

	<b>CENTRAL HIGHLANDS REGIONAL COUNCIL POLICY</b>	
	Investment Policy	<b>POLICY REF NO</b> CHRCP: 0010

## 1.0 Policy Purpose

- 1.1** This Policy is made pursuant to section 191 of the LG Regulation. This policy sets out Council's investment objectives and overall risk philosophy, and procedures for achieving the goals related to investment stated in the policy.

This Policy applies to all invested funds of Council in accordance with investment powers under Part 6 of the *Statutory Bodies Financial Arrangements Act 1982* (SBFA Act) and the *Statutory Bodies Financial Arrangements Regulation 2019* (SBFA Regulation).

Pursuant to section 101 of the *Local Government Act 2009* (LG Act), council derives its investment powers from the SBFA Act and SBFA Regulation. In accordance with Schedule 3 of the SBFA Regulation, council has been allocated a Category 1 investment power which permits investment in a specified range of investments, either at call, or for a fixed time of not more than one year.

## 2.0 Policy Statement

### 2.1 Investment Activities

Under section 47(1) of the SBFA Act Council *must use its best efforts to invest its funds*

- (a) *at the most advantageous interest rate available to it at the time of the investment for an investment of the proposed type; and*
- (b) *in a way it considers is most appropriate in all the circumstances*

Council must also keep records that show it has invested in the way most appropriate in all the circumstances.

These requirements are to be applied in combination with the requirements set out below to ensure Council achieves the overall best outcome. In priority order the key investment objectives shall be:

#### 2.1.1 Preservation of Capital

Preservation of capital shall be the principal objective of the investment portfolio. Investments are to be managed in a manner that seeks to ensure the security of the principal amount. This includes managing credit and interest rate risk within given risk management parameters and avoiding any transactions that would prejudice confidence in council or associated entities.

Council must evaluate and assess credit risk prior to investment. The investment officer must minimise the credit risk of Council's investments by taking appropriate actions including pre-qualifying all transactions including brokers / securities dealers engaged,

Electronic version current – uncontrolled copy valid only at time of printing		
Adoption Date: 28 June 2023	Amended Date: 28 June 2023	Document Name: Investment Policy
Revokes: Investment Policy previously resolved by council on 28 June 2022	Review Date: 30 June 2024	Page 1 of 6

complying with the investment parameters of section 2.3.3 of this Policy, and limiting transactions with non-QTC Financial Institutions. In accordance with section 44 of the SBFA Act, investment arrangements not with QTC or QIC, and that are not guaranteed or issued by or for the Commonwealth or a State or Financial Institution, must have a rating as prescribed under section 8 of the SBFA Regulation.

Council's investment officers must also aim to minimise the risk of an adverse change in the market value of investments due to a change in interest rates. This can be achieved by considering the cash flow requirements of council and structuring the portfolio accordingly. This should 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.

Investment officers are not to engage in speculative conduct in the management of Council's investments.

**2.1.2 Maintenance of Liquidity**

The investment portfolio must maintain sufficient liquidity to meet all reasonably anticipated operating cash flow requirements of council, without incurring significant transaction costs due to redeeming any investment before its planned maturity date. Minimum liquidity requirements of Council's investments are detailed in section 2.3.6.

**2.1.3 Return on Investments**

Council's investments are expected to achieve a market average rate of return when considering council's risk tolerance, current interest rates, budget considerations, and the economic cycle. Any increased return target set by council must consider the risk limitations, prudent investment principles and cash flow requirements, and must be documented and approved by the CEO.

**2.1.4 Support of Local Banking Institutions**

While ensuring appropriate security, liquidity and return on investment, council may, where possible, support the development of local businesses through the allocation of some investment funds to locally based banking institutions within the guidelines of this Policy and where returns are not more than 10% below expected returns from QTC Cash Fund investments or quoted rates from other non-local Financial Institutions.

**2.2 Ethics and Conflicts of Interest**

Investment officers must refrain from personal activities that would actually or potentially conflict, or create a perception of a conflict, with the proper execution and management of council's investments. This includes activities that may impair (or be perceived to impair) the investment officers' ability to make impartial decisions.

This Policy requires that employees and investment officers disclose to the CEO any actual, potential or perceived conflicts of interest, including any actions, relationships, or personal investment positions that could be related to the investment portfolio.

**2.3 Investment Requirements**

**2.3.1 Authorised Investments**

Section 44(2) of the SBFA Act states that investments allocated to Category 1 must be at call or for a fixed time of not more than one year.

Electronic version current – uncontrolled copy valid only at time of printing		
Adoption Date: 28 June 2023	Amended Date: 28 June 2023	Document Name: Investment Policy
Revokes: Investment Policy previously resolved by council on 28 June 2022	Review Date: 30 June 2024	Page 2 of 6

Section 44(1) of the SBFA Act provides council with the power to invest in authorised investments which are constrained to one or more of the following:

- 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
- investment with Queensland Investment Corporation (QIC) or Queensland Treasury Corporation (QTC)
- an investment arrangement with a rating prescribed under a regulation for section 44(1) of the SBFA
- other investment arrangements prescribed under a regulation for section 44(1) of the SBFA Act.

### 2.3.2 Prohibited Investments

This Investment Policy prohibits any investment carried out for speculative purposes. The following investments are prohibited by this Policy having regard to the Category 1 investment power under Part 6 of the SBFA Act:

- derivative based instruments (excluding floating rate notices)
- principal only investments or securities that provide potentially nil or negative cash flows
- stand-alone securities that have underlying futures, options, forward contracts and swaps of any kind
- securities issued in non-Australian money or undertaken overseas
- any other investment that is not expressly permitted by the Category 1 investment power under the SBFA Act and SBFA Regulation.

### 2.3.3 Investment Parameters

For all investments, consideration should be given to the relationship between credit rating and interest rates. There are no limits for funds held with QTC, however liquidity requirements must always be considered as per paragraph 2.3.6.

The amount invested with other Financial Institutions must not exceed the following percentages of funds invested (based on average annual Investable Funds) as per the below table.

Electronic version current – uncontrolled copy valid only at time of printing		
Adoption Date: 28 June 2023	Amended Date: 28 June 2023	Document Name: Investment Policy
Revokes: Investment Policy previously resolved by council on 28 June 2022	Review Date: 30 June 2024	Page 3 of 6

S&P Global Ratings	Individual Counterparty Limit	Total Investment Limit	Rating Definition
A-1+	Maximum 50%	100%	capacity to meet its financial commitment on the obligation very is strong
A-1	Maximum 20%	30%	capacity to meet its financial commitment on the obligation is strong
A-2	Maximum 10%	10%	susceptible to adverse economic conditions however the obligor's capacity to meet its financial commitment on the obligation is satisfactory

#### 2.3.4 Investable Funds

For the purposes of this Policy, Investable Funds are available surplus cash holdings at any one time, after allowing for liquidity requirements as specified in paragraphs 2.1.2 and 2.3.6. Investable Funds exclude any monies held in council's trust account.

#### 2.3.5 Maturity

The maturity structure of Council's investments will reflect a maximum term to maturity of one year for fixed term investments in accordance with the section 44(2)(b) the SBFA Act.

#### 2.3.6 Liquidity Requirements

Council maintains a deposit and withdrawal account with Westpac Banking Corporation with a standard minimum balance of \$1 million, or as amended by the Chief Financial Officer. This account is used for day-to-day operating requirements. All other surplus funds are maintained either at QTC in at call capital guaranteed cash fund accounts or in other approved investments.

From time-to-time council may also hold fixed term deposit investments with local banking institutions in accordance with the investment principles of this Policy at paragraph 2.1.4 above.

A minimum balance is to be maintained in the QTC at call accounts to allow for the cashflow requirements of council of between three to six months. QTC sets a target for the key financial sustainability cash cover expense ratio of greater than three months. This ratio measures the number of months council can continue paying its immediate expenses without additional cashflow injections. The formula for the ratio is:

$$\text{Current year cash} / ((\text{operating expenses} - \text{depreciation} - \text{finance costs}) / 12)$$

## 2.4 Implementation

#### 2.4.1 Internal Controls

The Manager Finance shall establish sufficient and robust internal controls and processes to ensure investment objectives are met and that Council's investments are protected from loss, theft, and inappropriate use.

Electronic version current – uncontrolled copy valid only at time of printing		
Adoption Date: 28 June 2023	Amended Date: 28 June 2023	Document Name: Investment Policy
Revokes: Investment Policy previously resolved by council on 28 June 2022	Review Date: 30 June 2024	Page 4 of 6

When placing fixed term investments where funds will not be at call, three quotations should be obtained, unless a compelling reason otherwise is documented and approved. The successful quote will represent the most competitive rate for the investment term after allowing for administrative costs, risk profile, ensuring sufficient cash reserves remain at call, and ensuring compliance with the limits and rating categories specified in the parameters at 2.3.3. The quote must be approved by the Manager Finance.

Appropriate supporting documentation must be maintained for investments placed with QTC and all other Financial Institutions. The Investment Register must be updated and reconciled at least monthly by Finance with investment performance reported to executive management at least quarterly.

**2.4.2 Delegation of Authority**

Authority for implementation of the Investment Policy is delegated by council to the CEO in accordance with section 257 of the LG Act.

Authority for the day-to-day management of council’s investment portfolio is to be sub-delegated by the CEO to the Chief Financial Officer and / or the Manager Finance under section 259 of the LG Act.

**2.4.3 Breaches**

Any breach of this Investment Policy is to be reported to the Chief Financial Officer within two days of the breach being identified. The Chief Financial Officer is delegated discretion to take appropriate action to rectify breaches, except where council holds an investment that is downgraded below the minimum acceptable rating level (as prescribed under regulation for the investment arrangement). In that case council shall, within 28 days after the change becomes known to council, either obtain Treasurer approval for continuing with the investment arrangement or dispose of the investment arrangement in the most advantageous way reasonably available or as directed by the Treasurer.

Electronic version current – uncontrolled copy valid only at time of printing		
Adoption Date: 28 June 2023	Amended Date: 28 June 2023	Document Name: Investment Policy
Revokes: Investment Policy previously resolved by council on 28 June 2022	Review Date: 30 June 2024	Page 5 of 6

### 3.0 Definitions

To assist in interpretation, the following definitions apply:

<b>CEO</b>	The person appointed to the position of Chief Executive Officer under section 194 of the LG Act and anyone acting in that position under section 195 of the LG Act.
<b>Council</b>	Central Highlands Regional Council.
<b>The LG Act</b>	The Queensland <i>Local Government Act 2009</i> .
<b>The LG Regulation</b>	The Queensland Local Government Regulation 2012.
<b>Investment Officer/s</b>	Employees or contractors responsible for and engaged in activities related to the physical investment of funds (e.g. investment placement and redemption, reconciliations, checking).
<b>Manager Finance</b>	The person holding that position in council's hierarchy or, in their absence, the Chief Financial Officer.
<b>Credit Risk</b>	The risk of loss to Council due to the failure of an investment issuer or guarantor.
<b>Chief Financial Officer</b>	The person holding that position in council's hierarchy, or in their absence, the Chief Executive Officer.
<b>Investable Funds</b>	Has the meaning given in section 2.3.4.
<b>SBFA Act</b>	The Queensland <i>Statutory Bodies Financial Arrangements Act 1982</i> .
<b>SBFA Regulation</b>	The Queensland Statutory Bodies Financial Arrangements Regulation 2019.
<b>Financial Institution</b>	An authorised deposit-taking institution within the meaning of Section 5 of the <i>Banking Act 1959</i> (Commonwealth).

<b>Strategic Link</b>	<i>Local Government Act 2009</i> <i>Local Government Regulation 2012</i> <i>Statutory Bodies Financial Arrangements Act 1982</i> <i>Statutory Bodies Financial Arrangements Regulation 2019</i> <i>Banking Act 1959</i>
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<b>Lead Business Unit</b>	CFO Office
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Electronic version current – uncontrolled copy valid only at time of printing		
Adoption Date: 28 June 2023	Amended Date: 28 June 2023	Document Name: Investment Policy
Revokes: Investment Policy previously resolved by council on 28 June 2022	Review Date: 30 June 2024	Page 6 of 6