



SCENIC RIM REGIONAL COUNCIL

Finance Committee

Agenda

Meeting to be held in the Council Chambers

82 Brisbane Street

Beaudesert

Tuesday, 21 July 2015

Commencing at 9.00 am

All correspondence to
Be addressed to the
Chief Executive Officer

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SCENIC RIM REGIONAL COUNCIL

FINANCE COMMITTEE

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FINANCE COMMITTEE

AGENDA

ATTENDANCE

Cr N O'Carroll, Chairperson
Cr J C Brent, Mayor
Cr N J Waistell
Cr V A West, Deputy Mayor
Cr J J Sanders
Cr R J Stanfield
Cr D A McInnes

APOLOGIES

DECLARATIONS OF INTEREST BY MEMBERS

Reception of Deputations by Appointment / Visitors

Please note: Agenda Items where Subject Headings are followed by [CLOSED] are to be discussed in closed session in accordance with Section 275(1) of the Local Government Regulation 2012.

Section 275(1) A local government or committee may resolve that a meeting be closed to the public if its councillors or members consider it necessary to close the meeting to discuss-

- (a) the appointment, dismissal or discipline of employees; or
- (b) industrial matters, affecting employees; or
- (c) the local government's budget; or
- (d) rating concessions; or
- (e) contracts proposed to be made by it; or
- (f) starting or defending legal proceedings involving it; or
- (g) any action to be taken by the local government under the Planning Act, including deciding applications made to it under that Act; or
- (h) other business for which public discussion would be likely to prejudice the interests of local government or someone else, or enable a person to gain financial advantage.

1. EXECUTIVE

Nil.

2. CHIEF FINANCE OFFICER**2.1 FI01.10 Council Policy: Investment**

Executive Officer: Chief Finance Officer

Item Author: Chief Finance Officer

File Reference: 12/13/002; 04/15/004

Executive Summary

This report is to provide Council with a revised FI01.10 Council Policy: Investment and to obtain approval for this policy in line with the policy review schedule.

Previous Council Considerations / Resolutions

FI01.10CP: Investment was last adopted by Council on 20 June 2013.

REPORT

FI01.10CP: Investment Policy was due for review on 30 June 2015. It establishes guidelines for investing funds not required to meet immediate liquidity needs.

Strategic Implications*Community Plan*

Theme: Open and Responsive Government
Outcome: Government is transparent, invites participation and encourages constructive debate.
Priority: Understanding community expectations, delivering services that meet these and government leading by example.

Corporate Plan / Operational Plan

Organisational Sustainability - Strategy 4
Implement effective risk management and maintain contemporary business processes.

Budget Implications

Not Applicable.

Legal / Statutory Implications

Part 3 of the *Local Government Act 2009* requires Council to have an Investment Policy as part of a system of financial management.

*Risks*Strategic Risks

The following Level 1 and Level 2 (strategic) risks are relevant to the matters considered in this report:

- CF3 Utilisation of deficient or substandard financial management practices and subsequent decision making processes.
 CF6 Failure to comply with statutory obligations and responsibilities.

Risk Assessment

Category	Consequence	Likelihood	Inherent Risk Rating	Treatment of risks	Residual Risk Rating
Legal Compliance and Liability Failure to develop and implement procedures to manage cash and investments	Catastrophic	Almost certain	Extreme	Council has an Investment Policy which sets out investment credit rating and counterparty limits; Monthly investment report is provided to the Executive Team and Council that reports actual performance against investment limits	Low

Conclusion

FI01.10CP: Investment was due for review on 30 June 2015 and establishes guidelines for investing funds not required to meet immediate liquidity needs. Council is being asked to adopt a revision of this policy in line with the policy review schedule.

Consultation

Senior Governance Officer
 Coordinator Financial Management
 Assistant Accountant

Chief Finance Officer's Recommendation

That Council endorse the amendment of FI01.10 Council Policy: Investment in accordance with attachment 1 to this report.

Attachments

1. FI01.10CP: Investment.

Attachment 1 - FI01.10CP: Investment

FINANCE
FINANCIAL MANAGEMENT
Policy Number: FI01.10CP



COUNCIL POLICY: INVESTMENT

Date Adopted:	15 December 2009
Committee Reference:	Corporate and Community Services Committee Meeting; 8 December 2009; Item Number 2.3
Amended Date:	19 April 2011; 20 June 2013; 28 July 2015
Contact officer:	Manager Finance Chief Finance Officer
Next review date:	30 June 2015
File Reference:	12/13/002; 04/15/004
Related Policies/Local Laws/Legislation:	<i>Statutory Bodies Financial Arrangements Act 1982</i> <i>Statutory Bodies Financial Arrangements Regulation 2007</i> <i>Statutory Bodies Financial Arrangements Act 1982</i> <i>Operational Guidelines</i> <i>Banking Act (Cwlth) 1959</i> <i>Investment Policy Guidelines for Statutory Bodies:</i> <i>October 2012 - Queensland Government - Queensland</i> <i>Treasury and Trade</i>
Related Documents:	<i>Investment Policy Guidelines (Attachment A)</i>

OBJECTIVES

The objectives of this policy are to establish the guidelines for investing funds not required to meet immediate liquidity needs:

- in accordance with legislative requirements; and
- with consideration of risk and at the most favourable rate of interest available at the time for the investment type.

Corporate Plan:	
Priority Area	<i>Corporate Sustainability</i> <i>Scenic Rim Regional Council is in a strong financial and operational position; we work with our community to deliver on the corporate plan priorities</i>
Strategy	<i>Capitalise on innovative and entrepreneurial revenue opportunities and maximise financial returns and the community benefit realised from Council assets and resources</i>

POLICY STATEMENT

Part 3 of the *Local Government Act 2009* requires Council to have an Investment Policy as part of a system of financial management.

Section 191 of the *Local Government Regulation 2012* requires that Council's Investment Policy must outline:

- a) the local government's investment objectives and overall risk philosophy; and
- b) procedures for achieving the goals related to investment stated in the policy.

Council is committed to maintaining a diversified portfolio of investments with the aim of minimising credit risk and market risk. While exercising the power to invest, consideration is to be given to preservation of capital, liquidity and the return on investment.

The following principles will be applied to all investment decisions:

- Investing only in investments permitted by current legislation.
- Ensuring investments are placed giving due consideration to the relationship between credit rating and interest rate.
- Ensuring diversification is achieved by maintaining the spread of investments across a range of institutions.
- Ensuring the investment portfolio is realisable with minimal penalty within a reasonable timeframe.
- Identifying available cash and period of availability via analysis of the cash flow position for Council each working day.
- Seeking the most advantageous interest rate taking consideration of what is most appropriate in all the circumstances.
- Keeping records to support Council's investment decisions.
- Divesting within 28 days or as soon as practicable if the funds are downgraded and no longer fall within the current guidelines.

Delegation of Authority

Authority for the exercise of Category 1 investment power under Part 6 of the *Statutory Bodies Financial Arrangement Act 1982* and in accordance with the Investment Policy is delegated by Council to the Chief Executive Officer pursuant to Section 257(1)(b) of the *Local Government Act 2009*.

Type of Investments

Investments should be appropriate to Council's investment objectives and comply with the range of approved investments prescribed by Section 44 of the *Statutory Bodies Financial Arrangements Act 1982*.

Risk Management

Council is risk averse; risk aversion is the reluctance to invest in a product with a higher risk compared to a product with a lower risk, but possibly lower returns. Risk can never be completely mitigated and no investment is risk free.

The Investment Policy outlines the limits on investments that assist in mitigating risk within Council's control without unnecessary detrimental impact on investment returns.

Investments are to comply with key criteria relating to:

- Credit Risk; limit overall credit exposure of the portfolio
- Counterparty Credit Risk; limit exposure to individual counterparties/institutions
- Maturity Risk; limits based upon maturing of investments
- Protection of Principal; investments entered into should be structured to minimise the risk of loss of principal
- Grant Funding Conditions; conditions relating to grant funding available to invest must be complied with

Investment Limits

Term to Maturity

Council's investments should be able to be liquidated in a timely manner with minimal loss or penalty. The term to maturity of any investment may range from "at call" to one year. The maximum term for any investment will not exceed one year in accordance with Section 44 of the *Statutory Bodies Financial Arrangements Act 1982*.

Liquidity Requirements

The term of investments must also take into account Council's liquidity requirements and the portfolio must be structured so that there are always sufficient funds available to meet weekly cash requirements.

Credit Ratings

Credit ratings in no way guarantee an investment or protect Council against investment losses. The prescribed ratings should not be misinterpreted as an implicit guarantee of investments or entities that have such ratings. Even given this challenge, ratings provide the best independent information available.

To limit overall credit exposure of the portfolio and exposure to individual counterparties/institutions, Council has placed the following limits on portfolio credit ratings:

Short Term Rating (Standard & Poor's) or equivalent	Maximum Percentage of Total Investments
A1+	100%
A1	50%
A2	30%
A3	10%
Unrated	10%
QIC/QTC Pooled Cash Management Fund*	100%

*equivalent to AAA rated

Diversification

No more than 30% of Council's investments will be held with any one financial institution, or fund manager for investments other than Queensland Treasury Corporation (QTC) or the Queensland Investment Corporation (QIC) cash funds, where 100% of investments may be held.

Type 2 Financial Arrangements

Due to Council being a participating local government as defined in section 5(b) of the *South East Queensland Water (Distribution and Retail Restructuring) Act 2009*, Council has entered into a loan arrangement with Queensland Urban Utilities as of 1 July 2010. Although this arrangement does not meet the criteria of other policy referred to in this document, it is an exception and has the approval of the Under-Treasurer and Council.

SCOPE

The Investment Policy and attached guidelines apply to all cash investments of Council, excluding investments in Queensland Urban Utilities.

DEFINITIONS

Authorised Deposit-taking Institutions (ADIs); corporations which are authorised under the *Banking Act 1959*.

Credit Ratings; a guide or standard for an investor, which indicate the ability of a debt issuer or debt issue to meet the obligations of repayment of interest and principal. Credit rating agencies such as Moody's, Standard and Poor's (S&P) and Fitch Rating make these independent assessments based on a certain set of market and non-market information.

Credit Risk; risk that a counterparty cannot pay back part or all of the investment when it is due.

Investments; arrangements that are undertaken or acquired for producing income.

Liquidity Risk; the risk that an investment product will be difficult to liquidate or involve transaction costs to liquidate.

Market Risk; risk that changes in interest rates will adversely affect the fair value of an investment.

RESPONSIBILITIES

Policy Author	Manager Finance Chief Finance Officer
Policy Owner	Manager Finance Chief Finance Officer
Guidelines and procedures - <i>Attachment A: Investment Policy Guidelines</i>	Coordinator Accounts/Treasury Financial Management

Approved By:

SCENIC RIM REGIONAL COUNCIL
~~25 June 2013~~28 July 2015

ATTACHMENT A: INVESTMENT POLICY GUIDELINES

1. INTRODUCTION

1.1 Preamble

Scenic Rim Regional Council (Council) is granted authority to exercise Category 1 investment power under Part 6 of the *Statutory Bodies Financial Arrangements Act 1982*. This power permits council to invest in a range of highly secure investments:

- either at call; or
- for a fixed time of not more than one year.

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.

Council has also been granted authority to enter into a Type 2 financial arrangement with its Central SEQ Distributor-Retailer Authority; Queensland Urban Utilities (QUU). This is due to Scenic Rim Regional Council being a participating local government as defined in section 5(b) of the *South East Queensland Water (Distribution and Retail Restructuring) Act 2009*. This approval gives Council the authority to enter into loan arrangements with QUU.

1.2 Intent

The activities of officers or fund managers responsible for stewardship of Council's funds will be measured against the standards in this Policy and its objectives.

Activities that defy the spirit and intent of this Policy will be deemed contrary to the Policy.

2. GUIDELINES

2.1 Authority

All investments are to be made in accordance with:

- *Statutory Bodies Financial Arrangements Act 1982*
- *Statutory Bodies Financial Arrangements Regulation 2007*

2.2 Ethical Considerations

2.2.1 Prudent person standard

The prudent person standard requires officers to exercise same care, diligence and skill that a prudent person would exercise in managing the affairs of other persons. Acting prudently applies to selecting investments and requires an individual to consider diversification, appropriateness of the investment, risk and anticipated return, liquidity, independent financial advice and to have a clear understanding of the investment and associated underlying risk.

2.2.2 Ethics and conflicts of interest

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

This policy requires officers to disclose any conflict of interest to the Chief Executive Officer.

2.3 Investment Objectives

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.

In priority, the order of investment activities shall be preservation of capital, liquidity, and return on investment.

2.3.1 Preservation of capital

Preservation of capital shall be the principal objective of the investment portfolio. Investments are to be performed 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. Credit risk will be minimised by officers pre-qualifying all transactions including the brokers/securities dealers with which they do business, diversify the portfolio and limit transactions to secure investments.

Interest Rate Risk

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 will 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. Interest rate risk can also be limited by investing in shorter term securities.

2.3.2 Maintenance of liquidity

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 redeem an investment.

2.3.3 Return on investments

The portfolio is expected to achieve a market average rate of return and take into account Council's risk tolerance and current interest rates, budget considerations, and the economic cycle. Any additional return target set by Council will also consider the risk limitations, prudent investment principles and cash flow characteristics identified within this Investment Policy.

2.4 Portfolio Implementation

2.4.1 Authorised personnel

Responsibility for implementation of these Guidelines is delegated by the Chief Executive Officer to the ~~Director Corporate Services and the Manager Finance~~ Chief Finance Officer in accordance with Section 259 of the *Local Government Act 2009*.

2.4.2 Internal controls

The ~~Manager Finance~~ Chief Finance Officer shall establish internal controls and processes that will ensure investment objectives are met and that the investment portfolios are protected from loss, theft or inappropriate use.

The established processes will include monthly reporting (including compliance reporting), as well as regular 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;
- avoid physical delivery of securities;
- confirmation requirements for settlement of securities;
- compliance and oversight of investment parameters; and
- reporting of breaches.

2.5 Investment Parameters

2.5.1 Investable funds

For the purposes of this policy, investable funds are the investment moneys available for investment at any one time and include the Council's bank account balance. Included in this balance is any moneys held by Council on behalf of external parties i.e. trust funds.

The investable funds should match the cash flow needs of Council after preparing the annual budget.

2.5.2 Authorised investments

Without specific approval from Council or the Treasurer, investments are limited to those prescribed by Section 44 of the *Statutory Bodies Financial Arrangements Act 1982*, which include:

- State/Commonwealth Government bonds, debentures or securities;
- Interest bearing deposits issued by an authorised deposit taking institution (ADI);
- Deposits with QIC or QTC.

2.5.3 Mandatory Conditions

There are certain mandatory conditions that all investments must comply with:

- All investments must be in the name of Scenic Rim Regional Council. If using the services of an investment advisor or broker, Council must ensure that ownership is retained.
- All investments must be denominated in Australian dollars.

2.5.4 Prohibited investments

This Investment Policy prohibits any investment carried out for speculative purposes including:

- derivative based instruments;
- principal only investments or securities that provide potentially nil or negative cash flow;
- stand alone securities issued that have underlying futures, options, forward contracts and swaps of any kind.

The Investment Policy also prohibits the use of leveraging (borrowing to invest) of an investment.

2.5.5 Portfolio investment parameters and credit requirements

The Policy contains the maximum acceptable institutional credit rating limits associated with applicable institutions based on their short-term Standard and Poor's or equivalent credit rating.

A Financial Institution is defined as an authorised deposit-taking institution within the meaning of the *Banking Act 1959 (Cwlth)*, Section 5. Council shall keep a current list of credit ratings for the authorised financial institutions.

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.

2.5.6 Maturity

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

2.5.7 Breaches

The ~~Manager-Finance~~ [Chief Finance Officer](#) shall report any breaches of this policy to the Director of Corporate Services and Chief Executive Officer within 24 hours of the breach being detected. The Chief Executive Officer may take appropriate action including counseling or discipline of responsible officer/s. The Chief Executive Officer must report to the next available Council meeting any breach which in his opinion may have exposed Council to significant financial risk.

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 divest itself of the investment arrangement.

2.5.8 Criteria of authorised dealers and broker

All transactions undertaken on behalf of the investment portfolio of Council will be executed either by Council directly, or through securities brokers registered as Australian Financial Service Licensees (ASIC) with an established sales presence in Australia.

3. ADMINISTRATION OF POLICY

3.1 Investment Register

Council must keep an update to date Investment Register supported by appropriate documentary evidence for each investment held and each transaction undertaken.

For audit purposes, certificates must be obtained from the financial institutions confirming the investments held on the Council's behalf as at 30 June each year and reconciled to the Investment Register.

3.1 Reporting

The ~~Manager Finance~~Chief Finance Officer will prepare a monthly report to Council containing the following:

- List of investments held by financial institution
- Total cash and investments held
- Percentage exposure to individual financial institutions
- Adherence to the investment limits set in this policy
- Investment portfolio performance against established benchmarks

3.2 Performance Measurement

The investment return for the portfolio shall be measured using the market value of the portfolio, including withdrawals and deposits, and total performance of the portfolio compared to the average QTC Overnight Cash Rate.

Approved By:

SCENIC RIM REGIONAL COUNCIL

~~25 June 2013~~28 July 2015

2.2 Council Monthly Financial Report for June 2015**Executive Officer: Chief Executive Officer****Item Author: Chief Finance Officer****File Reference: 12/15/004**

Executive Summary

The purpose of this report is to seek Council's endorsement of the monthly financial report for June 2015.

Previous Council Considerations / Resolutions

Financial reports are presented to Council on a monthly basis.

REPORT

The Council monthly financial report provides information on Council's actual to budget performance. The graphical representation of key performance indicators provides key summary financial information.

Strategic Implications*Community Plan*

Theme: Open and responsive government
Outcome: Government is transparent, invites participation and encourages constructive debate
Priority: Streamlined, form and fair regulation of issues that matter with incentives for good practice

Corporate Plan / Operational Plan

Corporate Sustainability - Strategy 1
Implement an integrated strategic planning framework across Council, which embeds performance, financial and asset management principles (including long term financial modelling and whole of life costing).

Budget Implications

The indicator for Net Surplus/(Deficit) is ahead of budgeted expectations by \$4.9m.

The indicator for Total Income is within 10% of budgeted expectations.

The indicator for Operating Expenses is within 10% of budgeted expectations.

The indicator for Capital Expenses is behind budgeted expectations by \$11.8m.

The indicator for Cash is ahead of budgeted expectations by \$4.2m.

Legal / Statutory Implications

Section 204 of the Local Government Regulation 2012 requires the Chief Executive Officer to present a financial report to Council on a monthly basis.

*Risks*Strategic Risks

The following Level 1 and Level 2 (strategic) risks are relevant to the matters considered in this report:

- CF.2 Adoption of unrealistic corporate objectives that are beyond the financial resources of the organisation to deliver.
- CF.3 Utilisation of deficient or substandard financial management practices and subsequent decision making processes.
- CF.6 Failure to comply with statutory obligations and responsibilities.

Risk Assessment

Category	Consequence	Likelihood	Inherent Risk Rating	Treatment of risks	Residual Risk Rating
Financial and Economic Inaccurate or untimely management reporting	Major	Likely	High	Actual performance is reported against budget on a monthly basis to the Executive Team and Council with explanations provided on budget variances greater than \$50k and 10%	Low
Financial and Economic Failure to develop and implement procedures to manage cash and investments	Catastrophic	Almost certain	Extreme	Monthly investment report is provided to the Executive Team and Council that reports actual performance against investment limits	Low

Category	Consequence	Likelihood	Inherent Risk Rating	Treatment of risks	Residual Risk Rating
Financial and Economic Failure to manage outstanding debtors	Moderate	Almost certain	High	Monthly debtors report is provided to the Executive Team and Council including chart showing total outstanding debtors and debtors greater than 90 days overdue	Low

Conclusion

The monthly financial report provides information on the actual to budget position at financial statement level.

Consultation

Council's Executive Team

Chief Finance Officer's Recommendation

That Council endorse the Council Monthly Financial Report for June 2015.

Attachments

1. Council Monthly Financial Report for June 2015 (attached separately).

2.3 Request for Change in Rating Category and Concession [Closed s.275(1)(d)]**Executive Officer: Chief Executive Officer****Item Author: Chief Finance Officer****File Reference: 25/06/001**

Reason for Confidentiality

This report is **CONFIDENTIAL** in accordance with Section 275(1)(d) of the Local Government Regulation 2012, which permits the meeting to be closed to the public for business relating to the following: -

(d) rating concessions.

2.4 Outstanding Rates Write Off [Closed s.275(1)(c)]**Executive Officer: Chief Executive Officer****Item Author: Chief Finance Officer****File Reference: 12/01/006**

Reason for Confidentiality

This report is **CONFIDENTIAL** in accordance with Section 275(1)(c) of the Local Government Regulation 2012, which permits the meeting to be closed to the public for business relating to the following: -

- (c) the local government's budget.

2.5 Sale of Land for Overdue Rates and Charges [Closed s.275(1)(f)]**Executive Officer: Chief Executive Officer****Item Author: Chief Finance Officer****File Reference: 12/06/004**

Reason for Confidentiality

This report is **CONFIDENTIAL** in accordance with Section 275(1)(f) of the Local Government Regulation 2012, which permits the meeting to be closed to the public for business relating to the following: -

- (f) starting or defending legal proceedings involving it.

3. REGIONAL SERVICES

Nil.

4. INFRASTRUCTURE SERVICES

Nil.