- one minor wording change

BACKGROUND:

Council’s Investment Policy provides guidelines regarding the investment of cash holdings with an objective of maximising earnings whilst minimising risk to ensure the security of Council funds.

Councils rating cycle dictates cash flow to a large extent, meaning that at certain times of the year there are surplus or investable funds. The policy provides investment performance benchmarks and credit risk guidelines to be used for the investment of funds at the most advantageous rate of interest, for an appropriate period, whilst minimising risk.

COMMENT:

The following changes have been made since the Investment Policy was last adopted by Council in June 2017:

- change to the requirement for the Chief Financial Officer to report investment performance to Council annually (previously the requirement was quarterly)
- inclusion of a heading for Councils “Overall Risk Philosophy” to meet strict legislative requirements. No change has been made to Council’s Overall Risk Philosophy, this change relates merely to the inclusion of a heading
- one minor wording change

Council has traditionally adopted the Investment Policy annually. However it is recommended that the current policy remain in force until otherwise determined by Council.

OPTIONS:

Option 1: (Recommended)

It is recommended that Council adopts the Investment Policy.

Option 2:

Council does not endorse the Investment Policy in the proposed form and puts forward an alternative.

CONSIDERATIONS:

Risk Management:

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

The Credit Risk Guidelines set-out in Table 2 of the policy gives limits for credit rating, proportion of total investments and maximum terms.

Statutory:

Council is required by chapter 5, part 4, and section 191 of Local Government Regulation 2012 to adopt an Investment Policy.

All investments are to be made in accordance with:

- Statutory Bodies Financial Arrangements (SBFA) Act 1982
- Statutory Bodies Financial Arrangements (SBFA) Regulation 2007
- Local Government Act 2009
- Local Government Regulation 2012

ATTACHMENTS:

- Investment Policy



Jason Ritchie
Manager Finance



Lisa Whitton
Chief Financial Officer

INVESTMENT POLICY

Intent To outline Cairns Regional Council's investment policy and guidelines regarding the investment of cash holdings with an objective of maximising earnings whilst minimising risk to ensure the security of Council funds.

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

Scope This policy applies to the investment of all cash holdings of Cairns Regional Council. For the purpose of this policy, investments are defined as arrangements that are acquired or undertaken for the purpose of producing income and/or capital gains.

PROVISIONS

The following sets out the Investment Policy as required by chapter 5, part 4, and section 191 of *Local Government Regulation 2012*.

LEGISLATIVE AUTHORITY

All investments are to be made in accordance with:

- *Statutory Bodies Financial Arrangements (SBFA) Act 1982*
- *Statutory Bodies Financial Arrangements (SBFA) Regulation 2007*
- *Local Government Act 2009*
- *Local Government Regulation 2012*

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 Cairns Regional Council. They will consider the safety of capital and income objectives when making an investment decision.

Ethics and Conflicts of Interest

Investment officers and 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 or employee's ability to make impartial decisions as outlined in Council's Code of Conduct Administration Instruction. This policy requires that employees and investment officials disclose to the Chief Financial 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 sections 257 and 259 of the *Local Government Act 2009*.

Authority for the day to day management of Council's Investment Portfolio is delegated by the Chief Executive Officer to the Chief Financial Officer and subject to regular reviews with the Chief Executive Officer.

INVESTMENT OBJECTIVES

Councils 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.

OVERALL RISK PHILOSOPHY

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

Preservation of Capital

Preservation of capital shall be the principal objective of the investment portfolio. This can be achieved by 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

The amount invested with any one financial institution should be in accordance with the Credit Risk Guidelines as described in Table 2. Credit risk will be minimised by Council by pre-qualifying all institutions with which we do business, diversifying the portfolio and limiting transactions to secure investments.

Interest Rate Risk

Minimising the risk of a change in the market value can be managed by maintaining Council's investment portfolio in line with cash flow requirements and limiting investments to short term investments.

Maintenance of Liquidity

This refers to Council's ability to access funds in the short-term to meet its day to day liquidity requirements. Council will seek to minimise the costs of failing to adequately manage its day to day liquidity needs through maintaining daily for next week, weekly for the next month, monthly and annual cash forecasts, establishing and maintaining an appropriate cash balance in the transactional banking account, establishing and maintaining a procedure for evaluating investment options for surplus funds and a list of approved investments for short term cash surpluses.

Return on Investment

The portfolio is expected to achieve the following performance benchmarks as a minimum set by Council.

TABLE 1 – Investment Performance Benchmark

Investment	Performance Benchmark
Cash / Cash Plus / Direct Investments	11 AM and UBS Bank Bill Index
Overnight deposits	RBA Cash Rate
Interest Bearing Deposits/Negotiable Certificates of Deposit	UBS Bank Bill Index
Floating Rate Notes	Bank Bill Swap Rate

PROCEDURES FOR ACHIEVING INVESTMENT GOALS

INTERNAL CONTROLS

New Investment Products

No new investment products will be allowed until a full risk assessment has been undertaken by management. These assessments will be signed off by the Chief Executive Officer and reported to Council.

Reporting

The Chief Financial Officer will report to Council annually, detailing the investment portfolio in terms of performance and counterparty exposure.

INVESTMENT PARAMETERS

Investable funds

For the purposes of this policy, investable funds are Council's cash holdings available for investment at any one time.

The investable funds should match the cash flow needs of Council deemed by the Chief Financial Officer after preparing Council's annual budget and cash flow forecasts. Once it is determined that the cash flow forecast can be met, surplus funds may be invested for an appropriate period.

Portfolio investment parameters

The structure and features of Council's investments are to be consistent within the time horizon, risk parameters, liquidity requirements and operational guidelines of Council as set out below.

Quotations on investments

Except for investments with the Queensland Treasury Corporation Capital Guaranteed Cash Fund, not less than three quotations shall be obtained from different authorised institutions when an investment is proposed.

In assessing the fair value of quotes obtained, the risk of the entity providing the return must be considered. The Fair Value Calculator provided by the Queensland Treasury Corporation is used to assist in this evaluation.

Authorised investments

Cairns Regional Council is allocated Category 2 Investment Powers as per Part 6 *SBFA Act 1982*. All investments must be denominated in Australian Dollars and undertaken in Australia. All investments undertaken by Council should be in accordance with the authorised investments definitions and restrictions as specified throughout this policy.

The following investments are authorised by this Investment Policy:

- Managed Fund Investments. The total amount invested with any one fund manager should not exceed the limits as described in the Credit Risk Guidelines Table 2 below.
- Direct Investments

Prohibited investments

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 Cairns Regional Council. They will consider the safety of capital and income objectives when making an investment decision.

In line with Part 6 *SFBA Act 1982*, the following investments are prohibited by this Investment Policy:

- Derivative based instruments (excluding floating rate notices)
- Principal only investments or securities that provide potentially nil or negative cash flow
- Standalone securities that have the underlying futures, options, forward contracts and sways of any kind, and
- Securities issued in non- Australian dollars

Portfolio investment parameters and credit requirements

The following table shows the credit rating and counterparty limits for Council, as a percentage of the market value of the investment portfolio.

TABLE 2 - Credit Risk Guidelines

Long Term Rating (Standard & Poors)	Short Term Rating (Standard & Poors)	Minimum Percentage of Total Investments	Maximum Percentage of Total Investments	Maximum Term (for fixed term investments only)
QTC Cash Fund	QTC Cash Fund	0%	100%	n/a
AAf	Not available	0%	50%	n/a
AA+ to AA-	A1+	0%	100%	3 years
A+ to A-	A1	0%	75%	1 year
BBB+ to BBB-	A2	0%	50%	1 year
Qualifying Local Financial Institutions	Unrated	\$1m limit	\$1m limit	90 days
Unrated	Unrated	0%	0%	n/a

N.B. The above percentages are based on average annual funds invested.

In the event that the maximum percentage is exceeded based on the average annual funds, the Chief Financial Officer should submit a report to the Chief Executive Officer.

In addition to the above, the following should be noted:

- For the purpose of the day to day management of surplus funds, term to maturity may be:
 - Short term which refers to a period of 1 day to 1 year
 - Medium term refers to a period of 1 to 2 years
 - Long term refers to a period of 2 to 3 years
- Credit Ratings
If any financial institution's credit rating is downgraded or the credit rating is placed on a negative watch, Council will revise downwards its credit limits or divest the investment as soon as practicable.
- Qualifying Local Financial Institutions
In order to qualify for investment, local institutions must meet the following criteria:
 - provide a benefit to the local community, outside of standard financial institution services; and
 - be able to provide competitive term deposit rates that rival those able to be obtained from rated institutions; and
 - satisfy a financial health check that assesses key financial indicators, and is to be based on the most recent audited financial statements for the institution as well as that institution's latest available Capital Adequacy Disclosure.

Term to Maturity

The term to maturity of any of Council's direct investments may range from "at Call" to 3 years and will be dependent upon Cairns Regional Council's future cash flow requirements, credit risk guidelines and the prevailing outlook regarding interest rates.

TABLE 3 - Time Horizon and Maximum Exposure Guidelines

Fund Type	Minimum Investment Time Horizon	Maximum Exposure as % Total Investment Portfolio
Cash Funds (at call)	0-180 days	100%
Cash Plus / Cash Enhanced Funds / Fixed Term Deposits / or equivalent	0-12 months	100%
Investments that meet the following rating requirements: Rating by Fitch IBCA(Australia) Pty Ltd Aa, AA+ or AAA; or Rating by Moody' Investors Service of; Aa2, Aa1 or Aaa; or Rating by Standard & Poor's (Australia) Pty Ltd of AA, AA+ or AAA	0 – 36 months	20%

New investment products

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

Breaches

Any breach of the Policy is to be reported to the Chief Executive Officer and Chief Financial Officer, and rectified within 24 hours of the breach occurring. 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 Treasurer's approval for continuing with the investment arrangement, or sell/redeem/withdraw the investment arrangement.

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 CFO may hold security documents.

Variation to Policy

The Chief Executive Officer or their delegated representative is authorised to approve variations to this policy if the investment is to Council's advantage and/or due to revised legislation. All changes to this policy are to be reported to Council within 21 days, including circumstances where this clause is utilised or relied upon for decision making purposes.

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This policy is to remain in force until otherwise determined by Council.

General Manager Responsible for Review:

Chief Financial Officer

ORIGINALLY ADOPTED: 19/9/2003
CURRENT ADOPTION: 25/06/2018
DUE FOR REVISION: 25/06/2022
REVOKED/SUPERSEDED:

John Andrejic
Chief Executive Officer