



Investment Policy

Policy Objective

This Policy aims to provide the criteria for making authorised investments of funds that are surplus to the Shire of Denmark's immediate requirements and to ensure the security of the Shire's funds.

Policy Statement

The principal objective of Council with respect to the investment of surplus funds is the preservation of capital.

While a conservative approach is to be adopted, the maximisation of returns within the confines of this Policy is also encouraged

This Policy applies to all investments associated with the operation of the Shire and includes reserves, other restricted funds and general revenue funds in excess of immediate cash-flow requirements.

The following factors are to guide investment decisions:

- a) Compliance - investment decisions are made with adherence to appropriate legislative requirements.
- b) Preservation of capital - investments are to be performed in a manner that seeks to ensure security and safeguard the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters.
- c) Liquidity - the investment portfolio will ensure sufficient liquidity to meet all reasonably anticipated cash flow requirements, as and when they fall due, without incurring significant costs due to the unanticipated sale of an investment.
- d) Return on Investment - investments are expected to achieve a predetermined market average rate of return, taking into account the Council's risk tolerance.

Investment Guidelines

AUTHORISED INSTITUTIONS

Investments are limited to authorised institutions per Local Government (Financial Management) Regulations Section 19C. An authorised institution means

- an authorised deposit-taking institution (ADI) as defined in the Banking Act 1959 (Commonwealth) section 5, or
- the Western Australian Treasury Corporation (established by the Western Australian Corporation Act 1986).

AUTHORISED INVESTMENTS

In accordance with Local Government (Financial Management) Regulations Section 19C the Shire can only invest in the following institutions:

- Authorised deposit-taking institution as regulated by the Australian Prudential Regulation Authority (APRA) in accordance with the Banking Act 1959 (Commonwealth); or
- Western Australian Treasury Corporation established by the Western Australian Treasury Corporation Act 1986.

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 with underlying futures, options, forwards contracts and swaps of any kind.

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

RATING AGENCY

The credit framework will adopt the Standard Poor (S&P) credit rating criteria, and institution credit ratings are to be reviewed regularly to ensure the credit quality of the investment portfolio is maintained.

AUTHORITY TO INVEST

The authority to invest is to be delegated to the Chief Executive Officer to make investment decisions and sign investment lodgements and withdrawals (Local Government Act 1995 Section 5.44). The CEO may delegate the day-to-day management of the Shire's investments.

PRUDENT PERSON STANDARD

Investments will be managed with the care, diligence, and skill that a prudent person will exercise.

NON-FOSSIL FUEL INVESTMENT

Subject to the policy objectives and risk management guidelines as outlined in this document, the Shire will ensure its financial investments consider the reduction of fossil fuels by investing with non-fossil fuel lending banks. The Shire will refer to the research of third-party bank monitoring services to determine eligible non fossil fuel lending banks.

RISK MANAGEMENT GUIDELINES

All investments are to comply with the following three key criteria.

- (a) 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	60%	80%
A	A-2	40%	80%

- (b) Counterparty Credit Framework - exposure to an individual counterparty/institution will be restricted by their credit rating so that single entity exposure is limited, as detailed in the table below.

S&P Long Term Rating	S&P Short Term Rating	Direct Investment Maximum %	Managed Funds Maximum%
AAA	A-1+	50%	50%

AA	A-1	35%	45%
A	A-2	25%	40%

- (c) Term to Maturity Framework - the investment portfolio is to be invested within the following maturity constraints.

Overall Portfolio Return to Maturity		
Portfolio % <1 year	Min 40%	Max 100%
Portfolio % ≥ 1 year and ≤ 3 years	Min 0%	Max 60%

Investments fixed for greater than 12 months are to be reviewed on a regular basis and invested for no longer than three (5) years.

If any of the Council's investments are downgraded such that they no longer fall within the investment policy, they will be divested as soon as practicable.

INVESTMENT ADVISOR

If an investment advisor is appointed, they must be an independent person approved by Council and licensed by the Australian Securities and Investment Commission. Any appointed investment advisor must abide by all guidelines in the Investment Policy.

BENCHMARKING

The performance of the investment portfolio shall be measured against the Reserve Bank of Australia (RBA) Cash Rate.

LEGISLATIVE REQUIREMENTS

All investments are to comply with the following:

- Local Government Act 1995 – Section 6.14;
- The Trustees Act 1962 – Part III Investments;
- Local Government (Financial Management) Regulation 1996 – Regulations (19, 19C 28, 34, and 49)
- Australian Accounting Standards

REPORTING AND REVIEW

A monthly report will be provided to the Council detailing the performance of the investment portfolio, counterparty percentage exposure of the total portfolio and investment maturity dates. The report will also detail investment income earned versus budget year-to-date and confirm compliance with legislative and Policy limits.

The Investment Policy will be reviewed annually or as required in the event of legislative changes.

Documentary evidence must be held for each investment, and details thereof maintained in an Investment Register.

Certificates must be obtained from the financial institutions confirming the amounts of investments held on the Council's behalf as at 30 June each year and reconciled to the Investment Register.

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