

Investment Policy

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Strategic Pillar	Organisation Capability
Responsible Branch	Finance

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1 OUTCOMES

- 1.1 To provide a framework for the investing of Council's funds at the most favourable rate of interest available to it at the time whilst having due consideration of risk and security for that investment type and ensuring that its liquidity requirements are being met.

2 POLICY

- 2.1 While exercising the power to invest, consideration is to be given to the preservation of capital, liquidity and the return on investment.
- 2.2 Preservation of capital is the principal objective of the investment portfolio. Investments are to be placed in a manner that seeks to ensure security and safeguarding the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters.
- 2.3 Investments should be allocated to ensure there is sufficient liquidity to meet all reasonably anticipated cashflow requirements, as and when they fall due, without incurring the risk of significant costs due to the unanticipated sale of an investment.
- 2.4 Investments are expected to achieve an average rate of return to exceed the AusBond BBI performance benchmark.
- 2.5 Council's preference is to enter into environmentally and socially responsible investments where the rate of return is at least equal to comparable investments on offer.

3 SCOPE OF THE POLICY

- 3.1 This policy applies to all council's cash and investments and all Council officers and representatives who have delegated authority to manage cash and investments or make investment decisions.

4 DEFINITIONS

- 4.1 Authorised Deposit-Taking Institution (ADI) - An institution that is authorised under the Banking Act 1959 to accept term deposits and conduct banking activities in accordance with that Act and under the prudential supervision of the Australian Prudential Regulation Authority (APRA).
- 4.2 Bloomberg AusBond Bank Bill Index (AusBond BBI) – A widely used performance benchmark constructed to represent the performance of a notional rolling parcel of bills averaging 45 days.
- 4.3 Bill of Exchange - An unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a certain sum of money to, or to the order of, a specified person or to bearer.
- 4.4 Bank Bill Swap reference rate (BBSW) - The average of mid-rate bank-bill quotes from brokers on the BBSW Panel. The BBSW is calculated daily. Floating rate securities are most commonly reset quarterly to the 90-day BBSW.
- 4.5 Council Funds - Surplus money that is invested by Council in accordance with section 625 of the Act.
- 4.6 Counterparty limit - The limit imposed to cap the maximum possible exposure to any one ADI.
- 4.7 Debenture - A document evidencing an acknowledgement of a debt, which a company has created for the purposes of raising capital. Debentures are issued by companies in return for medium and long-term investment of funds by lenders.

- 4.8 Floating Rate Note (FRN) - A medium to long term fixed interest investment where the coupon is a fixed margin ("coupon margin") over a benchmark, also described as a "floating rate". The benchmark is usually the BBSW and is reset at regular intervals - most commonly quarterly.
- 4.9 Portfolio Limit - The limit imposed to restrict the credit exposure of the investment portfolio, with reference to the credit quality ratings.
- 4.10 Responsible Accounting Officer (RAO) - The Responsible Accounting Officer (RAO), as defined by the Local Government (General) Regulation 2005, is responsible for keeping the council's accounting records and ensuring that they are kept up to date and in an accessible form.
- 4.11 Securities - There are many types of financial instruments (i.e. documents) that are traded in financial markets (except futures contracts) e.g. bills of exchange, transferable certificates of deposit, negotiable certificates of deposit, and floating rate notes.

5 LEGISLATIVE OBLIGATIONS AND/OR RELEVANT STANDARDS

- 5.1 Section 625 of the Local Government Act 1993
- 5.2 Clause 16 of the Local Government (General) Regulation 2021
- 5.3 Ministerial Investment Order
- 5.4 The Trustee Amendment (Discretionary Investments) Act (1997) - Section 14
- 5.5 Local Government Code of Accounting Practice and Financial Reporting
- 5.6 Australian Accounting Standards
- 5.7 Office of Local Government Investment Policy Guidelines
- 5.8 Office of Local Government Circulars

6 CONTENT

6.1 Authority for Delegation

- 6.1.1 Authority for implementation of the Investment Policy is delegated by Council to the CEO in accordance with the Local Government Act 1993.
- 6.1.2 The CEO may in turn delegate the day-to-day management of Council's investments to the RAO and ensure adequate skill, support and oversight.
- 6.1.3 Officers delegated authority to manage Council's investments shall be recorded and required to acknowledge they have received a copy of this policy and understand their obligations in this role.

6.2 Prudent Person Standard

- 6.2.1 Council has a fiduciary responsibility when investing. Council will exercise the care, diligence and skill that a prudent person would exercise in managing the affairs of other persons.
- 6.2.2 As trustees of public monies, officers are to manage and safeguard Council's investment portfolio in accordance with the spirit of this Investment Policy and not for speculative purposes.

6.3 Ethics and Conflicts of Interest

- 6.3.1 Officers shall refrain from personal activities that would conflict with the proper execution and management of Council's investment portfolio. This policy requires officers to disclose any conflict of interest to the CEO.

6.3.2 Independent advisors are also required to declare that they have no actual or perceived conflicts of interest and receive no inducements in relation to Council's investments.

6.4 Authorised Investments

6.4.1 Investments are limited to those allowed by the most current Ministerial Investment Order that has been issued by the NSW Minister for Local Government.

6.4.2 All investments must be denominated in Australian Dollars. Authorised investments are limited to those allowed by the Ministerial Investment Order, currently:

- a) Commonwealth / State / Territory Government securities e.g. bonds.
- b) Interest bearing deposits / senior securities issued by an eligible ADI.
- c) Bills of Exchange (< 200 days duration) guaranteed by an ADI.
- d) Debentures issued by a NSW Council under the Local Government Act (1993).
- e) Deposits with T-Corp &/or Investments in T-Corp Hour-Glass Facility.

6.5 Prohibited Investments

6.5.1 This investment policy prohibits any investment carried out for speculative purposes including:

- a) Derivative based instruments.
- b) Principal only investments or securities that provide potentially nil or negative cash flow.
- c) Stand-alone securities issued that have underlying futures, options, forward contracts, and swaps of any kind.
- d) Mortgage of land.

6.5.2 This policy also prohibits any investment with speculative purposes, including the use of leveraging (borrowing to invest) of an investment. However, nothing in the policy shall prohibit the short-term investment of loan proceeds where the loan is raised for non-investment purposes and there is a delay prior to the expenditure of loan funds.

6.6 Sustainable Investing

6.6.1 This policy supports delivery of Council's Community Strategic Plan to achieve a sustainable local region. Council preferences investment securities and financial institutions that take responsibility for their economic, environmental, social and governance impacts. These four factors are referred to as the quadruple bottom line.

6.6.2 There is a clear duty of care to invest public funds responsibly, and in a way that protects, nurtures, and grows the environment and the economy and guards against unethical practices.

6.6.3 Sustainable investment choices are considered in respect of the individual investment product, the issuer of the investment, or both and should be endorsed by an accredited environmentally and socially responsible industry body or institution where possible.

6.6.4 When placing funds in new investments, Council will seek out sustainable investments that meet its investment policy objectives and preference sustainable investments where:

- a) The investment is compliant with the legislation and investment policy parameters; and
- b) The rate of return is at least equal to comparable investments on offer to Council at the time of investment.

6.6.5 Monthly investment performance will be measured against the *Market Forces fossil fuel lending report* and the *Climate Bonds Standard and Certification Scheme*. Additional sustainable investment performance reporting will be added when it becomes available.

6.7 Risk Management Guidelines

6.7.1 Investments obtained are to consider the following key criteria:

- a) Preservation of Capital – the requirement for preventing losses in an investment portfolio’s total value (considering the time value of money).
- b) Diversification – the requirement to place investments in a broad range of products so as not to be over exposed to a particular sector of the investment market.
- c) Credit risk – the risk that a party or guarantor to a transaction will fail to fulfil its obligations. In the context of this document it relates to the risk of loss due to the failure of an institution/entity with which an investment is held to pay the interest and/or repay the principal of an investment.
- d) Market Risk - the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices, or benchmark returns will unexpectedly overtake the investment’s return.
- e) Liquidity Risk - the risk an institution runs out of cash, is unable to redeem investments at a fair price within a timely period, and thereby Council incurs additional costs (or in the worst case is unable to execute its spending plans);
- f) Maturity Risk - the risk relating to the length of term to maturity of the investment. The larger the term, the greater the length of exposure and risk to market volatilities.
- g) Rollover Risk - the risk that income will not meet expectations or budgeted requirement because future interest rates are lower than expected.

6.8 Investment Advisor

6.8.1 The Council’s investment advisor must be approved by Council resolution and licensed by the Australian Securities and Investment Commission. The advisor must be an independent person who has no actual or potential conflict of interest in relation to investment products being recommended and is free to choose the most appropriate product within the terms and conditions of the investment policy.

6.8.2 The independent advisor is required to provide written confirmation that they do not have any actual or potential conflicts of interest in relation to the investments they are recommending or reviewing, including that they are not receiving any commissions or other benefits in relation to the investments being recommended or reviewed, except as fully rebated to Council promptly.

6.8.3 Council must conduct an open tender process every five years for the provision of an independent investment advisory service.

6.9 Safe Custody Arrangements

6.9.1 Where necessary, investments may be held in safe custody on Council’s behalf, ensuring the following criteria are met:

- a) Council must retain beneficial ownership of all investments.
- b) Adequate documentation is provided, verifying the existence of the investments.

- c) The custodian conducts regular reconciliation of records with relevant registries and/or clearing systems.
- d) The institution or custodian recording and holding the assets will be:
 - i) The custodian nominated by T-Corp;
 - ii) Austraclear;
 - iii) An institution with an investment grade Standard and Poor's or Moody's rating; or
 - iv) An institution with adequate insurance, including professional indemnity insurance and other insurances considered prudent and appropriate to cover its liabilities under any agreement.

6.10 Credit Quality Limits

6.10.1 Council will observe the following limitations for investment funds. The combined investments having a Long-Term Debt Rating outlined in Column A of the following table will comply with the:

- a) Portfolio Limit (Column B);
- b) Counterparty Limit (Column C); and
- c) Maximum Tenor (Column D).

Long Term Debt Rating (Column A)		Portfolio Limit (Column B)	Counterparty Limit (Column C)	Maximum Tenor (Column D)
S & P	Moody's			
AAA	Aaa	100%	100%	Not applicable
AA+ to AA-	Aa1 to Aa3	100%	100%	5 years
A+ to A	A1 to A2	100%	100%	5 years (Eligible FRNs) 3 years (Other Investments)
A-	A3	40%	20%	3 years
BBB+	Baa1	35%	10%	3 years
BBB	Baa2	35%	5%	12 months
BBB- and below	Baa3 and below	0%	0%	-
TCorp		20%	20%	Not applicable

6.10.2 A BBB Rate Sub Limit of 15% shall always apply when calculating the Portfolio Limit (Column B) investments with a long-term debt rating of

- a) BBB+ and BBB (S&P); and
- b) Baa1 and Baa2 (Moody's).

6.10.3 The Long-Term Debt Rating of Council's investments will be determined as follows:

- a) if only one Rating Agency provides a long-term debt rating, that rate shall apply.
- b) if a long-term debt rating has been assigned by both Rating Agencies and such ratings are not equivalent, the lower of such ratings shall apply.

6.11 Investments held under a previous investment policy

6.11.1 The above limitations with respect to the Maximum Tenor (Column D) for investment funds shall not apply to the following existing placements which are permitted to be held until their maturity:

- a) Newcastle Permanent Building Society \$1.25m FRN purchased 6 February 2018 maturing 6 February 2023.
- b) Great Southern Bank \$1.1m FRN purchased 21 February 2020 maturing 21 February 2023.
- c) Auswide Bank \$2.5m FRN purchased 17 March 2020 maturing 17 March 2023.

- d) The TCorp managed funds balance held as at 30 June 2022 is not required to be reduced to meet counterparty limits, which may incur a capital loss.

6.12 Term to Maturity

- 6.12.1 Council's investment portfolio shall be structured around the time horizon of the investment to ensure that liquidity and income requirements are met.
- 6.12.2 "Horizon" represents the intended minimum term of the investment; it is open for an Investment Strategy to define a target date for sale of a liquid investment (e.g. FRN or fixed bond).
- 6.12.3 Once the primary aim of liquidity is met, Council will diversify its maturity profile to reduce the volatility of Council's investment income. However, Council always retains the flexibility to invest funds short-term as determined by internal or economic outlook sensitivities.
- 6.12.4 The factors and/or information used by Council to determine minimum allocations to the shorter durations include:
 - a) Council's liquidity requirements to cover both regular payments as well as sufficient buffer to cover reasonably foreseeable contingencies.
 - b) Medium term financial plans and major capex forecasts.
 - c) Known grants, asset sales or similar one-off inflows.
 - d) Seasonal patterns to Council's investment balances.

6.13 Reporting

- 6.13.1 Documentary evidence must be held for each investment and details thereof maintained in an investment register. The documentary evidence must provide Council legal title to the investment.
- 6.13.2 For audit purposes, certificates must be obtained from the ADIs/fund managers/custodian confirming the amounts of investment held on Council's behalf on 30 June each year.
- 6.13.3 All investments are to be appropriately recorded in Council's financial records and reconciled at least monthly.
- 6.13.4 A monthly report will be provided to Council in accordance with legislative requirements. This report will detail the investment portfolio in terms of holdings and impact of changes in market value since the previous report. The monthly report will also detail the investment performance against the AusBond BBI performance benchmark, investment income earned versus budget year to date, confirm compliance of Council's investments within legislative and policy limits, and categorise Council's investment portfolio by environmental impact.

7 REVIEW

- 7.1 This policy will be reviewed annually in accordance with the Office of Local Government Investment Policy Guidelines, or earlier as necessary if:
 - a) legislation requires it.
 - b) Council's functions, structure or activities change.