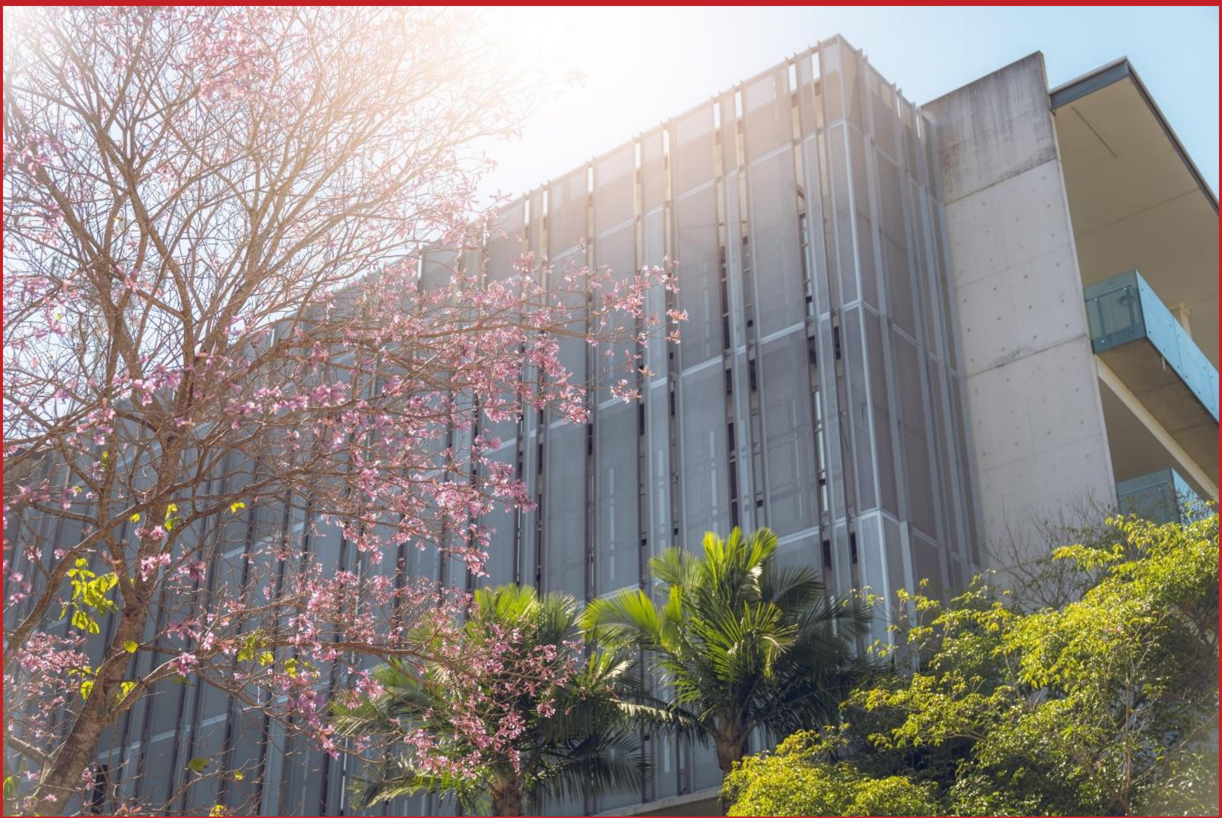
CITY OF LOGAN

Investment Policy



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1. Purpose

1.1 Overview

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

1.2 Scope

This policy applies to all Councillors and Council staff. Council staff includes employees, labour hire workers, independent contractors, council advisors and volunteers.

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.

1.3 Legislative Alignment

This policy is made in accordance with the investment powers and constraints prescribed under:

- Statutory Bodies Financial Arrangements Act 1982
- Statutory Bodies Financial Arrangements Regulation 2019
- Local Government Act 2009
- Local Government Regulation 2012

This policy also supports Council's Annual Budget. Where limitations or directions are issued by the Queensland Treasurer in relation to local government investing, this policy will be reviewed and updated accordingly.

2. Principles

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.

2.1 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 (LGA) and the Local Government Regulation 2012 (LGR).

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.

2.2 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 shall refrain from personal activities that conflict with the proper execution and management of council's investment portfolio. This includes activities that impair the investment officer's ability to make impartial decisions.
(d) 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.

2.3 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 the security of capital 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) Sufficient cash is to be 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.

(iii) Pursuant to section 31 of the SBFA Act, Council maintains a deposit and withdrawal account with a nominated financial institution for its day-to-day operating transaction requirements.

(iv) 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 the 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 Australian Bank Bill Swap rate (BBSW) 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.

2.4 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 LGA.

(b) Council shall not directly invest in the following:

(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 assets, and at least 10% of the portfolio will be held in on-call investments 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 Executive General Manager of 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 Executive General Manager of Organisational Services.

2.5 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 , 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 conduct a comprehensive assessment of the investment including:
   (i) set out the investment financial particulars including target return, appropriate return benchmark, and current investment rating
   (ii) undertake a study of the relevant business (the investee) prospects
   (iii) consideration of the investee prospectus or equivalent investment documentation to understand the investee company background and financial information, and other data that affect Council's maximum risk requirements
   (iv) 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
   (v) demonstrate alignment of the investment with the sustainability framework developed by the Department of Local Government, Water and Volunteers, including impact of key financial and non-financial metrics
   (vi) confirm alignment with each of Council's investment objectives set out in Section 4.3 of this Investment Policy
(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 at a minimum quarterly business performance review 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 equity investments

(i) If an investment is revalued so that its current market value is less than 95% of the amount of the investment, this must be referred to the Executive General Manager of Organisational Services for review monthly until market value improves to greater than the threshold.

2.6 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 Executive General Manager of 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/earnings before interest, tax, depreciation, and amortisation (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%).

3. Reporting

(a) The General Manager of Finance will prepare a quarterly evaluation and report (the 'Quarterly Investment Review') of the transactions, concentrations, and performance of the investment and external loan portfolio.

(b) The General Manager of Finance 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 and other investments held by maturity date/call date
   - (ii) the performance of the investment based on rate of return or weighted average yield to maturity, including comparing the current market value to the investment amount
   - (iii) percentage held by investment type and liquidity
   - (iv) the performance of the investment portfolio relative to the index benchmark.

4. Roles and Responsibilities

(a) The General Manager of Finance 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 Executive General Manager of Organisational Services on occurrence.

(c) The Executive General Manager of Organisational Services and the General Manager of Finance 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.

5. Definitions

The following definitions apply to this Policy.

Term	Definition
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.

Term	Definition
Council	Logan City Council
Derivative	A financial contract that derives its value from an underlying asset, community, or index, as defined under the SBFA Act.
Derivative transaction	As defined in the Schedule under the SBFA Act: Transactions entered into for: (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 (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. (as defined in the SBFA Act) (c) Carbon offset financial products approved by Queensland Treasury for Council to continue its acquire and surrender program to maintain its Climate Active certification.
Equity investments	Investments in the equity share capital of an approved corporation.
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.

Term	Definition
LGA	Local Government Act 2009 (LGA).
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
Medium-term	Between 2 to 5 years
On-call investments	Where the investment can be redeemed and the monies invested can be retrieved from the financial institution within 24 hours.
QIC	Queensland Investment Corporation
QTC	Queensland Treasury Corporation
SBFA Act	Statutory Bodies Financial Arrangement Act 1982
SCPS	Supply Chain Payment Solution (SCPS)
SBFA Regulation	Statutory Bodies Financial Arrangements Regulation 2019
Short-term	Less than, or within, 12 months
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.
Treasurer's approval	Means an approval of the Treasurer under part 9 of the SBFA Act.

6. Document Control

Version Control	File Number	Document Number	Council Min No.	Description of Change	Effective Date
1.0	128741-1	14440325		Creation	24/03/21
2.0	128741-1	14440325	50/2023	Substantive Amendment Review (budget 2023/2024)	19/06/23
3.0	128741-1	14440325	103/2024	Substantive Amendment Review (budget 2024/2025)	1/07/24
4.0	128741-1	14440325	83/2025	Substantive Amendment Review (budget 2025/2026)	01/07/25
5.0	128741-1	14440325	133/2026	Substantive Amendment Review (budget 2026/2027)	01/07/26