

# Investment Policy

Statutory

Council

Administrative

<b>Policy Owner:</b>	Director - Organisational Services
<b>Effective Date:</b>	19 June 2023
<b>Strategic Alignment:</b>	Section 191 of the <i>Local Government Regulation 2012</i> .

## 1. Purpose

The purpose of this policy is to outline Council's investment objectives and overall financial risk philosophy, and how those objectives will be achieved.

## 2. Scope

This policy applies to the investment of all surplus funds held by Council, and to investments in the equity shares of and loans to third party entities. This policy does not apply to funds held on trust for third parties where those funds are subject to specific conditions.

This policy applies to all councillors, employees and contractors working for Council regardless of whether they are permanent, temporary, full-time, part-time or casual. For the purposes of this policy, the term contractor includes on-hired temporary labour services (agency staff) and sub-contractors.

## 3. Policy Statement

Logan City Council is committed to ensuring that there are investment criteria in place which reduce the risk of loss of capital, provide a beneficial return, are in the public interest and support Council's overall liquidity requirements.

## 4. Principles

### 4.1 Statutory Application

All investments shall be in accordance with the investments powers and limitations imposed by the *Statutory Bodies Financial Arrangement Act 1982* (SBFA Act), the *Statutory Bodies Financial Arrangements Regulation 2019* (SBFA Regulation) and the *Local Government Act 2009* (LG Act).

The Queensland Treasurer may from time to time constrain the investing activities of local governments by limitation, caveat, restriction or other relevant regulation. When this occurs, this policy will be reviewed to reflect those changes.

### 4.2 Ethics and conflicts of interest

The following principles are to be adhered to when managing Council investments:

- (a) Investments will be managed with the care, diligence and skill that a prudent person would exercise in managing the affairs of other persons.
- (b) Investment officers will consider the security of capital and Council income and liquidity objectives when making an investment decision

- (c) Investment officers will disclose to the Chief Executive Officer (CEO), any conflict of interest or holding of investment positions that could be related to the investment portfolio.

### **4.3 Investment Objectives**

Investments shall be undertaken in a manner that:

- (a) Preserves Council equity
  - (i) Investments are to be undertaken in a manner that seeks to ensure security of principal of the overall portfolio. This includes managing credit risk and market (interest rate) risk within given risk management parameters and avoiding any transactions that would prejudice Council's position.
  - (ii) Investments in which there is not a capital guarantee must be considered in the overall investment strategy with a view to maintain overall security of the portfolio.
- (b) Manages credit risk
  - (i) Council will evaluate and assess credit risk prior to undertaking an investment or derivative transaction. Investments will be limited to those financial institutions that meet the minimum credit ratings provided by section 10 of the SBFA Regulation.
  - (ii) Investments will be sufficiently diversified to reduce credit risk from individual entities. Investment officers will ensure that no more than 40% of the amount of Council's investments are held with one financial institution for investments outside the Queensland Treasury Corporation (QTC) or the Queensland Investment Corporation (QIC).
- (c) Manages market risk
  - (i) Investment officers will consider the cash flow requirements of Council prior to undertaking investments
  - (ii) There is to be sufficient cash held in on-call investments to meet short and medium-term cash imposts as recorded in Council's budget and long-term financial plan cash flow statements. Pursuant to section 31 of the SBFA Act, Council may maintain a deposit and withdrawal account with a nominated financial institution for its day-to-day operating transaction requirements.
  - (iii) In addition to the balances held in its bank 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 sell an investment.
- (d) Maximises return on investment:
  - (i) Investment officers will ensure that Council achieves value for money or a competitive price after considering the costs of an investment
  - (ii) For performance purposes, the investment portfolio will be benchmarked against the Australia Bank Bill index over a rolling one-year period. The benchmark target is set to be equal to or above the index.

- (iii) Council will not invest in term deposit investments where the annual rate of return is not at least fifty basis points (0.5%) over the return on the QTC Capital Guaranteed Cash Fund.

#### **4.4 Authorised investments**

- (a) All investments should be in accordance with the powers and limitations imposed by Part 6 of the SBFA Act for local governments with Category 2 investment powers, and the Local Government Act 2009.
- (b) The following investments are prohibited:
  - (i) securitised debt instruments
  - (ii) structured products
  - (iii) principal only investments or securities that provide potentially nil or negative cash flow
  - (iv) stand-alone securities that have underlying futures, options, forward contracts and swaps of any kind
  - (v) securities issued in non-Australian dollars.
- (c) Liquidity requirement:
  - (i) Given the nature of the funds invested, a maximum of 20% of the investment portfolio will be held in illiquid securities, and at least 10% of the portfolio will be held in investments that can be called at no cost or that will mature within 7 days.
- (d) New investment products:
  - (i) A new type of investment requires a full risk assessment to be presented for adoption by Council.
- (e) Derivatives:
  - (i) Council may enter into a derivative transaction only if it is prescribed to do so under the SBFA Regulation (schedule 8) and the Treasurer has provided approval in accordance with the SBFA Act.
- (f) Breach:
  - (i) Where Council holds an investment arrangement that is downgraded below the minimum acceptable rating level as prescribed under regulation, Council shall within 28 days after the change becomes known, either obtain the Treasurer's approval for continuing with the investment arrangement, or sell/redeem/withdraw the investment arrangement.
- (g) Safekeeping of records:
  - (i) 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 Director, Organisational Services may hold security documents.

- (ii) The Financial Accounting program will reconcile all investment transactions and balances back to approval documentation and to third party statements and shall report any discrepancies to the Director, Organisational Services.

#### 4.5 Equity investments

The policy requires the following additional steps to be undertaken for equity investments:

- (a) Council shall obtain the Treasurer's approval for a type 1 financial arrangement under section 60A of the SBFA Act or prior to acquiring, consolidating, dealing with, disposing of, holding or issuing bonds, debentures, inscribed stock, shares, stock or other securities of any statutory body or corporation.
- (b) Council shall not enter into an agreement that does not limit the liability of Council, as between the parties to the agreement, to the amount committed by Council under the agreement. To be clear, equity investments shall be limited to investments in either a company limited by guarantee or a company limited by shares.
- (c) Council may only enter into investment arrangements in a corporation limited by shares not listed on the stock exchange or in a corporation limited by guarantee not listed on a stock exchange.
- (d) Prior to investment, Council will:
  - (i) undertake a study of the relevant business (the investee) prospects
  - (ii) consider the investee prospectus to understand the investee company background and financial information, and other data that affect Council's maximum risk requirements
  - (iii) consider the investee's business plan to determine:
    - A. the nature of the business to ensure this is in consistent with Council's Corporate Plan and the expectations of the public
    - B. the investee market analysis and business forecast to determine expected return on investment and access to required cash flows for the investee to operate in a profitable and sustainable manner
    - C. the investee's product offering and how this will impact financial and cash forecasts
    - D. how the investee will market the business and their sales strategy
    - E. the quality of the investee management and the length of time that management has been employed by the investee or in the relevant investee industry.
- (e) Council shall establish an investment agreement that outlines the relationship between the investee company and Council and shall include:
  - (i) Regular reporting requirements - Council shall be provided with at least a quarterly financial report within a reasonable specified timeframe, including key financial statements; in particular a statement of financial performance,

- a statement of financial position, cash flows, and a forecasted financial position over a term to be specified in the agreement
- (ii) annual audited reports of account within a specified timeframe
- (iii) restrictions on future share issues or provisions to maintain Council's shareholding.
- (f) Council shall undertake steps to monitor business performance; including:
  - (i) incorporating investee financial forecasts in Council's financial plan to ensure that predicted financial performance, financial position and cash flows are in accordance with Council expectations and do not detrimentally impact Council's financial results
  - (ii) undertaking quarterly or annual financial assessment and reporting to Council (through the City Governance Committee) including:
    - A. relevant financial ratios; such as a minimum gross profit margin, net profit margin, debtors days, return on investment, working capital, and debt/equity
    - B. relevant non-financial ratios - e.g. staff turnover, sick rate statistics
    - C. a summary of current and forecast financial performance, financial position and cash flows accompanied by detailed commentary
    - D. undertaking an impairment assessment based on the financial information provided.
- (g) For all cash and equity investments
  - (i) If a security is revalued so that its current market value is less than 95% of the amount of the investment, this must be referred to the Director Organisational Services for review monthly until market value improves to greater than the threshold.

#### **4.6 External loans**

- (a) Council shall obtain the Treasurer's approval for a type 2 financial arrangement under section 61A of the SBFA Act prior to lending an amount to any statutory body or corporation.
- (b) Once Treasury approval is obtained; Council shall approve all loan amounts prior to the issuance of the loan.
- (c) The Director, Organisational Services may approve progressive debt draw down amounts within the Council approval.
- (d) Council shall undertake the same initial checks as with a share investment prior to issuing a third party loan. In addition, Council shall:
  - (i) determine any existing loans and the borrower's ability to repay the capital and interest amounts over the period of the loan

- (ii) establish an agreement that is specific to the loan and sets the terms and conditions including monitoring and debt covenants placed on the loan; such as a minimum debt/ EBITDA, interest coverage, and debt/ equity.
- (e) For loans to external corporations; including joint ventures, associates and subsidiaries:
  - (i) all loans shall be undertaken and made on an arm's length basis
  - (ii) the loan agreement shall specify the terms and conditions of the loan including how the interest rate is determined, details of loan security and the term of the loan
  - (iii) the loan request must be supported by audited financial documents supporting the financial position of the borrower and confirming the ability to repay the loan (including current and forecast net asset position; sources of cash, etc.)
  - (iv) the loan request shall provide details and the value of security held for the loan.
- (f) The interest charged on third party loans is to be based on a minimum of Council's QTC fixed or variable borrowing rate for the applicable period plus at least 50 basis points (0.5%).

## **5. Roles and Responsibilities**

- (a) The Finance Manager will implement internal controls and processes to ensure that investment objectives are met and that the investment portfolio is protected from loss, theft or misuse including:
  - (i) a separation of duties to minimise the potential for collusion. In particular the functions relating to investment approval, transaction authorisation, transaction processing, and accounting and reconciling shall be separated.
  - (ii) The Financial Accounting program will ensure that financial institutions, capital investment amounts, returns and terms and conditions are in accordance with approval.
  - (iii) Investment terms are not to be broken to meet cash flow obligations, unless approved by Council resolution.
- (b) The Financial Accounting program will maintain a schedule and reconciliation of the loan to the agreed loan terms and conditions on a monthly basis. Any default on payment or changes to amounts is to be reported to the Director, Organisational Services on occurrence.
- (c) The Director, Organisational Services and the Finance Manager are authorised to invest Council's surplus funds in cash investments that are consistent with this policy and relevant legislation.
- (d) Council (through the City Governance Committee) is not permitted to direct daily cash investment decisions, select fund managers, or become involved in the daily operations of the investment portfolio.

## 6. Reporting

- (a) The Finance Manager will prepare a quarterly evaluation and report of the transactions, concentrations, and performance of the investment portfolio.
- (b) The Finance Manager will provide reports to the Treasurer and Minister who administers the SBFA Act, at the times prescribed when entering into derivative transactions.
- (c) The report is to be provided to Council through the City Governance Committee as soon as possible at the end of the reporting period, and will include:
  - (i) a list of securities held by maturity date/call date
  - (ii) the weighted average yield to maturity
  - (iii) percentage held by investment type
  - (iv) the performance of the investment portfolio relative to the index benchmark.

## 7. Human Rights

Under the Human Rights Act 2019 (Qld), Council must not make a decision without considering and assessing the potential impact to human rights, and giving consideration to any impacts before making a decision. Council does not consider that any human rights are impacted by this policy.

## 8. Definitions

The following definitions apply to this policy.

<b>TERM</b>	<b>DEFINITION</b>
Company limited by guarantee	A company formed on the principle of having the liability of its members limited to the respective amounts that the members undertake to contribute to the property of the company if it's wound up.
Company limited by shares	A company formed on the principle of having the liability of its members limited to the amount (if any) unpaid on the shares respectively held by them.
Credit risk	The risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations.
Derivative	A financial contract that derives its value from an underlying asset, community or index, as defined under the SBFA Act.
Derivative transaction	Transactions entered into for: <ul style="list-style-type: none"><li>(a) managing or varying financial returns or financial or currency risks, including, for example, risks associated with the volatility of currency exchange, interest and discount rates; or</li><li>(b) returning gains, or avoiding losses, by reference to financial or currency obligations or the movement of currency exchange, interest and discount rates or commodity prices.</li></ul> (as defined in the SBFA Act)
Equity investments	Investments in the equity share capital of an approved corporation.

<b>TERM</b>	<b>DEFINITION</b>
Financial institution	A company that provides financial services, for example, a bank, an insurance company, or an investment fund.
Illiquid securities	A security or other asset that cannot easily be sold or exchanged for cash without a substantial loss in value
Market risk	The risk that changes in market prices, such as interest rates, will affect Council's income or the value of its holdings of financial instruments
On-call investments	Where the investment can be redeemed and the monies invested can be retrieved from the financial institution within 24 hours.
Surplus funds	Funds that have been determined through financial modelling and Council's long-term Financial Plan to be surplus to Council's short-term financial requirements.
SCPS	Supply Chain Payment Solution (SCPS)

## 9. Document Control

<b>Version Number</b>	<b>Description of Change</b>	<b>Author / Branch</b>	<b>Effective Date</b>
1.0	Original	Finance	24 March 2021
2.0	Review (budget 2023/2024)	Finance	19 June 2023