

Program: Financial Services
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Scope

This policy applies to the investment of surplus funds in accordance with category 1 investment powers, allocated under Part 6 of the *Statutory Bodies Financial Arrangements Act 1982*.

Objective

To provide Mackay Regional Council (MRC) with an investment policy which outlines investment objectives, risk tolerance philosophies and portfolio performance measures, within the statutory framework of all associated legislation.

Policy Statement

Council has authority to exercise category 1 investment powers under Part 6 of the Statutory Bodies Financial Arrangement Act 1982 (the SBFA Act). Council aims to maximise investment returns on all surplus cash within agreed risk parameters. Capital preservation and liquidity management are the key consideration when entering into investment transactions.

This process to remain in force until otherwise determined
by Mackay Regional Council

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1.0 Principles

In accordance with s191(1) of the Regulation, Council must prepare and adopt an investment policy. The policy must outline investment objectives and overall risk philosophy; and procedures for achieving the goals related to investment.

MRC has been allocated authority to exercise category 1 investment power under Part 6 of the *SBFAA*. All investments are to be made in accordance with:

- *Local Government Act 2009*
- *Local Government Regulation 2012*
- *Statutory Bodies Financial Arrangements Act 1982*
- *Statutory Bodies Financial Arrangements Regulation 2007.*

1.1 Ethics and Conflicts of Interest

1.1.1 *Prudent Person Standard*

Prudence is to be used by the Investment Officer when managing the investment portfolio. Investments will be managed with the care, diligence and skill that a prudent person would exercise in managing the affairs of other persons.

The Investment Officer is to manage the investment portfolio in accordance with the spirit of this policy, and not for speculation. Any transactions that would harm confidence in MRC or its associated entities are to be strictly avoided.

1.1.2 *Ethics and Conflicts of Interest*

The Investment Officer is to refrain from personal activities that conflict with the proper execution and management of MRC's investment portfolio. Any activities that impair the Investment Officer's ability to make impartial decisions are to be avoided.

This policy requires that the Investment Officer disclose to the CEO any conflict of interest or holding of investment positions that could be related to the investment portfolio.

1.1.3 *Delegation of Authority*

Authority for the implementation of this policy is delegated to the CEO in accordance with s257(1)(b) of the Act.

Authority for the day-to-day management of the investment portfolio is delegated by the CEO to the Director Organisational Services, Manager Financial Services and the Revenue & Treasury Coordinator.

1.2 Investment Objectives

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

1.2.1 *Preservation of Capital*

Preservation of capital shall be the principal objective of the investment portfolio. The Investment Officer will endeavour to preserve capital through the effective management of the investment portfolios exposure to credit risk, interest rate risk, liquidity risk and transaction risk.

1.2.1.1 *Credit Risk* - The Investment Officer will evaluate and assess credit risk prior to investment and aim to mitigate credit risk in the investment portfolio by ensuring diversification, limiting transactions to secure investments and pre-qualifying all transactions including the dealers with which they do business.

1.2.1.2 *Interest Rate Risk* - The Investment Officer shall seek to minimise the risk of a change in the market value of the investment portfolio due to a change in interest rates, by considering the cash flow requirements of MRC and structuring the portfolio accordingly. This will avoid the need to sell investments prior to maturity in the open market. Interest rate risk can also be limited by investing in shorter term investments.

1.2.1.3 *Transaction Risk* - The Investment Officer shall mitigate loss through transaction risk by exercising due diligence, and employing adequate processes, procedures and systems when placing investment funds. An appropriate separation of duties shall also exist.

1.2.1.4 *Liquidity Risk* - The Investment Officer shall undertake an analysis of cash flow prior to placement of investment funds to mitigate the risk of having insufficient cash on hand to meet working capital requirements.

1.2.2 *Maintenance of Liquidity*

The investment portfolio will maintain sufficient liquidity to meet all reasonably anticipated working capital cash flow requirements of MRC as, and when they fall due, without incurring significant transaction costs due to any need to sell an investment prior to maturity.

This can be facilitated by ensuring that maturity dates for individual investments are selected to ensure regular maturities throughout the year and maintaining a minimum of 10% of the portfolio at call or maturing within 14 days.

1.2.3 *Return on Investments*

The investment portfolio is expected to achieve a market average rate of return, considering MRC's risk tolerance, current interest rates, budget considerations, and the economic cycle.

Any additional return target set by MRC will also consider the risk limitations, prudent investment principles and cash flow characteristics identified within this policy.

Section 47 of the SBFAA dictates that MRC must exercise its best effort to place investment funds at the most advantageous interest rate available at the time of the investment, for an investment of the proposed type. Records must be kept showing MRC invested in the most appropriate way for the circumstances.

This will generally be achieved, for term deposits, by calling for interest rate quotes, from investment organisations (banks) registered with MRC, for a variety of maturity terms and evaluating the benefits of the various options received.

The officers delegated under section 6.1.3 of this policy may accept offers of rates and terms made outside this process provided proper due diligence is followed, considering the last call for rates, an evaluation of the prevailing economic circumstances, and the other provisions of this policy.

1.3 Portfolio Implementation

1.3.1 *Internal Controls*

The Manager Financial Services shall establish internal controls and processes that ensure investment objectives are met, and that the investment portfolio is protected from loss, theft or misuse, as prescribed by s191(1) of The Regulation.

The internal controls will address the following:

- Collusion
- Separation of transaction authority from accounting and record keeping
- Safekeeping of records
- Avoidance of physical delivery of securities
- Clear delegation of authority to the Investment Officer
- Confirmation requirements for the settlement of securities
- Compliance and oversight of investment parameters
- Reporting of breaches of this policy.

The established processes will include regular reporting, as well as an annual review of this policy.

In addition, the CEO must issue a letter to any approved counterparty advising that upon maturity/sale of an investment, all funds must be deposited into MRC's consolidated bank account on the morning of the maturity date. This instruction cannot be varied unless a request is provided in writing, signed by an appropriate MRC delegated authority.

1.4 Investment Parameters

1.4.1 *Investable Funds*

For the purposes of this policy, investable funds are the surplus funds available for investment at any one time. However, this policy does not apply to monies held in trust where those funds are subject to specific conditions.

It is appropriate for the Investment Officer to be conservative so that, where possible, it is not necessary to sell an investment prior to maturity to meet cash flow obligations. It is the responsibility of the Investment Officer to assess the cost of direct investment management by MRC, relative to the return generated. This should be compared with the cost of investing funds with a capital guaranteed cash fund, such as the QTC Capital Guaranteed Cash Fund.

1.4.2 *Authorised Investments*

MRC approves dealings with all financial institutions, as defined by the *Banking Act 1959*.

Authorised investments are limited to those prescribed by s44(1) of the *SBFAA*:

- deposits with a financial institution;
- investment arrangements accepted, guaranteed or issued by or for the Commonwealth or a State or a financial institution;
- other investment arrangements secured by investment arrangements accepted, guaranteed or issued by or for the Commonwealth or a State or a financial institution;
- investment arrangements, managed or operated by QIC or QTC, prescribed under a regulation for this paragraph; and
- an investment arrangement with a rating prescribed under a regulation for this paragraph.

1.4.3 *Prohibited Investments*

This policy prohibits any investment carried out for speculative purposes.

The following investments are prohibited:

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

1.4.4 *Portfolio Investment Parameters and Credit Requirements*

The following tables show the credit rating and counterparty limits for MRC, as a percentage of the market value of the investment portfolio:

| Rating Rank (as below) | Maximum Individual Counterparty Limit | Maximum Portfolio Limit |
|------------------------|---------------------------------------|-------------------------|
| QTC | 100% | 100% |
| Major Banks | 40% | 100% |
| 1 | 40% | 100% |
| 2 | 20% | 50% |
| 3 | 10% | 15% |

| Rating Rank | (Short Term Rating Standard and Poors Global) | Short Term Rating Fitch Ratings | (Short Term Rating Moody's investors Service) |
|-------------|---|---------------------------------|---|
| QTC | N/A | N/A | N/A |
| Major Banks | N/A | N/A | N/A |
| 1 | (A-1) | (F1) | (P1) |
| 2 | (A2) | (F2) | (P2) |
| 3 | (A3) | (F3) | (P3) |

Overall, the amount invested with institutions should not exceed the above stated percentage ranges of the cash and investment balances at the time the investment is made, and appropriate documentation must be maintained, although future estimated cashflows must be considered in making the decision. When placing investments, consideration should also be given to the relationship between credit rating and interest rate.

Reporting and credit rating verification will be completed regularly for financial institutions that hold investments within MRC's portfolio to establish whether at that time, the above limits have been breached or the institution has been downgraded.

1.4.5 *Maturity*

All prescribed by s44(2) of the SBFAA, all investments will either be at call or for a fixed term of no longer than one year.

1.4.6 *Breaches*

Any breach of this policy is to be reported to the Director Organisational Services within 7 days of the breach occurring. The Director Organisational Services is delegated discretion to take appropriate action to rectify breaches.

Where MRC holds an investment that is downgraded below the minimum acceptable level (as specified by the SBFAA for the investment arrangement), MRC shall, within 28 days after the change becomes known to MRC, either:

- obtain the Treasurer's approval for continuing with the investment arrangement,
- or sell/redeem/withdraw the investment arrangement.

1.4.7 *Safekeeping of Records*

Pursuant to s48 of the SBFAA, written confirmation of each investment arrangement shall be held by MRC.

2.0 Definitions

To assist in interpretation the following definitions shall apply:

At call shall mean simple investments where the investment can be redeemed within 30 days without penalty.

CEO shall mean the person appointed to the position of Chief Executive Officer under s194 of the Local Government Act 2009. This includes anyone acting in that position.

Council shall mean the Mayor and Councillors of Mackay Regional Council.

Counterparty shall mean the other individual or institution to an agreement or contract. See financial institution.

Credit risk shall mean the risk of Mackay Regional Council suffering financial loss due to the failure of a counterparty to meet its obligations.

Financial institution shall mean an authorised deposit-taking institution within the meaning of the Banking Act 1959 (Cwlth). See counterparty.

Interest rate risk shall mean the risk of a change in the market value of the investment portfolio, which arises due to a change in interest rates.

Investment Officer shall mean an employee engaged in activities related to the physical investment of funds (e.g. investment placement and redemption, reconciliations etc.).

Investment portfolio shall mean a collection of cash deposit investment accounts.

Investments shall mean arrangements that are undertaken or acquired for producing income and made in accordance with all applicable legislation.

Liquidity risk shall mean the risk that Mackay Regional Council will have insufficient cash available to meet its working capital needs.

Major Banks shall mean the big four Australian Banks – Commonwealth Bank of Australia, Westpac Banking Corporation, Australia and New Zealand Banking Group and National Australia Bank.

Market average rate of return shall mean for performance purposes, the investment portfolio will be compared to the Bloomberg AusBond Bank Bill Index.

MRC shall mean Mackay Regional Council.

Preservation of capital shall mean an investment strategy with the primary goal of preventing losses in an investment's total value.

QIC shall mean Queensland Investment Corporation.

QTC shall mean Queensland Treasury Corporation.

SBFAA shall mean Statutory Bodies Financial Arrangements Act 1982.

The Act shall mean the *Local Government Act 2009*.

The Regulation shall mean the *Local Government Regulation 2012*.

Transaction risk shall mean the risk of a direct or indirect loss resulting from inadequate or failed internal processes, people or systems.

3.0 Review of Policy

This policy will be reviewed when any of the following occur:

- The related documents are amended or replaced.

- Other circumstances as determined from time to time by a resolution of Council

Notwithstanding the above, this policy is to be reviewed at intervals of no more than three (3) years.

4.0 Reference

- Australian Prudential Regulation Authority; List of Approved Deposit-Taking Institutions
- *Banking Act 1959 (Cwlth)*
- Investment Internal Control Procedure
- *Investment Policy Guidelines for Local Governments 2015*
- *Local Government Act 2009*
- *Local Government Regulation 2012*
- Register of Administrative Delegations
- *Statutory Bodies Financial Arrangements Act 1982*
- *Statutory Bodies Financial Arrangements Regulation 2007*

Version Control:

| Version | Reason / Trigger | Change | Endorsed | Date | Folio |
|---------|------------------|---|----------------|----------|--------------|
| 1 | Annual Review | | By Council | 01.07.09 | 6780 |
| 2 | Annual Review | | By Council | 05.05.10 | 10835 |
| 3 | Annual Review | | By Council | 29.06.11 | 16194 |
| 4 | Annual Review | | By Council | 27.06.12 | 22115 |
| 5 | Annual Review | | By Council | 11.07.13 | 28549 |
| 6 | Annual Review | | By Council | 25.06.14 | 33658 |
| 7 | Administrative | Amendments to Authority Delegations 6.4.2 | Administrative | 01.01.15 | |
| 8 | Annual Review | | By Council | 24.06.15 | 38319 |
| 9 | Annual Review | | By Council | 22.06.16 | 38167 |
| 10 | Annual Review | | By Council | 28.06.17 | 44818 |
| 11 | Annual Review | | By Council | 18.07.18 | 57836 |
| 12 | Annual Review | | By Council | 26.06.19 | 63091 |
| 13 | Annual Review | | By Council | 24.06.20 | ORD-2020-154 |
| 14 | Annual Review | | By Council | 23.06.21 | ORD-2021-194 |
| 15 | Annual Review | | By Council | 22.06.22 | ORD-2022-180 |