



## Investment Policy

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|----------------------------|--|-------------------|---------------|
| Resolution Number:         | SM2020.08.012  | Date Adopted:     | 5 August 2020 |
| Classification:            | Statutory  | Scheduled Review: | 31 July 2021  |
| Responsible Officer:       | Chief Executive Officer  | Policy Number:    | BSC040        |
| Legislation:               | <i>Local Government Act 2009; Local Government Regulation 2012; Statutory Bodies Financial Arrangement Act 1982; Statutory Bodies Financial Arrangement Regulations 2007</i> |                   |               |
| Section of Corporate Plan: | Executive - Governance   |                   |               |

### OBJECTIVE

To guide the investment of all funds held by Barcoo Shire Council.

### POLICY STATEMENT

Barcoo Shire Council will invest Council funds not immediately required for financial commitments and ensure:

- The maximisation of the earnings from authorised investments of cash reserves after assessing counterparty, market and liquidity risks;
- The active management of the net debt position with core surplus funds; and
- That adequate internal controls are in place and appropriate records are kept to safeguard public monies.

Council's investment portfolio should be realisable, without penalty, in a reasonable time frame. The term to maturity of Council's investments must not exceed one year.

Category 1 relates to investments for a fixed time of not more than one (1) year.

Authorised investments comprise:

- 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;
- Investments with Queensland Investment Corporation (QIC) Cash Fund, Queensland Treasury Corporation (QTC) Capital Guaranteed Cash Fund, QTC Debt Offset Facility, QTC Fixed Rate Deposit (up to 12 months), QTC Working Capital Facility;
- An investment arrangement with a rating prescribed under a regulation that specifically refers back to this paragraph; and
- Other investment arrangements prescribed under a regulation that specifically refers back to this paragraph.

The investment must be at call or for a fixed time of not more than one (1) year.

## PROCEDURE

### There are three areas of funds placement available to Council

- a) Direct Council Investment – Investment;
- b) Funds Management – Outsourcing of Investment;
- c) Debt Reduction Strategies.

#### (a) Council's Direct Investment

At least three (3) quotations shall be obtained from authorised institutions whenever an investment is proposed. The best quote on the day will be successful after allowing for administrative and banking costs, as well as having regard to the limits set below.

Investments held with QTC cash fund will be benchmarked against other investments or quoted investment rates at the end of each calendar month to ensure Council is receiving the most advantageous rate given the risk/return trade-off.

The term to maturity of any Council's direct investments may range from "At Call" to one (1) year.

#### (b) Investments with Funds Managers

The overall term of any managed funds should be appropriate to Council's investment objectives and adhere to the market risk (volatility) restrictions as determined by regulation. Council funds with a time horizon of 0–180 days should be invested in a cash fund, whilst funds which are available for 6-12 months or more may be invested in approved cash plus funds providing they have a bank bill performance benchmark.

When placing investments, consideration will be given to the relationship between credit rating and interest rate. The amount invested with financial institutions (banks, credit unions, building societies) or managed funds should not exceed the following percentages of average funds invested at any time.

Investments in government secured or issued arrangements including investments with QIC or QTC shall be invested as per the percentage for Rating A1+ Short Term Rating below:

| <b>Long Term Rating</b><br><i>(Standard &amp; Poors Global Rating)</i> | <b>Short Term Rating</b><br><i>(Standard &amp; Poors Global Rating)</i> | <b>Maximum Percentage of Total Investments</b> |
|--|---|--|
| AAA to AA  | A1+   | 100%   |
| A+ to A  | A1  | 50%  |
| BBB+ to BBB  | A2  | 25%  |
| BB+ to D   | -   | Nil  |

Investments in non-financial institutions are restricted to short term investments rated A-1 by Standard and Poors Global (S&PG) ratings or the Moody's equivalent short term rating.

To further diversify risk, no more than one-third of Council's investments will be held with one financial or non-financial institution (except QTC).

If any of the funds/securities held are downgraded such that they no longer fall within Council's investment policy guidelines, they will be divested within 28 days or as soon as is practicable.

Council shall keep a current list of long term paper ratings for both the cash and bond funds (the managed funds must maintain a minimum AA rating) and the financial institutions. The ratings shall be updated on a minimum three (3) monthly basis.

**Short Term Rating Order 0-365 days (as defined by S&PG Ratings):**

|     |  |
|-----|--|
| A1+ | Extremely strong degree of safety regarding timely payment |
| A1  | A strong degree of safety for timely payment               |
| A2  | A satisfactory capacity for timely payment                 |

**Long Term Rating Order is:**

|             |                                       |
|-------------|---------------------------------------|
| AAA to AAA  | An extremely strong capacity to repay |
| AA+ to AA   | A very strong capacity to repay       |
| A+ to A-    | A strong capacity to repay            |
| BBB+ to BBB | An adequate capacity to repay         |

When deciding whether to make an investment, Council gives consideration to whether the interest rate offered represents fair compensation (fair value) for the level of credit risk involved. Fair value for Council is determined by referencing the Bank Bill Swap Rate (BBSW) and applying consideration for the credit risk margin for various financial institutions. For example, if the BBSW is 5% and the credit risk margin is 0.25% for Bank XYZ, the quoted rate from this bank must be at least 5.25% or better. The BBSW is provided on a (business) daily basis via QTC's Internet site.

All term deposits/bank bill investments will be benchmarked to ensure that they meet the BBSW as a minimum. This might require seeking further investment quotations on the day of the investment to ensure the benchmark is achieved where possible.

Council will be provided with a monthly Executive Financial Performance Report detailing the investments held by institution, term of investment, interest rate and credit ratings.

**(c) Debt Reduction Strategies**

Debt reduction strategies that could be adopted by Council include:

**(i) Principal repayment**

A principal repayment provides an immediate reduction in the principal outstanding on Council's debt. Benefits are obtained from the reduced interest and administration costs which are calculated on the daily balance of the market value outstanding. A principal repayment may be made when it is appropriate to reduce the level of debt given Council's target capital structure.

Consideration though must be given to Council's ability to re-borrow repaid debt if needed to meet future requirements.

**(ii) Prepayment of Debt Service Payments**

A prepaid debt service payment provides an immediate reduction in the principal outstanding on Council's debt. Benefits are obtained from the reduced interest and administration costs which are calculated on the daily balance of the market value outstanding. In contrast to a principal repayment where Council is required to continue to pay upcoming debt service payments, Council is not required to pay the allocated normal debt service payments.

A prepayment of debt service payments may be made when it is appropriate to reduce the level of debt given Council's target capital structure. This option may also be used to increase flexibility with respect to the timing of loan repayments.

The economic effect of the prepayment will be equivalent to a principal repayment, and will depend on where Council sits in its target capital structure range. As the prepayment can be carried forward indefinitely, Council's future cash flow flexibility may increase as it does not need to make the forthcoming debt service payment.

#### **INTERNAL CONTROLS**

Council will utilise its Category 1 investment powers to earn interest revenue on its operating funds to supplement Council's other sources of revenue.

Further, Council will maintain appropriate internal controls to prevent the fraudulent use of public monies. The procedure for the investment of Council funds is to be documented and followed at all times.

Council is at all times to have in place appropriate controls to prevent the fraudulent use of public monies. The following controls detail the minimum that is required:

- A person is to be identified as the responsible officer for the investment function.
- All investments are to be authorised by the Chief Executive Officer, or in that person's absence, the Manager of Corporate Services.
- Confirmation advices from the Financial Institution are to be attached to the Investment Authorisation Form as evidence that the investment is in the name of Barcoo Shire Council.
- A person, other than the responsible officer, is to perform the bank reconciliation at the end of each month (alternatively, the reconciliation needs to be reviewed by another officer).

#### **ASSOCIATED DOCUMENTS AND POLICIES**

Nil