



Gladstone Regional Council

Council Policy

Title	INVESTMENT
Policy Number	P-2017-17
Responsible Directorate	CHIEF FINANCIAL OFFICER
Responsible Officer	FINANCE AND RISK COORDINATOR
Date of Adoption	06 JUNE 2017
Resolution Number	G/17/3065
Date Review Due	06 JUNE 2020

1.0 PURPOSE:

Under section 191 of the *Local Government Regulation 2012*, Council must prepare and adopt an investment policy. This policy sets out how Council will undertake investments of surplus cash funds based on an assessment of counterparty, market and liquidity risk within the legislative framework of the *Statutory Bodies Financial Arrangements Act 1982* and *Statutory Bodies Financial Arrangements Regulation 2007*.

2.0 SCOPE:

This Policy applies to the investment of surplus cash funds in accordance with Council's investment powers under Part 6 of the *Statutory Bodies Financial Arrangement Act 1982*.

3.0 RELATED LEGISLATION:

- *Local Government Act 2009*;
- *Local Government Regulation 2012*;
- *Statutory Bodies Financial Arrangement Act 1982*; and
- *Statutory Bodies Financial Arrangement Regulation 2007*.

4.0 RELATED DOCUMENTS:

Nil.

5.0 DEFINITIONS:

To assist in interpretation of this policy the following definitions apply:

Chief Executive Officer means the person appointed to the position of chief executive officer under the *Local Government Act 2009* and anyone acting in that position.

Council means the Gladstone Regional Council.

Investment Officer/s means Council employees with delegated authority from the Chief Executive Officer to engage in activities related to the investment of funds (e.g. investment placement and redemption, reconciliations, checking).

6.0 POLICY STATEMENT:

6.1 BACKGROUND

Investment of Council's funds is to be in accordance with Council's power of investment as set out in the following legislative authority:

1. Under section 101 of the *Local Government Act 2009*, a local government is a statutory body for the *Statutory Bodies Financial Arrangements Act 1982*;
2. Schedule 3 of the *Statutory Bodies Financial Arrangements Regulation 2007* allocates a Category 1 investment power to Council;
3. Council is able to invest in accordance with section 44 of the *Statutory Bodies Financial Arrangements Act 1982* and section 8 of the *Statutory Bodies Financial Arrangements Regulation 2007*; and
4. Section 8 of the *Statutory Bodies Financial Arrangements Regulation 2007* prescribes the rating of the allowable investment arrangements applicable to Category 1 investment powers.

6.2 INVESTMENT OBJECTIVES

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

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.

In priority, the order of investment activities shall be preservation of capital, liquidity and return.

6.2.1 *Preservation of Capital*

Preservation of capital shall be the principal objective of the investment portfolio. Investments are to be performed in a manner that seeks to ensure security of principal of the overall portfolio. This would include managing credit and interest

rate risk within given risk management parameters and avoiding any transactions that would prejudice confidence in Council or its associated entities.

a) *Credit Risk*

Council will evaluate and assess credit risk prior to investment. Credit risk is the risk of loss due to the failure of an investment issue or guarantor. Investment Officers will minimise credit risk in the investment portfolio by pre-qualifying all transactions including the brokers/securities dealers with which they do business, diversifying the portfolio and limiting transactions to secure investments.

b) *Interest Rate Risk*

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

6.2.2 *Maintenance of Liquidity*

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 being required to sell an investment.

6.2.3 *Return on Investments*

The 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 within this Investment Policy.

6.3 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.

This policy requires that Investment Officers disclose to the Chief Executive Officer any conflict of interest or any investment positions that could be related to the investment portfolio.

6.4 REQUIREMENTS

In accordance with Schedule 3 of the *Statutory Bodies Financial Arrangements Regulation 2007*, Council has been allocated a Category 1 investment power.

6.4.1 *Portfolio Investment Parameters*

Section 44(1) of the *Statutory Bodies Financial Arrangements Act 1982* details the investment powers allocated to Category 1 authorities:

- deposits with a financial institution;
- investment arrangements accepted, guaranteed or issued by or for the Commonwealth or a State or a financial institution;
- other investment arrangements secured by investment arrangements accepted, guaranteed or issued by or for the Commonwealth or a State or a financial institution;
- investment arrangements, managed or operated by Queensland Investment Corporation (QIC) or Queensland Treasury Corporation (QTC), prescribed under a regulation for this paragraph;
- an investment arrangement with a rating prescribed under a regulation for this paragraph; and
- other investment arrangements prescribed under a regulation for this paragraph.

Section 44(2) of the *Statutory Bodies Financial Arrangements Act 1982* states the investment must be:

- at call; or
- for a fixed time of not more than 1 year.

6.4.2 *Prohibited Investments*

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

- derivative based instruments (excluding floating rate notices);
- principal only investments or securities that provide potentially nil or negative cash flow;
- standalone securities that have the underlying futures, options, forward contracts and sways of any kind; and
- securities issued in non-Australian dollars.

6.4.3 *Placement of Investment Funds*

Council will not exceed the maximum percentage limits of overall annual funds invested with an institution as set out below and Investment Officers will ensure that appropriate documentation is being maintained to monitor and record the percentages held at any time.

Council will maximise its support to community banks within the region by maintaining an investment to be apportioned evenly between those community banks up to the maximum counterparty limit applicable for the institution, where Council has the ability to invest funds and a competitive interest rate is offered by the institution.

Long Term Rating (Standard & Poors)	Short Term Rating (Standard & Poors)	Individual Counterparty Limit	Total Portfolio Limit
AAA to AA-	A1+	Maximum 30%	No limit
A+ to A-	A1	Maximum \$5m	Maximum 50%
Below A- including unrated	A2	Maximum \$2m	Maximum 25%
QTC Cash Management Fund		No Limit	No Limit

Table 1: Investments with Financial Institutions and Investment Arrangements offered by QTC

Council will maintain a current list of short term paper ratings for each financial institution with the ratings to be updated on a minimum six monthly basis.

Except for investments with the Queensland Treasury Corporation (QTC), not less than three quotations shall be obtained from different authorised institutions when an investment is proposed.

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

6.4.4 *Maturity*

The maturity structure of the portfolio will reflect a maximum term to maturity of one year.

6.4.5 *Liquidity Requirement*

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

6.5 IMPLEMENTATION

6.5.1 *Internal Controls*

The Chief Executive Officer shall establish internal controls and processes that will ensure investment objectives are met and that the investment portfolios are protected from loss, theft or inappropriate use.

The Chief Executive Officer shall issue a letter to any approved counterparty advising that funds transferred from investments to Council must only be deposited into Council's General Account or Trust Account. This instruction cannot be varied unless a request is made in writing signed in accordance with Council's account signing authority.

6.5.2 *Breaches*

Any breach of this Investment Policy is to be reported to Chief Executive Officer 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 the *Statutory Bodies Financial Arrangements Regulation 2007* for the investment arrangement, Council shall, within twenty-eight days after the change becomes known to Council, either obtain approval from the State Government Treasurer for continuing with the investment arrangement or sell the investment arrangement.

7.0 ATTACHMENTS:

Nil.

8.0 REVIEW TRIGGER:

This policy will be reviewed when any of the following occur:

1. The related legislation/documents are amended or replaced;
2. Other circumstances as determined from time to time by a resolution of Council;
3. Periodic Review - 3 years from date of adoption.

TABLE OF AMENDMENTS		
Originally Adopted	16/2/2010	10/47
Amendment 1	21/02/2012	G/5.5.8
Amendment 2	18/02/2014	G/14/1904
Amendment 3	21/06/2016	G/16/2824 (FCGC/16/0023 - 13/06/2016)
Amendment 4	06/06/2017	G/17/3065

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