

FM8 – INVESTMENTS

PROCEDURE: N/A

DELEGATION: N/A

OBJECTIVE

To undertake the authorised investment of the Shire's surplus funds, with consideration of risk at the most favourable rate of interest available to it at the time, for that investment type, while ensuring that its liquidity requirements are met.

POLICY

Definitions

"Authorised Institution" means the same as that defined in Regulation 19C(1) of the Local Government (Financial Management) Regulations 1996 as amended.

"Counterparty" means the other party that participates in a financial transaction.

"Credit Rating" means an estimate of overall ability and willingness of an entity or person to fulfil financial obligations in full and on time, based on previous financial dealings. Ratings are opinions issued by credit rating agencies.

"Short Term" in relation to investments means it matures in 12 months or less.

"Long Term" in relation to investments means it matures in excess of 12 months.

Statement:

While exercising the power to invest, consideration needs to be given to preservation of capital, liquidity, and the return on investment.

- a. Preservation of capital is the principal objective of the investment portfolio. Investing activities are to be performed in a manner that seeks to ensure the security and safeguarding of the investment portfolio. This includes managing credit and interest rate risk within specified limits and parameters.
- b. The investment portfolio will ensure there is sufficient liquidity to meet all reasonably anticipated cash flow requirements, as and when they fall due, without incurring significant costs due to the unanticipated realisation of an investment.
- c. The investment portfolio is expected to achieve a predetermined market average rate of return that takes into account legislative investment limitations and the Council's risk tolerance. Any additional return target set by Council will also consider the risk limitation, liquidity requirements and prudent investment principles.



Authority for Investment

All investments are to be made in accordance with:

-) Local Government Act 1995 – Section 6.14;
-) The Trustees Amendment Act 1997 – Point 6, Part III – Investments;
-) Local Government (Financial Management) Regulations 1996 – Regulations 19, 19C, 28 and 49; and
-) Australian Accounting Standards.

Delegation of Authority

Authority is delegated to the Chief Executive Officer to implement this policy. The Chief Executive Officer may in turn delegate the day-to-day management of the Shire's investments in accordance with the provisions of the Local Government Act 1995.

Prudent Person Standard

Investments will be managed with the care, diligence and skill that a prudent person would exercise. Officers delegated with authority to manage investments are to safeguard the portfolios in accordance with the substance of this policy, and not for speculative or any other purposes.

Authorised Investments

Without Direct approvals from Council, Investments are limited to:

-) Bank Accepted/Endorsed Bank Bills;
-) Bank Negotiable Certificates of Deposit;
-) Bank Interest Bearing Deposits; and
-) State/Commonwealth Government Bonds;

Prohibited Investments

The investment policy strictly prohibits any investment carried out for speculative purposes including:

-) Derivative or derivative based instruments and or structured products;
-) Principal only investments or securities that provide potentially nil or negative cash flow;
-) Stand-alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind; and
-) Any form of investment that risks the loss of the initial capital outlay in anticipation of significant gain that may arise from expected changes in future economic conditions.

This policy also prohibits the use of leveraging (borrowing to invest) of an investment.

This policy also requires that the Shire may not do any of the following when investing money, as per Regulation 19C of the Local Government (Financial Management) Regulations 1996:

-) Deposit with an institution except an authorised institution;
-) Deposit for a fixed term of more than 12 months;
-) Invest in bonds that are not guaranteed by the Commonwealth Government or a State or Territory Government;
-) Invest in bonds with a term to maturity of more than 3 years; and
-) Invest in a foreign currency.



Risk Management Guidelines

a) Risk Management Guidelines

Any investments that are entered into by the Council should comply with the five key Criteria:

1. Portfolio Credit Framework – Limit overall credit exposure of the portfolio;
2. Counterparty Credit Framework – Limit exposure to individual counterparties/ institutions;
3. Term to Maturity Framework – Limits based upon maturity of securities;
4. Market Risk; and
5. Fraud

(i) Portfolio Credit Framework

To control the credit quality on the entire portfolio, the following credit framework limits the percentage of the portfolio exposed to any particular credit rating category.

S&P Long Term Rating	S&P Short Term Rating	Direct Investment Maximum %	Managed Funds Maximum %
AAA	A 1+	100%	100%
AA	A 1	100%	100%
A	A2	60%	80%

(ii) Counterparty Credit Framework

Exposure to an individual counterparty/institution will be restricted by its credit rating so that any single entity exposure is limited.

S&P Long Term Rating	S&P Short Term Rating	Direct Investment Maximum %	Managed Funds Maximum %
AAA	A 1+	45%	50%
AA	A 1	35%	45%
A	A2	20%	40%

(iii) Term to Maturity

The investment portfolio is to be invested within the following maturity constraints.

Overall Portfolio Return to Maturity	S&P Short Term Rating	Direct Investment Maximum %
Up to 12 months	40%	100%
12 to 24 months	0%	35%
25 to 36 months	0%	20%

The Term to Maturity impacts investment products exposure in two ways:

-) Maturity Risk- Identifies the impact of maturity on the valuation of the investment. The longer the term to maturity the greater the length of exposure.
-) Liquidity Risk- A low liquidity risk for a product will arise if there a high market depth for a product. The product has to be easily converted to cash in a market environment without too much additional cost to the Council.



(iv) Market Risk

Market Risk – All investment products should be scrutinised to ensure there is no significant exposure to the Council from movements in interest rates, currency and other prices.

(v) Fraud

Two authorised signatories are required to authorise any investment transaction.

b) Investment Advisor

Any Investment Advisor used by a local government must be approved by Council and licensed by the Australian Securities and Investment Commission. The advisor must be an independent person who has no actual, potential or perceived conflict of interest in relation to investment products recommended.

c) Reporting

-) A monthly information report should be provided to Council detailing the investment portfolio in terms of performance and counterparty percentage exposure of total portfolio.
-) The report should also detail investment income earned versus budget year to date.
-) For audit purposes, certificates must be obtained from the banks/fund managers confirming the amounts of investment held on Council's behalf at 30 June each year.

d) Quotations

At least 3 quotes must be obtained for investment products that adhere to this investment policy. These quotations will contain enough information to ensure it complies with this investment policy.

e) Variation to Policy

The Chief Executive Officer or his delegated representative be authorised to approve variations to this policy if the investment is to Council's advantage and/or due to revised legislation.

All changes to this policy are to be reported to Council at the next Council meeting.

Relevant Legislation:	Local Government Act 1995 S.6.14
	The Trustees Amendment Act 1997 – Point 6
	Local Government (Financial Management) Regulations 1996
Related Policies:	
Last Reviewed:	15.12.2016 – OCM Min No.145/2016
Next Review Date:	11.2018
Adopted:	31.05.2001

