

	<b>COUNCIL POLICY</b>	
	Investment Council Policy	
	Policy Number	CP027
	Directorate	Organisational Services
	Owner	Executive Manager Financial Services
	Last Approved	19/06/2024
	Review Due	Budget - 2025/26

## 1. PURPOSE

This Policy is to outline Fraser Coast Regional Council’s Investment Policy and guidelines regarding the investment of surplus funds, with the objective to maximise earnings within approved risk guidelines and to ensure the security of funds.

The activities of the Executive Manager Financial Services in relation to management of Fraser Coast Regional Council’s funds will be measured against the standards in this policy and its objectives.

## 2. SCOPE

This Policy applies to the investment of all surplus funds held by Fraser Coast Regional Council. Investments are defined as arrangements that are undertaken or acquired for producing income and apply only to the cash investments of Fraser Coast Regional Council.

## 3. HEAD OF POWER

*Local Government Act 2009*

*Local Government Regulation 2012*

*Statutory Bodies Financial Arrangements Act 1982*

*Statutory Bodies Financial Arrangements Regulation 2019*

## 4. DEFINITIONS

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

A Standard & Poor’s issuer credit rating is a current opinion of the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations, or a specific financial program.

Issuer credit ratings can be either long term or short term. Short term ratings are generally assigned to those obligations considered short term in the relevant market for example obligations with an original maturity of no more than 365 days.

Rating	Definition
A1+	This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.
A1	The obligor's capacity to meet its financial commitment on the obligation is strong.
A2	Somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.
A3	A short term obligation rated A3 exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

The term "Financial Institution" referred to in this policy is an "authorised deposit taking institution" as defined by the *Banking Act 1959 (Cwlth)* s 5 that has the authority to carry on banking business in Australia.

The term "Investment Officers" refers to Council employees who work as part of the Financial Operations accounting team including but not limited to the Senior Management Accountant or Assistant Accountant, or those required to assist in investment activities as authorised by Manager Financial Operations.

## 5. POLICY STATEMENT

### 5.1. PREAMBLE

Fraser Coast Regional Council has been granted authority to exercise Category 1 investment power under the Statutory Bodies Financial Arrangements Act 1982 pt 6.

The Treasurer may from time to time constrain the investing activities of local government by limitation, caveat, restriction and/or other relevant regulation. Where this occurs, this Investment Policy will be reviewed and reissued for the subsequent change in legislation.

### 5.2. ETHICS AND CONFLICT OF INTEREST

#### 5.2.1. Prudent person standard

The standard of prudence is to be used by 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.

The Senior Management Accountant (Financial Operations) is to manage the investment portfolios not for speculation, but for investment and in accordance with the spirit of this

Investment Policy. Consideration of the safety of capital and income objectives is imperative when making an investment decision.

### **5.2.2.Ethics and conflicts of interest**

The Senior Management Accountant (Financial Operations) shall refrain from personal activities that would conflict with the proper execution and management of Fraser Coast Regional Council's investment portfolio. This includes activities that would impair their ability to make impartial decisions.

This policy requires that the Senior Management Accountant (Financial Operations) disclose to the Chief Executive Officer any conflict of interest or perceived conflict that could be related to the investment portfolio.

### **5.2.3.Delegation of authority**

Authority for implementation of the Investment Policy is delegated by Council to the Chief Executive Officer in accordance with the Local Government Act 2009, Section 257 (1)(b) – Delegation of Local Government Powers.

Authority for the day-to-day management of Council's Investment Portfolio has been delegated by the Chief Executive Officer to the Executive Manager Financial Services

## **5.3. INVESTMENT OBJECTIVES**

Fraser Coast Regional Council's overall objective is to invest its funds at the most advantageous rate of interest available to it while preserving capital and maintaining adequate liquidity. When making investment decisions, Council will consider the investment attributes in the following order of priority; preservation of capital, liquidity and return on investment.

### **5.3.1.Preservation of capital**

Preservation of capital shall be the principal objective of the investment portfolio. Investments are to be made 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.

#### *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 issuer or guarantor. The 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, diversity of the portfolio and limiting transactions to secure investments.

### *Interest rate risk*

The Investment Officers shall seek to minimise the risk of a change in the market value of the portfolio due to 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.

#### **5.3.2.Maintenance of liquidity**

Pursuant to the *Statutory Bodies Financial Arrangements Act 1982 s 31*, Council maintains a deposit and withdrawal account with the Commonwealth Bank of Australia for its day to day operating transaction requirements.

In addition to the balances held in its bank account, the Investment Portfolio will maintain sufficient liquidity to meet all reasonably anticipated operational 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 effect.

Examples include:

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

#### **5.3.3.Return on investments**

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

#### **5.3.4. Comparison of performance**

For performance purposes, the portfolio will be compared to the Bloomberg Ausbond Bank Bill Index over a rolling one-year period. The Bloomberg Ausbond Bank Bill Index has a modified duration of 45 days and comprises thirteen 90 Day Bank Bills. The benchmark target is to be set equal to or above the benchmark yield and consider the expected types of securities held in the portfolio.

## **5.4. PORTFOLIO IMPLEMENTATION**

### **5.4.1.Authorised personnel**

The Executive Manager Financial Services is authorised to invest Fraser Coast Regional Council's operating funds and trust funds in investments consistent with this Investment Policy and legislation.

An external fund manager may also be authorised to perform investment activities for Council under instruction in accordance with Clause 5.2.3.

#### **5.4.2. Internal controls**

The Director of Organisational Services and Executive Manager Financial Services shall establish internal controls and processes that will ensure investment objectives are met and that the Investment Portfolio is protected from loss, theft and/or inappropriate use.

The established processes will include monthly reporting (including compliance reporting), as well as annual review of the Investment Policy. The internal controls will address the following:

- Control of collusion;
- Separate the transaction authority from accounting and record keeping;
- Safekeeping of records;
- Avoidance of physical delivery of securities;
- Clear delegation of authority to the Senior Management Accountant (Financial Operations);
- Confirmation requirements for settlement of securities;
- Compliance and oversight of investment parameters; and
- Reporting of breaches of the policy.

### **5.5. INVESTMENT PARAMETERS**

#### **5.5.1. Funds available for investment**

For the purposes of this policy, funds available for investment are the surplus funds available at any one time and include Fraser Coast Regional Council's bank account balance.

The funds available for investment should match the cash flow needs of Council, allowing for working capital requirements. The investment strategy takes into account Council's investment needs. Once the Executive Manager Financial Services has determined that the cash flow forecast can be met, surplus funds may be invested for the required term. In this regard, it is appropriate for the Executive Manager Financial Services to be conservative (i.e. it is unlikely that investments are to be broken to meet cash flow obligations).

It is the responsibility of the Executive Manager Financial Services to assess the cost of direct investment management by Council relative to the return generated. This should be compared with the cost of investing funds with a capital guaranteed cash fund (e.g. Queensland Treasury Corporation (QTC) Capital Guaranteed Cash Fund).

#### **5.5.2. Authorised investments**

Without specific approval from Council or the Treasurer, investments are limited to those prescribed by the *Statutory Bodies Financial Arrangements Act 1982* pt 6 for local governments with Category 1 investment power, which includes:

- Interest bearing deposits;
- Bank accepted/endorsed bank bills;
- Short term bonds;
- QIC (Queensland Investment Corporation) Cash Fund; and
- QTC Capital Guaranteed Cash Fund, debt offset facility, fixed rate deposit (up to 12 months and QTC Working Capital Facility).

### 5.5.3. 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 notes);
- Securitised debt instruments;
- Structured products;
- Principal only investments or securities that provide potentially nil or negative cash flow;
- Stand-alone securities that have underlying futures, options, forward contracts and swaps of any kind; and
- Securities issued in non-Australian dollars.

### 5.5.4. Portfolio investment parameters and credit requirements

The following table shows the credit ratings and counterparty limits for Fraser Coast Regional Council as a percentage of the investment portfolio: Short term rating (Standard & Poor's) or equivalent	Individual counterparty limit	Total limit (Max % of Portfolio)
A1+	35%	100%
A1	20%	50%
A2 – Financial institutions only	15%	40%
A3 – Financial institutions only	Nil	Nil
Unrated	Nil	Nil
QIC/QTC Pooled cash management fund	100%	100%

It is noted that for the purpose of this investment portfolio, the percentage limits apply effective from the date of purchase as a percentage of the total value of the portfolio.

No more than 20 percent of the portfolio is to be invested in Floating Rate Notes.

No less than three (3) quotations shall be obtained from authorised institutions whenever an investment is proposed. The successful quote will be the one most beneficial to Council after meeting all the criteria of this Investment Policy.

#### **5.5.5.Maturity**

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

#### **5.5.6.Liquidity requirement**

Given the nature of the funds invested, no more than 20 per cent of the Investment Portfolio will be held in illiquid securities and at least 10 percent of the portfolio is to be on call or will mature within 0 - 7 days.

#### **5.5.7.Breaches**

Any breach of this Investment Policy is to be reported to the Director Organisational Services and Chief Executive Officer and if required, rectified as soon as practicable.

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, either obtain Treasurer's approval for continuing with the investment arrangement or sell the investment arrangement (including, for example, withdrawing a deposit).

#### **5.5.8.Safekeeping and custody**

Each transaction will require written confirmation by the broker/dealer/bank. Fraser Coast Regional Council will hold security documents, or alternatively a third party custodian authorised by the Executive Manager Financial Services and evidenced by safekeeping receipts may hold security documents.

#### **5.5.9.Criteria of authorised dealers and brokers**

All transactions undertaken on behalf of the Investment Portfolio of Fraser Coast Regional Council will be executed either by Fraser Coast Regional Council directly, or through securities brokers registered as Australian Financial Service Licensees with an established sales presence in Australia, or direct issuers that directly issue their own securities which are registered on Fraser Coast Regional Council's approved list of brokers/dealers and direct issuers.

### **5.6. INVESTMENT GUIDELINES**

Council's Investment Portfolio should be realisable, without penalty, in a reasonable time frame. The term to maturity of Council's fixed term investments should not exceed 12 months. The Executive Manager Financial Services may reduce these maturity limits to a shorter period.

Treasury and Council approval is required for investments with a period of greater than 12 months. This means approval is required from Council prior to submission to the Treasurer for approval.

#### **Short term ratings**

(Short term refers to investments with an initial maturity of less than 12 months)

Grade	S & P	Moody's	Fitch
Superior	A1+	P-1	F1+
	A1		F1
Strong	A2	P-2	F2
Acceptable	A3	P-3	F3

Where there is a split rating for an individual counterparty, the lower rating is to be applied.

## 5.7. REPORTING

The Executive Manager Financial Services will prepare a monthly report which will evaluate the transactions, concentrations, performance and compliance of the Investment Portfolio. The report will include:

- Percentage of the portfolio held by investment type and rating type; and
- Performance of the portfolio (relative to Bloomberg Ausbond Bank Bill Index benchmark).

A listing of securities held by issue name, maturity date, par value and dollar amount invested is to be available to the Executive or Council on request.

On an annual basis, the Investment Policy will be reviewed and amended where required. Any amendments are to be approved by Council prior to the implementation of the revised Investment Policy.

## 6. ASSOCIATED DOCUMENTS

Annual Budget  
Long Term Financial Plan

## 7. REVIEW

This Policy will be reviewed when related legislation/documents are amended or replaced, other circumstances as determined from time to time by Council or at intervals of no more than one year.

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### Version Control

Version Number	Key Changes	Approval Authority	Approval Date	Document Number
1	New Policy	Council	16/04/2008	837209
3	Amendment - Legislation/Administrative	Council	20/07/2011	837209
4	Amendment – Adoption of 2012/13 Budget	Council	12/07/2012	837209
5	Amendment – Adoption of 2013/14 Budget	Council	03/07/2013	837209
6	Amendment – Adoption of 2014/15 Budget	Council	11/06/2014	837209
7	Amendment – Adoption of 2015/16 Budget	Council	17/06/2015	837209
8	Amendment – Adoption of 2016/17 Budget	Council	19/07/2016	837209



9	Amendment – Adoption of 2017/18 Budget	Council	19/07/2017	837209
10	Amendment – Adoption of 2018/19 Budget	Council	27/06/2018	837209
12	Amendment – Adoption of 2019/20 Budget	Council	24/06/2019	837209
13	Amendment – Adoption of 2020/21 Budget	Council	24/06/2020	837209
14	Amendment – Adoption of 2022/23 Budget	Council	14/06/2022	837209
15	Amendment – Adoption of 2023/24 Budget	Council	28/06/2023	837209
16	Amendment – Adoption of 2024/25 Budget	Council	19/06/2024	837209