

# INVESTMENT POLICY

## STATUTORY POLICY



### 1 Scope

This policy applies to the investment of surplus funds in accordance with category one investment power under Part 6 of the *Statutory Bodies Financial Arrangements Act 1982* and the *Statutory Bodies Financial Arrangements Regulation 2019*.

### 2 Purpose

The purpose of this policy is to provide Council with a contemporary Investment Policy based on an assessment of risk within the legislative framework of the *Statutory Bodies Financial Arrangements Act 1982*. This includes:

- (a) Investing Council funds not immediately required for financial commitments;
- (b) Maximising earnings from authorised investments after assessing counterparty, market and liquidity risks;
- (c) Actively managing the net debt position with core surplus funds; and
- (d) Ensuring appropriate records are kept and adequate internal controls are in place to safeguard public funds.

### 3 Related documents

#### 3.1 Primary

*Local Government Act 2009*

*Local Government Regulation 2012*

#### 3.2 Secondary

*Banking Act 1959 (Cwth)*

*Statutory Bodies Financial Arrangements Act 1982*

*Statutory Bodies Financial Arrangements Regulation 2019*

Conflict of Interest Policy and Procedure

Financial Delegations Policy

Investment Register

### 4 Definitions

To assist in interpretation, the following definitions apply:

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|                       |                                                                                                                                                                        |
|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| CEO                   | Chief Executive Officer, a person who holds an appointment under section 194 of the <i>Local Government Act 2009</i> . This includes a person acting in this position. |
| Council               | Rockhampton Regional Council                                                                                                                                           |
| Employee              | Local government employee:<br>(a) The CEO; or<br>(b) A person holding an appointment under section 196 of the <i>Local Government Act 2009</i> .                       |
| Financial Institution | An authorised deposit-taking institution within the meaning of Section 5 of the <i>Banking Act 1959</i> (Commonwealth).                                                |

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|           |                                                                |
|-----------|----------------------------------------------------------------|
| QTC       | Queensland Treasury Corporation                                |
| SBFAA     | <i>Statutory Bodies Financial Arrangements Act 1982</i>        |
| SBFAR     | <i>Statutory Bodies Financial Arrangements Regulation 2019</i> |
| Treasurer | State Government Treasurer                                     |

## 5 Policy statement

### 5.1 Authority for investment

Investment of Council funds is in accordance with the relevant power of investment under the SBFAA and SBFAR and their subsequent amendments and regulations.

Investment officers manage the investment portfolio not for speculation, but for investment and in accordance with this Investment Policy. Investment officers avoid transactions that might harm confidence in Council.

### 5.2 Ethics and conflicts of interest

Investment officers and employees shall refrain from personal activities that conflict with the proper execution and management of Council's investment portfolio. This includes activities that would impair the investment officers' ability to make impartial decisions.

This policy requires that investment officers and employees disclose to the CEO any conflict of interest, in accordance with the Conflict of Interest Policy and Procedure, that could be related to the investment portfolio.

### 5.3 Investment objectives

Council's overall investment objective is to invest funds at the most advantageous rate of interest available at the time, for that investment type, and in a way that it considers the most appropriate given the circumstances.

In priority, the order of investment activities is preservation of capital, maintenance of liquidity and return on investments.

#### 5.3.1 Preservation of capital

Preservation of capital is the principal objective of the investment portfolio. Investments are performed in a manner to ensure security of principal of the overall portfolio. This includes managing credit and interest rate risk within given risk management parameters and avoiding transactions that would prejudice confidence in Council or its associated entities.

##### 5.3.1.1 Credit risk

Council evaluates and assesses credit risk prior to investment. Credit risk is the risk of loss due to the failure of an investment issuer or guarantor. The investment officer minimises credit risk in the investment portfolio by pre-qualifying all transactions including the brokers/securities dealers they do business with, diversify the investment portfolio and limit transactions to secure investments.

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### 5.3.1.2 Interest rate risk

Investment officers seek to minimise the risk of a change in the market value of the investment portfolio because of a change in interest rates. This is achieved by considering the cash flow requirements of Council and structuring the investment portfolio accordingly. This avoids having to sell securities prior to maturity in the open market. Secondly, interest rate risk can be limited by investing in shorter term securities.

### 5.3.2 Maintenance of liquidity

The investment portfolio maintains 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.

For these purposes, illiquid investments are defined as investments that are not publicly traded in sufficient volume to facilitate, under most market conditions, prompt sale without severe market price affect. Examples include:

- (a) Investment in private placements;
- (b) A security that is not supported or priced by at least two approved brokers/securities dealers;
- (c) Sub investment grade (that is, a lower than rating BBB- (Standard and Poor's or equivalent)), and in most cases, BBB rated investments; and
- (d) Unrated securities.

### 5.3.3 Return on investments

The investment portfolio is expected to achieve a market average rate of return and take into account 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 in this policy.

#### 5.3.3.1 Support of local business

While ensuring appropriate security, liquidity and return on investment, Council will where possible support the development of local businesses through the allocation of investment to locally based financial institutions.

## 5.4 Authorised investments (as per SBFAA)

Section 44(1) of the SBFAA provides Council with the power to invest in authorised investments which include:

- (a) Deposits with a financial institution;
- (b) Investment arrangements accepted, guaranteed or issued by or for the Commonwealth or a State or a financial institution;
- (c) Other investment arrangements secured by investment arrangements accepted, guaranteed or issued by or for the Commonwealth or a State or a financial institution;
- (d) Investment arrangements, managed or offered by Queensland Investment Corporation or QTC, prescribed under a regulation for this paragraph;
- (e) An investment arrangement with a rating prescribed under a regulation for this paragraph; and
- (f) Other investment arrangements prescribed under a regulation for this paragraph.

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## 5.5 Prohibited investments

This policy prohibits any investment carried out for speculative purposes. The following investments are prohibited:

- (a) Derivative type investments (excluding floating rate notes);
- (b) Principal only investments or securities that provide potentially nil or negative cash flow;
- (c) Standalone securities issued that have underlying futures, options, forward contracts and swaps of any kind; and
- (d) Securities issued in currencies other than Australian dollars.

## 5.6 Portfolio investment parameters

The amount invested with institutions or fund managers should not exceed the following percentage ranges of average annual funds invested. When placing investments, consideration is given to the relationship between credit rating and interest rate.

| Long Term Rating<br>(Standard and Poor's) | Short Term Rating<br>(Standard and Poor's) | Individual Counterparty<br>Limit | Total Limit |
|-------------------------------------------|--------------------------------------------|----------------------------------|-------------|
| AAA to AA-                                | A1+                                        | Maximum 30%                      | No limit    |
| A+ to A                                   | A1                                         | Maximum 20%                      | Maximum 50% |
| A- to BBB+                                | A2                                         | Maximum 10%                      | Maximum 30% |
| Unrated or below BBB+                     | Unrated or below A2                        | Maximum 5%                       | Maximum 10% |
| QTC Cash Management<br>Fund               |                                            | No limit                         | No limit    |

### 5.6.1 Maturity

The maturity structure of the portfolio reflects the maximum term to maturity of one year.

### 5.6.2 Liquidity requirement

Given the nature of the funds invested, no more than 20% of the investment portfolio is in illiquid securities and at least 10% of the portfolio can be called at no cost or will mature within a maximum of seven days.

## 5.7 Internal controls

The Manager Finance establishes internal controls and processes to ensure investment objectives are met and investment portfolios are protected from loss, theft or inappropriate use. The established processes include the regular update of the Investment Register, the preparation of a monthly reconciliation report and a quarterly compliance report. As a minimum the internal controls address the following:

- (a) Approved banks;
- (b) Portfolio performance;
- (c) Compliance and oversight of investment parameters;
- (d) Maintenance and safekeeping of investment records, and
- (e) Delegation of control.

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## 5.8 Breaches

Any breach of this policy is reported to the General Manager Organisational Services and rectified within seven days of the breach occurring.

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

## 5.9 Delegation of authority

Authority for implementation of the Investment Policy is delegated by Council to the CEO in accordance with section 257 of the *Local Government Act 2009*.

Authority for the day to day management of Council's Investment Portfolio is sub-delegated in accordance with section 259 of the *Local Government Act 2009* by the CEO to the General Manager Organisational Services, the Manager Finance and the Coordinator Accounting Services.

# 6 Review timelines

This policy is reviewed when any of the following occur:

- (a) As required by legislation;
- (b) The related information is amended or replaced; or
- (c) Other circumstances as determined from time to time by the Council.

# 7 Document management

|                        |                                         |
|------------------------|-----------------------------------------|
| Sponsor                | Chief Executive Officer                 |
| Business Owner         | General Manager Organisational Services |
| Policy Owner           | Manager Finance                         |
| Policy Quality Control | Legal and Governance                    |

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