



Shire of Derby / West Kimberley

(F17) INVESTMENTS

POLICY 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.

POLICY STATEMENT

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

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.

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.

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.

1. **Authority for Investment**

All investments are to be made in accordance with:

- a) *Local Government Act 1995* – Section 6.14;
- b) *Trustees Act 1962*, Part III – Investments;
- c) *Local Government (Financial Management) Regulations 1996* – Regulations 19 and 19C; and
- d) *Australian Accounting Standards*.

2. **Delegation of Authority**

Authority is delegated to the Chief Executive Officer (CEO) to implement this policy. The CEO 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*.

3. **Prudent Person Standard**



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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.

4. Authorised Investments

Without Direct approvals from Council, Investments are limited to:

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

5. Prohibited Investments

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

- a) Derivative or derivative based instruments and or structured products;
- b) Principal only investments or securities that provide potentially nil or negative cash flow;
- c) Stand-alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind; and
- d) 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*:

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

6. Risk Management Guidelines

Any investments that are entered into by the Council should comply with the following 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.



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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:

- a) **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.
- b) **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 Shire from movements in interest rates, currency and other prices.

(v) *Fraud*

Two authorised signatories are required to authorise any investment transaction.

7. 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.

8. 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.

9. Quotations

At least three 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.

10. Variation to Policy

The CEO or their delegated representative be authorised to approve variations to this policy if the investment is to the Shire's advantage and/or due to revised legislation. All variations are to be reported to Council at the next Council meeting.

Policy Details			
Original Adoption date:	31 May 2001	Review Frequency:	1 year
		Next Review Due:	February 2025
Policy Implementing Officer or Team:	Manager of Corporate Services	Policy Reviewer:	Deputy Chief Executive Officer
Legislative Head of Power (Act, Regulation, or Local Law):	Local Government Act 1995 s.6.14 Power to invest The Trustees Act 1962 Part III - Investments Local Government (Financial Management) Regulations 1996 r.19 Investments, control procedures for, and r.19C Investment of money, restrictions on (Act s6.14(2)(a))		
Related Documents (other Policies, Operational Procedures, Delegations, etc.):	Delegation 1.1.23 Power to Invest and Management Investments Delegation 1.2.10 Financial Management Systems and Procedures		
Version Control Council Meeting Review Details:			
Review #:	Council Meeting Date:	Item/Resolution#:	
1.	15 December 2016	Item 11.2 Res. 145/2016	
2.	24 June 2021	Item 11.2 Res. 57/21	
3.	24 February 2022	Item 11.5 Res. 07/22	
4.	30 March 2023	Item 10.1 Res. 15/23	
5.	19 January 2024	The Director Strategic Business utilised AUTHO33 Local Government Act 1995 s.5.45 Other matters relevant to delegations under this Division (Acting Through on behalf of the Chief Executive Officer), to make minor changes using delegation 1.1.34 Minor Amendments to Policies and Delegations. Synergy Record No. N21078	
6.	29 February 2024	Item 12.3 Res. 09/24	