Logan City Council

Investment Procedure

Logan City Council

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1 Procedure Objective

The Investment 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.

The purpose of this policy is to provide a framework to manage surplus cash and equity investments in accordance with section 191 of the Local Government Regulation 2012 and to ensure that there are investment criteria that reduce the risk of loss of capital, provide a beneficial return, are in the public interest and support Council liquidity requirements.

2 Ethics and conflicts of interest

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

1. Investments will be managed with the care, diligence and skill that a prudent person would exercise in managing the affairs of other persons.
2. Investment officers will consider the security of capital and Council income and liquidity objectives when making an investment decision
3. 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.

3 Investment objectives

Investments shall be undertaken in a manner that:

1. Preserves Council equity:
    (a) 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.
    (b) 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.
2. Manages credit risk:
    (a) Council will evaluate and assess credit risk prior to undertaking an investment:
    Investments will be limited to those financial institutions that meet the minimum credit ratings provided by the SBFA Regulation s10.
    (b) 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).
3. Manages market risk:
    (a) Investment officers will consider the cash flow requirements of the Council prior to undertaking investments:
        (i) There is to be sufficient cash held in on-call investments to meet short- and medium-term cash imposts as recorded in the Council budget and long-term financial plan cash flow statements.
        (ii) Pursuant to the SBFA Act s31, Council shall maintain a deposit and withdrawal account with the Commonwealth Bank of Australia (CBA) 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.

4. Maximises return on investment:

(a) Investment officers will ensure that the Council achieves value for money or a competitive price after considering the costs of an investment, (e.g. administration fees).

(b) 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.

(c) The 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 Cash investments

1. The Director, Organisational Services and the Finance Manager are authorised to invest Council's surplus funds in investments that are consistent with this policy and relevant legislation.

2. The City Governance Committee is not permitted to direct daily investment decisions, select fund managers, or become involved in the daily operations of the investment portfolio.

5 Internal controls

1. 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:

(a) 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.

(b) The Financial Accounting program will ensure that financial institutions, capital investment amounts, returns and terms and conditions are in accordance with approval.

(c) Investment terms are not to be broken to meet cash flow obligations, unless approved by Council resolution.

6 Authorised investments

1. Investments are limited to those prescribed by Part 6 of the SBFA Act for local governments with Category 2 investment power.

2. The following investments are prohibited:

(a) Derivative based instruments;

(b) Securitised debt instruments;

(c) Structured products;

(d) Principal only investments or securities that provide potentially nil or negative cash flow;

(e) Stand-alone securities that have underlying futures, options, forward contracts and swaps of any kind; and

(f) Securities issued in non-Australian dollars.

3. Liquidity requirement:
   (a) Given the nature of the funds invested, a maximum of 20 per cent of the investment portfolio will be held in illiquid securities, and at least 10 per cent of the portfolio will be held in investments that can be called at no cost or that will mature within 7 days.
4. New investment products:
   (a) A new type of investment requires a full risk assessment to be presented to the City Governance Committee and adoption by Council.
5. Breach:
   (a) 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.
6. Safekeeping of records:
   (a) 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.
   (b) 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.
7. Reporting:
   (a) The Finance Manager will prepare a quarterly evaluation and report of the transactions, concentrations, and performance of the investment portfolio.
   (b) The report is to be provided to 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; and
      (iv) The performance of the investment portfolio relative to the Index benchmark.

7 Equity investments

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

1. The Council shall obtain the Treasurer's approval for a type 1 financial arrangement under the SBFA Act s60A 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.
2. The Council shall not enter into an agreement that does not limit the liability of the Council, as between the parties to the agreement, to the amount committed by the 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.
3. 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.

4. Prior to investment, the Council will:
   (a) Undertake a study of the relevant business (the investee) prospects
   (b) Consider the investee prospectus to understand the investee company background and financial information, and other data that affect the Council's maximum risk requirements.
   (c) Consider the investee's business plan to determine:
      (i) The nature of the business to ensure this is in accord with the principles listed in the Council Corporate Plan and the expectations of the public.
      (ii) 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.
      (iii) The investee's product offering and how this will impact financial and cash forecasts
      (iv) How the investee will market the business and their sales strategy
      (v) 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.
5. The Council shall establish an investment agreement that outlines the relationship between the investee company and the Council and shall include:
   (a) Regular reporting requirements - the 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.
   (b) Annual audited reports of account within a specified timeframe.
   (c) Restrictions on future share issues or provisions to maintain Council's shareholding.
6. The Council shall undertake steps to monitor business performance; including:
   (a) Incorporate investee financial forecasts in the Council financial plan to ensure that predicted financial performance, financial position and cash flows are in accordance with Council expectations and do not detrimentally impact the Council results.
   (b) Undertake quarterly and/or annual financial assessment and reporting to the Council City Governance Committee including:
      (i) Relevant financial ratios; such as a minimum gross profit margin, net profit margin, debtors days, return on investment, working capital, and debt/equity.
      (ii) Relevant non-financial ratios - e.g. staff turnover, sick rate statistics
      (iii) A summary of current and forecast financial performance, financial position and cash flows accompanied by detailed commentary.
      (iv) Undertake an impairment assessment based on the financial information provided.
7. For all cash and equity investments
   (a) 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.

8 For external loans

1. The Council shall obtain the Treasurer's approval for a type 2 financial arrangement under the SBFA Act s61A prior to lending an amount to any statutory body or corporation.
2. Once Treasury approval is obtained; the Council shall approve all loan amounts prior to the issuance of the loan.
3. The Director, Organisational Services may approve progressive debt draw down amounts within the Council approval.
4. The Council shall undertake the same initial checks as with a share investment prior to issuing a third party loan. In addition , the Council shall:
   (a) Determine any existing loans and the borrower's ability to repay the capital and interest amounts over the period of the loan.
   (b) 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.
5. For loans to external corporations; including joint ventures, associates and subsidiaries:
   (a) All loans shall be undertaken and made on an arm's length basis.
   (b) 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.
   (c) 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.)
   (d) The loan request shall provide details and the value of security held for the loan.
6. The interest charged on third party loans is to be based on a minimum of the Council's QTC fixed or variable borrowing rate for the applicable period plus at least 50 basis points (0.5%)
7. The Financial Accounting section 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.

9 Definitions

Definitions for terms used within the procedure can be found in the Investment Policy (DM: 14440325).