

## Investment Policy

### Head of Power

*Local Government Act 2009*

### Related Legislation

Local Government Regulation 2012

*Statutory Bodies Financial Arrangements Act 1982*

Statutory Bodies Financial Arrangements Regulation 2007

### Objective

To provide Council with an investment framework aimed at maximising the return on funds invested within approved risk guidelines and to ensure the security of funds. To ensure capital preservation of the investment portfolio and maintain sufficient liquidity to meet all reasonably anticipated cash flow requirements.

### Definitions

Unless otherwise indicated, all terms used in this Policy are to have the meanings outlined in the *Local Government Act 2009*, the Local Government Regulation 2012, the *Statutory Bodies Financial Arrangements Act 1982*, and the Statutory Bodies Financial Arrangements Regulation 2007.

**CEO** means Council's Chief Executive Officer.

**Instruments of a non-cash nature** include, but are not limited to, shares, managed funds, Collateralised Debt Obligations (CDOs), debentures and derivative based instruments.

**Law** includes Council policies and local laws.

### Application

This Policy applies to the investment of all surplus funds held by Council and undertaken in accordance with the *Statutory Bodies Financial Arrangements Act 1982*.

### Policy Statement

It is Council's policy to use its investment powers under the *Statutory Bodies Financial Arrangements Act 1982*, (SBFAA) and the Statutory Bodies Financial Arrangements Regulation 2007, (SBFAR), to earn interest revenue on its surplus funds as a supplement to its other sources of revenue.

### **Council's investment powers**

Under the SBFAA and the SBFAR, Council is allocated a Category 2 investment power and is obligated to hold a low risk portfolio.

Under section 40 of the *Local Government Act 2009*, Council also has power to conduct a beneficial enterprise, which may involve investing funds in the enterprise, subject to the limitations specified in that Act.

The type and term of investments to be made under this policy are to be in accordance with the SBFAA and the *Local Government Act 2009*. With a few exceptions, (such as investments in Queensland Treasury Corporation (QTC) and Queensland Investment Corporation (QIC) managed funds where the risk is deemed commensurate with fixed interest returns), investing in any instruments of non-cash nature is prohibited.

The types of investments and terms which may be made under this policy are therefore limited to:

- Traditional cash term deposits with institutions holding a Standard & Poors' short term rating better than A-2. Terms are generally between 90 days and 365 days. Terms greater than 365 days are permissible under this policy however the current practice is to limit terms to no greater than 365 days.
- Deposits with QTC including: Capital Guaranteed Cash Fund, QTC Debt Offset Facility, QTC Fixed Rate Deposit and QTC Working Capital Facility. These are funds held at call.
- Government Stock or Government Securities guaranteed by the Commonwealth. Terms would be no greater than 3 years.
- Deposits with the QIC.
- Beneficial enterprises in accordance with the *Local Government Act 2009*. Terms for such investments would need to be established once the beneficial enterprise is known.

### Investment Grading

For this policy, Council's investments are categorised as either long or short term with the appropriate rating categories determined according to the investment grading used by Standard and Poor's Rating Agency (website [http://www.standardandpoors.com/aboutcreditratings/RatingsManual\\_PrintGuide.html](http://www.standardandpoors.com/aboutcreditratings/RatingsManual_PrintGuide.html)). Table 1 below summarises the correlation between rating category, investment quality and credit worthiness used in the Standard and Poor's' methodology.

Table 1

Standard & Poors' Investment Grading			
Long Term Rating	Short Term Rating	Investment Quality	Credit worthiness
AAA	A-1+	Prime	Credit Risk almost non-existent
AA+		High Grade	Safe investment – low risk of failure
AA			
AA-			
A+	A-1	Upper Medium Grade	Safe investment, unless unforeseen events should occur in the economy at large or in that particular field of business
A			
A			
A-	A-2	Lower Medium Grade	Medium safe investment. Occurs often when economy has deteriorated. Problems may arise
BBB+			
BBB			

### Investment Portfolio Mix

In accordance with the above investment grading methodology, Council funds are to be invested in line with the portfolio mix outlined in Table 2 below.

Table 2

Type of investment	Long Term Rating	Short Term Rating	Maximum % Investment in any one Institution	Minimum % of Total Allowable Investments	Maximum % of Total Allowable Investments
Cash	QTC AA+	Capital Guaranteed	100%	10%	100%
Cash	AAA to AA-	A-1+	50%	0%	85%
Cash	A+ to A	A-1	25%	0%	50%
Cash	A to BBB	A-2	15%	0%	15%
Cash (QIC)	N/A	N/A	50%	0%	50%
Unitywater #	BBB+	N/A	Amounts set by resolution	Amounts set by resolution	Amounts set by resolution

Type of investment	Long Term Rating	Short Term Rating	Maximum % Investment in any one Institution	Minimum % of Total Allowable Investments	Maximum % of Total Allowable Investments
Other Business Enterprises	N/A	N/A	Amounts set by resolution	Amounts set by resolution	Amounts set by resolution

# Unitywater's long-term rating is assessed by QTC not Standard and Poor's

Table 2 indicates the maximum percentage of funds that may be invested under each rating category and the maximum or minimum (if applicable) percentage of funds that may be invested with each individual institution.

At a minimum Council will hold 10% of its funds in the form of cash which can be called on at no cost within 0 to 7 days. The remaining 90% of funds will be held in cash term deposits with varying fixed term periods in accordance with the category 2 investment powers granted under the SBFAA.

The investment that Council has in the Northern SEQ Distributor-Retailer Authority, (Unitywater), is determined according to the regulated asset base (RAB) as at 30 June 2010. The investment will be in the form of equity and debt in Unitywater. QTC assess the long-term rating of Unitywater using the Standard and Poor's scale however no short-term rating is applied.

#### **Management and Review of Portfolio**

In accordance with the SBFAA, where any funds/securities held are downgraded such that they no longer fall within Council's adopted investment strategy framework, they are to be divested within 28 days or, where compliance with that timetable is either impractical or financially unviable, they are to be divested as soon as is reasonably practicable.

The portfolio is expected to achieve a market average rate of return and take into account risk tolerance, current interest rates, budget considerations and the economic cycle.

The Financial and Project Services Department is responsible for managing the investment function of Council with due care, diligence and skill and is to establish and maintain appropriate systems and controls aimed at ensuring that Council's investments continue to fall within the ranges outlined in table 2 and are being appropriately managed.

Employees must refrain from personal activities that may conflict with the proper execution and management of the investment portfolio. Employees must disclose to the CEO any conflicts of interest that may arise in accordance with Council Policy 2150-011 Conflict of Interest.

The approval of investment decisions is to be in accordance with delegation levels approved by the CEO.

The Financial and Project Services Department is to undertake regular reviews (at least annually) of Council's investment portfolio with the express aim of optimising its interest earnings against risk exposure.

The Financial and Project Services Department must report to Council quarterly on the performance of the investment portfolio.

#### **Related Documents**

This Policy complements and is to be implemented in conjunction with other Council policies and directives including but not limited to:

Council Policy 2150-011 - Conflict of Interest.

## Review and evaluation

This policy will be reviewed for applicability, effectiveness, and consistency with relevant legislation, Council resolutions, and other Council documents. Reviews of this policy will occur as required, or at least once every four years.

## Responsibility

This Policy is to be:

- (1) implemented by the Accounting Services Manager; and
- (2) reviewed and amended in accordance with the "Review Triggers" by the Director Finance & Corporate Services.

<b>Policy: 2150-007</b>		<b>Official Version: A8495862</b>	
<b>Investment Policy</b>			
<b>Document Control</b>			
<b>Version / Reviewed</b>	<b>Version Adoption (Council meeting / Minute Page) Reviewed (revision comment)</b>	<b>Date</b>	<b>Word version reference</b>
Version 1	Coordination Committee (10/2181)	7.9.2010	A3598270
Version 2	Coordination Committee (11/800)	3.5.2011	A3311422
Version 3	Coordination Committee (13/1759)	24.9.2013	Version of A8495862
Version 4	Coordination Committee (13/2863)	17.12.2013	A8785121
Version 5	Coordination Committee (14/2417)	16.12.2014	A10258320
Reviewed	May 2015 - no amendment required	May 2015	A11950149
Reviewed	February 2016 - no amendment required	February 2016	Register noted
Version 6	Coordination Committee (18/837)	26.4.2018	A16352349
Version 7	Administrative amendments only: <i>'formatting, review date and position titles'</i> <i>Approved by Director Finance &amp; Corporate Services</i>	2.10.2020	A20889831