

## 2. INVESTMENT GENERAL POLICY

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### 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

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