

5.3. INVESTMENT GENERAL POLICY

REPORT AUTHOR Tara Killeen, Chief Financial Officer

MANAGER Rachel Brophy, Chief Executive Officer

DEPARTMENT Finance and Corporate Services

RECOMMENDATION

That Council adopt the Investment General Policy.

EXECUTIVE SUMMARY

In accordance with the *Local Government Regulation 2012*, s 191, Council is required to prepare and adopt an investment policy. The *Local Government Act 2009*, s 104(6), requires that Council regularly review and update the Investment General Policy as necessary.

The Investment General Policy establishes the Council's guidelines regarding the investment of cash holdings with a view to maximising earnings, whilst minimising risk. Consideration should be given to the market risk and liquidity risk when preparing the investment policy.

An investment policy should obligate the officers responsible for investing Council funds to act with a duty of care, skill, prudence and diligence that a prudent person would exercise when investing and managing the affairs of other persons.

An investment policy should obligate the officers and management involved with the investment process to refrain from personal business activity that could interfere with the investment process or impair their ability to make impartial investment decisions.

The Investment General Policy should be regularly reviewed and updated to reassess the risk associated with changes in the market and within Council.

The Investment General Policy was last adopted in March 2022. A detailed review was conducted in 2021, in accordance with the Department of Infrastructure, Local Government and Planning investment policy guidelines for local government. There have been no changes to the Investment General Policy, other than administrative changes such as date changes. The Investment General Policy was workshopped with Councillors on 14 March 2023.

PROPOSAL

That Council adopt the Investment General Policy

FINANCIAL/RESOURCE IMPLICATIONS

There are no budgetary implications identified from the review of the Investment General Policy.

RISK MANAGEMENT IMPLICATIONS

In accordance with the *Local Government Regulation 2012*, s 191, Council is required to prepare and adopt an investment policy. The *Local Government Act 2009*, s 104(6), requires that Council regularly review and update the Investment General Policy as necessary. Complying with legislative requirements ensures Council mitigates any regulatory or reputational risk. Not adopting the reviewed Investment General Policy would not be in keeping with best practice of regular reviews as stipulated by *Local Government Act 2009* s104(6) and would not be in line with the review date in the current adopted policy schedule.

SUSTAINABILITY IMPLICATIONS

Economic: The Investment General Policy is reviewed to ensure it appropriately supports the economic sustainability of Council as well as maintaining legislative compliance.

Environmental: Nil

Social: Nil

CORPORATE/OPERATIONAL PLAN, POLICY REFERENCE

This report has been prepared in accordance with the following:

Corporate Plan 2019-2024 Initiatives:

Theme 5 - Robust Governance and Efficient Service Delivery

Strong governance and financial management are the foundations of the way in which Council will conduct its business and implement the initiatives of the Corporate Plan.

Goal 1 - *We will conduct Council business in an open and transparent manner with strong oversight and open reporting.*

Goal 3 - *We will make sound financial decisions by ensuring robust strategic planning, financial management and reporting.*

Operational Plan 2022-2023 Actions:

Legislative requirement.

COUNCIL'S ROLE

Council can play a number of different roles in certain circumstances and it is important to be clear about which role is appropriate for a specific purpose or circumstance. The implementation of actions will be a collective effort and Council's involvement will vary from information only through to full responsibility for delivery.

The following areas outline where Council has a clear responsibility to act:

Regulator Council has a number of statutory obligations detailed in numerous regulations and legislative Acts. Council also makes local laws to ensure that the Shire is well governed. In fulfilling its role as regulator, Council will utilise an outcomes-based approach that balances the needs of the community with social and natural justice.

CONSULTATION

Internal: Finance and Corporate Services Team, workshopped with Councillors on 14 March 2023.

External: Nil

COMMUNITY ENGAGEMENT

Nil

ATTACHMENTS

1. Investment General Policy (1) [5.3.1 - 5 pages]

2. INVESTMENT GENERAL POLICY

Purpose

To outline Douglas Shire Council's investment policy and guidelines regarding the investment of cash holdings with an objective of maximising earnings within approved risk guidelines and to ensure the security of Council funds.

Douglas Shire Council has been granted authority to exercise Category 1 investment power under Part 6 of the *Statutory Bodies Financial Arrangement Act 1982* (SBFA Act).

Section 191 of the *Local Government Regulation 2012* states that a local government must prepare and adopt an investment policy which outlines:

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

The activities of the investment officers or fund managers 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 Douglas Shire Council. For the purpose of this policy, investments are defined as arrangements that are undertaken for the purpose of producing income.

Policy Content

Provisions

Authority for Investment

All investments are to be made in accordance with the requirements of the *Statutory Bodies Financial Arrangements Act 1982*, the *Statutory Bodies Financial Arrangements Regulation 2019*, the *Local Government Act 2009* and the *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 Council. They will consider the safety of capital and income objectives when making an investment decision.

Ethics and conflicts of interest

Investment officers 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 as outlined in Council's Code of Conduct. This policy requires that investment officers disclose any conflict of interest 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 section 257(1)(b) 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.

Investment Parameters/Objectives

Investable funds

For the purposes of this policy, investable funds are Council's cash holdings (surplus funds) 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.

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

Authorised investments

Council is allocated Category 1 Investment Powers under part 6 of the *Statutory Bodies Financial Arrangement Act 1982* and *Statutory Bodies Financial Arrangement Regulation 2007*. 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.

Portfolio investment parameters

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

Quotations on Investments

At least two quotations shall be obtained from different authorised institutions when an investment is proposed (excluding at call funds).

In assessing the fair value of quotes obtained, the risk of the entity providing the return must be considered.

Term to Maturity

The term to maturity of any of Council's direct investments may range from at call to 1 year and will be dependent upon Council's future cash flow requirements, credit risk guidelines and the prevailing outlook regarding interest rates.

Preservation of Capital

When seeking to ensure security of principal of the overall portfolio, both credit risk and interest rate risk shall be evaluated and assessed. Credit risk is the risk of loss due to failure of an investment issuer or insurer. Interest rate risk is the risk of a change in market value due to a change in interest rates.

Liquidity

Council will manage its day-to-day liquidity needs through maintaining an appropriate cash balance in its transactional banking account and at call investment account for its day-to-day operating transaction requirements.

In addition to the balances held in its bank account and at call investment account, 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 any need to liquidate an investment.

Return on investments

The investment portfolio is expected return on investments to achieve a market average rate of return, taking into account Council’s risk tolerance, 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 the Policy.

Council should ensure it achieves value for money or a competitive price after considering the costs of the investment.

Diversification/Credit risk

The amount invested with any one financial institution should be in accordance with the guidelines in Table 1.

TABLE 1 Diversification / Credit Risk Guidelines

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

Banking Institution	Minimum % of Total Investments	Maximum % of Total Investments	Maximum Term (for fixed term investments only)
QTC Cash Fund	0%	100%	1 year
Commonwealth Bank	0%	100%	1 year
Westpac	0%	100%	1 year
National Bank	0%	100%	1 year
ANZ	0%	100%	1 year
Other Australian banks with a physical presence in the Council area	0%	40%	180 days

Reporting and Performance Monitoring

The Chief Financial Officer will report on the performance of investments against budget via the monthly Financial Report to Council.

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 Chief Financial Officer may hold security documents.

Internal Controls

The CFO shall establish internal controls and processes that will ensure investment objectives are met, and that the investment portfolio is protected from loss, theft or misuse. The internal controls will address:

- collusion;
- separation of transaction authority from accounting and record keeping;
- safekeeping of records;
- avoidance of physical delivery of securities;
- clear delegation of authority to investment officers;
- confirmation requirements for the settlement of securities;
- compliance and oversight of investment parameters; and
- reporting breaches of this Policy.

Breaches

Any breach of this Policy is to be reported to the Chief Executive Officer and Chief Financial Officer, who will rectify the breach and report the breach to Council at the next meeting.

Related Legislation

Local Government Act 2009

Local Government Regulation 2012: Chapter 5 Financial Planning and Accountability, Part 4 Financial Policies, s 191

Statutory Bodies Financial Arrangements Act 1982

Statutory Bodies Financial Arrangements Regulation 2019

Policy Review

This policy is to be reviewed whenever legislation changes, or annually if no changes have been required to be enacted, at the direction of the Chief Executive Officer.

Policy Details

Policy Name	Investment General Policy
Policy Number	2
Policy Version	8
Document Number	810437
Endorsed by	Chief Executive Officer

Policy Type	Statutory
Approval Authority	Council
Date Adopted	28/03/2023
Time Period	Annually
Review Date	01/03/2024
Policy Department	Finance and Corporate Services
Link to Corporate Plan	Robust Governance and Efficient Service Delivery
Revoked/Superseded	

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