

# Statutory Policy

## Burke Shire Council

### Investment Policy

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**Version History**

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## 1. Purpose

To provide Council with a contemporary investment policy based on an assessment of financial risk within the legislative framework of the *Statutory Bodies Financial Arrangements Act 1982 (the Act)* and its regulation.

The intent of this document is to outline Burke Shire Council's investment policy and guidelines regarding the investment of surplus funds, with the objective to maximise earnings within approved risk guidelines and to ensure the security of funds.

Section 104(5) of the *Local Government Act 2009* requires a local government to have an Investment Policy as part of its financial management system.

Section 191 (1) of the *Local Government Regulation 2012* requires that a local government must prepare and adopt an investment policy.

191(2) The investment policy must outline—

- (a) the local government's investment objectives and overall risk philosophy; and
- (b) procedures for achieving the goals related to investment stated in the policy.

Part 6 (Division 1, section 42) of the *Statutory Bodies Financial Arrangement Act 1982* regulates Council's ability to invest. Schedule 3 of the *Statutory Bodies Financial Arrangement Regulation 2007* provides that Council may pursue Category 1 investments only.

## 2. Scope

This policy applies to the investment of all cash holdings of Burke Shire Council.

## 3. Date of Policy

Insert date applies apply from

## 4. Definitions

To assist in interpretation the following definitions shall apply:

<b>Category 1 Investment Power</b>	has the meaning attributed in section 44 of the <i>Statutory Bodies Financial Arrangement Act 1982</i> .
<b>Authorised Investments</b>	shall mean Authorised investments are as permitted under the SBFA Act 1982, and in accordance with the Category 1 Investment Powers applicable to Burke Shire Council under the SBAF Regulation 2007.
<b>QIC</b>	shall mean Queensland Investment Corporation.
<b>QTC</b>	shall mean Queensland Treasury Corporation.
<b>Prescribed Investment arrangements</b>	shall mean investments listed at schedule 6 of the SBFA Regulation 2007.

<b>S&amp;P</b>	shall mean Standard and Poor's, a company that performs financial research and analysis on stocks and debt instruments.
<b>Surplus Cash balances</b>	shall mean Council's cash holdings available for investment at any one time after consideration of the amount and timing of Council's cash flow needs.

## 5. Policy Provisions

### Investment Risk Philosophy

Council maintains a conservative and risk adverse investment philosophy for its surplus cash investments. As the custodian of public monies Council chooses to secure its capital base but take the opportunity to produce revenue from cash assets as far as possible within established risk adverse constraints.

### Objectives

- Burke Shire 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.
- To derive interest from Council funds not immediately required for financial commitments;
- To maximise earnings from investments while operating within the risk parameters established for Category 1 investments (section 8 Statutory Bodies Financial Arrangement Regulation 2007).
- To preserve capital.

### Prudent Person Standard

Officers responsible for investing local government funds must act with a duty of care, skill, prudence and diligence that a prudent person would exercise when investing and managing their own funds. Conflict of interest must be recorded and disclosed to the Chief Executive Officer.

### Terms of Investments

Under section 44(2b) of the *Statutory Bodies Financial Arrangement Act 1982*, the term to maturity of Council's investments must not exceed 1 year.

### Range of Investments

When investing funds Council staff should aim to minimise the risk to the financial instruments. As such the authorised investments must be from one of the following:

1. Interest bearing deposits with a licensed bank;
2. Investment arrangements accepted, guaranteed or issued by or for the Commonwealth or a state or a financial institution;
3. Other investment arrangements secured by investment arrangements accepted, guaranteed or issued by or for the Commonwealth or a State or a financial institution;
4. Investment Deposits managed or offered by QIC or QTC;
5. Deposits with a licensed credit union or building society Pursuant to section 44(2) of the *Statutory Bodies Financial Arrangement Act 1982*, the investment must be (a) at call; or (b) for a fixed time of not more than 1 year;

6. An investment arrangement with a rating prescribed under a regulation of the SBFA Act 1982.
7. Other investment arrangements prescribed under a regulation of the SBAF Act 1982.

All investments must be denominated in Australia Dollars and undertaken in Australia; or

The QIC Cash fund, QTC Capital Guaranteed Cash Fund, QTC Debt Offset Facility, QTC Fixed Rate Deposit (up to 12 months) and the QTC Working Capital Facility are prescribed investment arrangements. Standard and Poors (Australia) PTY LTD ratings of A-1+, A-1, AAm or AAAM are prescribed ratings.

Priority order of investment activities shall be as follows:

- the 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.

- 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.

- Return on Investment.

The portfolio is expected to achieve a market average rate of return and take into account Burke Shire Council's risk tolerance and current interest rates, budget considerations and the economic cycle. Any additional return target set by Council will also consider the risk limitations, prudent investment principles and cash flow characteristics identified within this Investment Policy.

### **Credit Risk**

Burke Shire 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 Federal Government has guaranteed the first \$250,000 of deposits with authorised deposit-taking institutions.

### **Interest Rate Risk**

Officers responsible for Council's investment 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.

### **Placement of Investment Funds**

The two (2) areas of funds placement available to Council are as follows:

- Direct Council Investment

Not less than three (3) quotations shall be sought from authorised deposit-taking institutions whenever an investment is proposed. The best quote on the day will be successful after allowing for administrative and banking costs, as well as having regard to the limits set below. A listing with at least three (3) comparable investment vehicles, shall qualify as quotes.

- Investments held with the QTC cash fund will be benchmarked against other investments or quoted investment rates at the end of each calendar year to ensure Council is receiving the most advantageous rate given the risk/return trade-off.

The term to maturity of any Council direct investments may range from a call to one year.

### Diversification/Credit Risk

When placing investments, consideration will be given to the relationship between credit rating and interest rate. The amount invested with financial institutions, excluding QTC, will be spread so as to minimise risk.

### Organisational Diversification

To further diversify risk and in conjunction with the government guarantee for deposits with ADIs, no more than \$600,000 is to be held for a fixed term with the purpose of earning interest with one financial or non-financial institution other than Queensland Treasury Corporation (QTC) or Queensland Investment Corporation (QIC).

### Benchmarking

When deciding whether to make an investment, Council will give consideration to whether the interest rate offered represents fair compensation (fair value) for the level of credit risk involved. The appropriate benchmark rate would be that of Queensland Treasury Corporation.

The Bank Bill Swap Rate (BBSW) is provided each business day via QTC's website. All term deposits/bank bill investments will be benchmarked to ensure they meet the BBSW as a minimum. This might require seeking further investment quotations on the day of the investment to ensure the benchmark is achieved where possible.

Standard Investment Performance Benchmarks to consider are as follows:

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

### Reporting

Council will be provided with a monthly report detailing the investments held by institution, term of investment, interest rate and credit ratings. This will be incorporated into the monthly finance report to council.

### Internal Controls

The Finance and Technology Manager shall establish internal controls and process that will ensure investment objectives are met and that the investment portfolios are protected from loss, theft and fraudulent use of public monies. The following controls detail the minimum that is required:

- The Finance and Technology Manager is to be identified as the responsible officer for the investment function;
- All investments require authorisation from the Finance and Technology Manager;
- Investment confirmation advices from the Financial Institution are to be obtained;

- A person, other than the responsible officer, is to perform the bank reconciliation at the end of the month.

The established processes will include monthly and quarterly reporting (including compliance reporting), as well as an annual review of the Investment Policy. The internal controls will address the following:

- Control of collusion
- Separate the transaction authority from accounting and record keeping
- Safekeeping
- Avoid physical delivery of securities
- Clearly delegate authority to officers responsible for investments
- Confirmation requirements for settlement of securities
- Compliance and oversight of investment parameters and
- Reporting of breaches

The Chief Executive Officer, or delegate, has been authorised to invest Burke Shire Council's operating funds in investments consistent with this Investment Policy and legislation.

The Chief Executive Officer, or delegate, will report to Council monthly and quarterly on the compliance and performance of the investments with appropriate benchmarking information.

### **Prohibited Investments**

This Investment Policy prohibits any investment carried out for speculative purposes. 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;
- Standalone securities issued that have underlying futures, options, forward contracts and swaps of any kind ;
- Securities issued in non-Australian dollars;
- Cryptocurrencies or similar blockchain investments; and/or
- NFT's (Non-fungible Tokens) or similar investments.

### **Maturity**

The maturity structure of the portfolio will reflect a maximum term to maturity of one year.

### **Approved lists**

The Finance and Technology Manager shall prepare and maintain the following approved counterparty lists for the investment of funds:

- Approved banks;
- Approved commercial paper and medium term note issuers;
- Approved brokers/dealer and direct issuers for purchase or sale of security with a minimum credit rating of A+; and
- Approved credit unions.



## Breaches

Any breach of this Investment Policy is to be reported to the Chief Executive Officer immediately the breach is identified; is to be rectified as soon as practicable but left no longer than (7) days of the breach occurring, and be reported to the next meeting of Council.

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 twenty eight (28) days after the change becomes known to Council, either obtain Treasurer approval for continuing with the investment arrangement or sell the investment arrangement.

## Safekeeping and custody

Each transaction will require written confirmation by the broker/dealer/bank. Burke Shire Council will hold security documents, or alternatively a third-party custodian authorised by the Chief Executive Officer and evidenced by safekeeping receipts may hold security documents.

## Ethics and Conflicts of Interest

Officers responsible for Council's investments must act in a prudent manner when managing the overall Council portfolio. Investments will be managed with care, diligence and skill that a prudent person would exercise in managing the affairs of other persons.

Investment officers/employees shall refrain from personal activities that would conflict with the proper execution, monitoring and management of Burke Shire Council's investment portfolio. This policy requires that employees and investment officials disclose to the Chief Executive Officer any conflict of interest or any investment positions that could be related to the investment portfolio and, in the event of such a conflict occurring, shall absent themselves from any dealings with respect to any investment or proposed investment which gives rise to the conflict of interest.

## Delegation of Authority

Authority for implementation of the Investment Policy is to be delegated by Council to the Chief Executive Officer.

Authority for the day-to-day management of Council's Investment portfolio may be delegated by the Chief Executive Officer to the relevant Council Officer via an appropriate delegation instrument and shall be subject to regular reviews by the Chief Executive Officer.

## 6. Review

The *Local Government Act 2009* and the *Local Government Regulation 2012* require Council to prepare a new Investment Policy for each financial year.

## 7. Key Responsibilities

Position	Responsibility
Mayor	To lead councillors in their understanding of, and compliance with, this policy.
Councillors	To understand and comply, where relevant, with this policy.

CEO	To lead staff (either directly or through delegated authority) in their understanding of, and compliance with, this policy.
Directors	To communicate, implement and comply with this policy.
Managers and Supervisors	To implement this policy and related procedures.
All Council staff	To comply with this policy and consider its implications for related projects and programs.

## 8. Related Documents

Legislation/Regulations	Awards	BSC Policies	Procedures
Section 104(5) of the <i>Local Government Act 2009</i>  Section 191 (1) of the <i>Local Government Regulation 2012</i>			