



Strategic Policy

2015/16 Investment Policy

Corporate Plan reference:	5. A public sector leader 5.2 A financially sustainable organisation
Endorsed by Council on:	
Manager responsible for policy:	Director Corporate Services, Corporate Services Department

Policy purpose

The intent of this document is to outline Sunshine Coast 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.

Policy outcome

The objectives of this Policy are to maximise investment earnings within investment parameters whilst ensuring the security of funds.

Policy scope

This policy applies to the investment of all funds held by Sunshine Coast Council (hereafter "Council").

Policy statement

Council will maintain an active investment strategy with the following goals:

- Maximise investment returns from investment activities
- Exceed the benchmark of the United Bank of Switzerland (UBS) 90 day Bank Bill rate
- Invest only in investments as authorised under current legislation
- Invest only with approved institutions
- Invest to protect capital value of investments

Guiding principles

Council's overall objective is to invest its 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 most appropriate given the circumstances. 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.

Investment activities shall preserve capital as a principal objective of the investment portfolio. Investments will be performed in a manner that seek to ensure security of principal of the overall

portfolio. This would include managing credit and interest rate risk with 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 officer will minimise credit risk in the investment portfolio by prequalifying all transactions including the brokers/securities dealers with which they do business, diversify the portfolio and limit 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 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.

Investment Parameters and Guidelines

For the purposes of this policy, investable funds are the moneys available for investment at any one time and include the Sunshine Coast Council's bank account balance. Included in this balance is any moneys held by council on behalf of external parties (for example developer contributions).

Council investments are limited to those prescribed by Section 6 of the *Statutory Bodies Financial Arrangements Act 1982* (hereafter "SBFAA") for local governments with Category 2 investment powers, which allows for investment with Queensland Treasury Corporation or Queensland Investment Corporation, along with a range of other higher-rated counterparties without further approval.

The SBFAA includes a list of prohibited investments without first seeking the Treasurer approvals, including, but not conclusive list, derivative based instruments, non-Australian dollars and maturity maximum greater than three years.

It is noted that for the purposes of this investment portfolio, the percentage limits apply effective from the date of purchase as a percentage of the market value of the portfolio. No more than 20 per cent of the portfolio is to be invested in Floating Rate Notes.

The following table sets council's investment parameters, where maximum percentage of funds can be invested within each category:

Short Term Rating (Standard & Poor's) or equivalent	Individual Counterparty Limit	Total Limit
QIC / QTC Pooled Cash Management Fund	100%	100%
A1+ - Financial Institutions	35%	100%
A1+ - Bond Mutual Funds	30%	50%
A1 – Financial Institutions	30%	40%
A2 – Financial Institutions	15%	35%
A3 – Financial Institutions	5%	10%
Unrated	Nil	Nil

Maturity

The maturity structure of the portfolio will reflect a maximum term to maturity of three (3) years and includes an interest rate reset of no longer than twelve (12) months.

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 per cent of the portfolio can be called at no cost or will mature within 0-7 days.

AUTHORITY

Council has been granted authority to exercise Category 2 investment power under Part 6 of the SBFAA.

Authority for implementation of the Investment Policy is delegated by council to the Chief Executive Officer. The Chief Executive Officer has then delegated authority to the Director Corporate Services, Manager Finance and the Coordinator Financial Accounting in accordance with the *Local Government Act 2009*, Section 257 (1) (b) – Delegation of local government powers.

For the purposes of the appointment of an external fund manager pursuant to Section 59 of the SBFAA, to operate in a manner consistent with this policy will constitute compliance.

New investment products

A new investment product requires a full risk assessment by the Manager Finance and Coordinator Financial Accounting (including compliance with the Act).

Breaches

Deposits are in the first instance deemed to be “unbreakable”, that is, no early exit. Where council holds an investment that is downgraded below the minimum acceptable rating level, as prescribed under regulation for the investment arrangement, or where limits for different risk categories or where counterparty limits are breached, an assessment will be undertaken once the change becomes known. Any breach of this Investment Policy is to be reported to the Director Corporate Services and Manager Finance.

Roles and responsibilities

The Director Corporate Services, the Manager Finance and the Coordinator Financial Accounting are authorised to invest Sunshine Coast Council's operating funds at their discretion in investments consistent with this Investment Policy and legislation. The Treasury team are responsible for the operations and management of the funds.

The standard of prudence is to be used by investment 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.

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. They will consider the safety of capital and income objectives when making an investment decision.

Ethics and conflicts of interest

Consideration will be given to ethical investment principles in determining the approved counterparty lists for investment of funds.

Investment officers/employees shall refrain from personal activities that would conflict with the proper execution and management of Sunshine Coast Council's investment portfolio. This includes activities that would impair the investment officer's ability to make impartial decisions.

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

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 is to be delegated by the Chief Executive Officer to the Director Corporate Services, the Manager Finance, and to the Coordinator Financial Accounting, in accordance with Section 259 of the *Local Government Act 2009*, and subject to regular reviews from the Chief Executive Officer.

Criteria of authorised dealers and broker

Council will maintain a list of authorised financial institutions and securities brokers that the investment officers may deal with. These financial intermediaries must have a minimum long term rating of at least either A+/A1/A+ from Standard and Poor's, Moody's or Fitch IBCA.

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

Safekeeping and custody

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

Measurement of success

A summary of investments, amount invested and comparison above benchmark, at a minimum, is included in the monthly Financial Performance Report to council Ordinary Meetings.

The benchmark target is to be set equal to or above the benchmark yield and consider the expected types of securities held in each portfolio, that is, the portfolio will be compared to the UBS Australia Bank Bill Index and/or the Bank Bill Swap Reference Rate.

Definitions

BBSW – Bank Bill Swap Rate – This is the daily calculation of the yields on bank bills of 1, 2, 3, 4, 5, and 6 month maturities used for the setting of financial arrangements.

Ethical Investment Principles – Investment in companies or industries that promote positive approaches to environmental, social and corporate governance issues; or the avoidance of investment in industries deemed harmful to health or the environment. These principles have been recognised by the United Nations Principles for Responsible Investment.¹

Financial Institution is defined as an authorised deposit-taking institution within the meaning of the *Banking Act 1959 (Cwlth)*, Section 5.²

¹ Further information on the United Nations Principles for Responsible Investment, including a schedule of Australian signatories, can be obtained from the following website <http://www.unpri.org/principles/>

² For a list of authorised deposit taking institutions, refer to the website of the Australian Prudential Regulation Authority: <http://www.apra.gov.au/adi/>.

Investments are defined as arrangements that are undertaken or acquired for producing income and apply only to the cash investments of Sunshine Coast Council.

Market Value of the portfolio is the book value of fixed term fixed interest deposits plus a market value assessment of commercial paper, bank bills, and bonds or floating rate notes.

QIC – Queensland Investment Corporation.

QTC – Queensland Treasury Corporation.

UBS Bank Bill Index – widely considered to be the industry benchmark for short term cash fund performance and is used by market participants as a means of comparing the returns generated by the various cash funds available in the market.

Related policies and legislation

Statutory Bodies Financial Arrangements Act 1982

Statutory Bodies Financial Arrangements Regulation 2007

Local Government Act 2009

Banking Act 1959 (Cwlth)

Version control:

Version	Reason/ Trigger	Change (Y/N)	Endorsed/ Reviewed by	Date
1.0	Created	N	Special Statutory Budget Meeting	2/6/2014
1.0	Review	N	Manager Finance	25/3/2015
1.0	Endorsement		Council	

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Strategic Policy

2015/16 Debt Policy

Corporate Plan reference:	5. A public sector leader 5.2 - A financially sustainable organisation
Endorsed by Council on:	
Manager responsible for policy:	Director Corporate Services, Corporate Services Department

Policy purpose

The purpose of this policy is to ensure the sound management of council's existing and future debt.

Policy outcome

The policy will provide clear guidance for staff in the management of council's debt portfolio and maintenance of appropriate debt and debt service levels.

Policy scope

This policy applies to all Councillors and council staff and extends to all borrowing activities of council and any controlled entities.

Policy statement

New borrowings will only be made to fund capital expenditure, for a period less than or equal to the estimated useful life of the asset(s) and for no more than 20 years.

New borrowings will be undertaken in accordance with the Queensland Treasury Corporation Guidelines, the *Statutory Bodies Financial Arrangements Act 1982* and Section 192 of the *Local Government Regulation 2012*.

Borrowing Purposes

- Council will not utilise loan funding to finance operating activities or recurrent expenditure.
- Council undertakes full analysis of all funding options as outlined in the Long Term Financial Forecast, including a forward program of capital works, to determine loan funding requirements.
- Council recognises that infrastructure demands placed upon council can often only be met through borrowings, but will always be mindful of the additional cost incurred by the community when assets are acquired through borrowings which increases the cost of providing capital infrastructure.
- Council will endeavour to fund all capital renewal projects from operating cash flows and borrow only for new or upgrade capital projects, having regard to sound financial management principles and giving consideration to inter-generational equity for the funding of long term infrastructure projects.

- Where capital expenditure is deferred from one year to the next, the drawdown of approved loan funds will be reviewed to minimise interest expenses.
- Borrowings for infrastructure that provides a return on assets will take priority over borrowing for other assets.

Debt Term

Where capital projects are financed through borrowings, council will repay the loans within a term not exceeding the life of those assets, and over a term that optimises cash flow efficiency. Current loans are planned to be repaid within a twelve (12) year term and major capital projects as the Sunshine Coast Solar Farm and Maroochydore City Centre, the loan period to be a term of 20 years.

- Council currently re-balances the portfolio back to a 12-year term following each transaction and with any draw down of new loan funds.
- If surplus funds become available, and where it is advantageous to council, one-off loan repayments will be made to reduce the term of existing loans.
- In an environment of fluctuating interest rates, and where there is a distinct economic advantage to council, consideration will be given to renegotiating any outstanding loans to obtain the best long-term benefit to council.

Repayment Ability

Council will maintain close scrutiny of debt levels to ensure that relative sustainability indicators will not exceed target parameters recommended by Queensland Treasury Corporation and *Local Government Regulation 2012*.

Borrowing Sources

Council will raise all external borrowings at the most competitive rates available and from sources available as defined by legislation. Consideration will be given to provision of loans to business units from surplus cash reserves held by council by way on an internal loan.

Proposed Borrowings

Proposed Borrowings planned for the current financial year and the next nine financial years are outlined in Appendix A, in accordance with Section 192 *Local Government Regulation 2012*.

Internal Loans

The provision and approval of an internal loan will depend on the availability of surplus funds at the time of application and the capacity of the business unit or operational activity to repay the loan.

- All applications for internal loans will be made by reference to the Finance Branch for consideration in accordance with the Long Term Financial Forecast.
- The term of the loan will be appropriate to the life of the asset being financed.
- In all cases, where business units are subject to the provisions of the National Competition Policy, the cost to the business unit will be no less than what would apply to an equivalent private sector business. The interest rate will be the sum of:
 - (a) the equivalent QTC borrowing rate for the proposed term;
 - (b) the QTC administration charge; and
 - (c) an additional margin above the QTC borrowing rate.
- The interest rate applicable to internal loans relating to operational activities of council will be the actual borrowing cost from QTC including administrative charges.

Council may, upon reasonable notice being given, require repayment of part or all of the balance of the loan at any time, which would require the business unit to convert the outstanding balance of the loan to an external facility.

- Provision for the repayment of the loan will be included in the annual budget for the business unit.

Guiding principles

The purpose of establishing this policy is to:

- Provide a comprehensive view of council's long term debt position and the capacity to fund infrastructure growth for the Region;
- Increase awareness of issues concerning debt management;
- Enhance the understanding between Councillors, community groups and council staff by documenting policies and guidelines;
- Demonstrate to government and lending institutions that council has a disciplined approach to borrowing.

Roles and responsibilities

Pursuant to Section 192 *Local Government Regulation 2012*, council must prepare a debt policy each year that states the new borrowings planned for the current financial year and the next nine financial years.

The Finance Branch will review the cash flow requirements prior to loan proceeds being drawn down to minimise interest expenses.

Measurement of success

Financial sustainability indicators remain within target ranges and the provision of necessary infrastructure is not constrained through the lack of capital funding.

Details of outstanding loans will be reported annually in council's Financial Statements and Annual Report.

Definitions

Business unit – A business activity within council structure subject to the application of full cost pricing principles as defined under the National Competition Policy.

Inter-generational equity – This relates to the fairness of the distribution of the costs and benefits of a policy when costs and benefits are borne by different generations. (i.e. The principle whereby those who derive a direct benefit from the service or infrastructure provided actually pay for that service).

QTC – Queensland Treasury Corporation.

Maroochydore City Centre – The Maroochydore City Centre was declared by the state government as a Priority Development Area (PDA) on 19 July 2013, at the request of council to renew the region by supporting economic development, providing such needed infrastructure and creating a new central business district for the Sunshine Coast.

Related policies and legislation

- *Local Government Act 2009*
- *Local Government Regulation 2012*
- *Statutory Bodies Financial Arrangements Act 1982*
- *Statutory Bodies Financial Arrangements Regulation 2007*

Version control:

Version	Reason/ Trigger	Change (Y/N)	Endorsed/ Reviewed by	Date
1.0	Adopted			02/06/2014
	Review			23/03/2015

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Appendix A

Schedule of proposed external borrowings:

	2015/16 \$,000	2016/17 \$,000	2017/18 \$,000	2018/19 \$,000	2019/20 \$,000	2020/21 \$,000	2021/22 \$,000	2022/23 \$,000	2023/24 \$,000	2024/25 \$,000
Total SCC Proposed Borrowings	44,711	39,900	16,772	27,474	32,845	23,018	26,609	17,542	27,465	35,301
SCC + Business Units	8,050	14,875	14,266	12,826	9,550	10,096	19,013	11,717	21,202	10,777
Maroochydhore City Centre	31,660	21,025	2,506	14,648	23,295	12,921	7,596	5,825	6,263	24,524
Palmview Development	5,000	4,000								
Capital works projects as outlined in the adopted budget schedule										

Note that council operates a central treasury model and as such does not generally provide debt funding for specific projects or assets but rather uses debt funding to finance council's balance sheet, with the exception being for strategic projects.