

## 3.2 INVESTMENTS

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### OBJECTIVE

The objective of the Investment Policy is to invest the Shire of Gingin's surplus funds with consideration of risk and at the most favourable rate of interest available to it at the time, for that investment type, and having regard for the local banks, while ensuring that its liquidity requirements are being met.

### POLICY

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

- Preservation of capital is the principal objective of the investment portfolio. Investments are to be performed in a manner that seeks to ensure security and safeguarding the investment portfolio. This includes management of credit and interest risk within identified thresholds 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 sale of an investment.

The investment is expected to achieve a predetermined market average rate of return that takes into account the Shire's risk tolerance. Any additional return target set by Council will also consider the risk limitation and prudent investment principles.

### Legislative Requirements

All investments are to comply with the following:

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

### Delegation of Authority

Authority for implementation of the Investment Policy is delegated by Council to the Chief Executive Officer (CEO) in accordance with the Local Government Act 1995. The CEO may, in turn, delegate the day-to-day management of the Shire's investments to senior staff, subject to regular reviews.

## **Prudent Person Standard**

The investment will be managed with the care, diligence and skill that a prudent person would exercise. Officers are to manage the investment portfolio to safeguard the portfolio in accordance with the spirit of this Investment Policy and not for speculative purposes.

## **Ethics and Conflicts of Interest**

Officers shall refrain from personal activities that would conflict with the proper execution and management of Shire's investment portfolio. This policy requires Officers to disclose any conflict of interest to the CEO.

## **Approved Investments**

Without approval from Council, investments are limited to:

- State/Commonwealth Government Bonds with a term of maturity not exceeding three years;
- Fixed term deposits placed with an authorised institution\* for a term not exceeding three years; and
- Interest-bearing deposits placed with an authorised institution;

## **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; and
- Stand-alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind.

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

In accordance with the Local Government (Financial Management) Regulations 1996 Reg 19C, this policy also prohibits the following:

- Deposits with any institution other than an authorised institution\*;
- Deposits for a fixed term of more than three years;
- Investment in bonds that are not guaranteed by the Commonwealth Government, or a State or Territory government;
- Investment in bonds with a term to maturity of more than three years; and
- Investment in a foreign currency.

\*Authorised institution as defined in the Banking Act 1959 (Commonwealth), section 5.

## Risk Management Guidelines

Investments obtained are to comply with three key criteria relating to:

- a) Portfolio Credit Framework: limit overall credit exposure of the portfolio;
- b) Counterparty Credit Framework: limit exposure to individual counterparties/institutions; and
- c) Term to maturity Framework: limits based upon maturity of securities.

### a) Overall Portfolio Limits

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 %
AAA	A-1+	100%
AA	A-1	100%
A	A-2	100%

### b) Counterparty Credit Framework

The Shire of Gingin will invest funds with authorised financial institutions that provide a service to the local community by establishing branches or agencies in the Shire of Gingin. Such institutions must maintain a minimum Standard and Poors rating of A for short term investments.

### c) Term to Maturity Framework

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

Overall Portfolio Term to Maturity Limits	
Portfolio % < 1 year	100% Maximum, 40% Minimum
Portfolio % 1-3 years	60%

## Performance

Performance benchmarks will be as follows:

Investment	Performance Benchmark
Cash	Cash Rate
Enhanced/Direct Investments	UBSWA Bank Bill
Diversified Funds	CPI + appropriate margin over rolling 3 year periods (Depending on composition of fund)

## Report and Review

A monthly report will be provided to Council in support of the monthly statement of activity. The report will detail the investment portfolio in terms of performance, percentage exposure of total portfolio, maturity date and changes in market value. This Investment Policy will be reviewed at least once a year 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 Shire's behalf as at 30 June each year and reconciled to the Investment Register.

## GOVERNANCE REFERENCES

<b>Statutory Compliance</b>	Local Government (Financial Management) Regulations 1996
<b>Industry Compliance</b>	Department of Local Government Guidelines No 19 - Investment Policy
<b>Organisational Compliance</b>	N/A

## POLICY ADMINISTRATION

<b>Review Cycle</b>	Annual	<b>Next Review</b>	2022
<b>Department</b>	Financial Services		

<b>Version</b>	<b>Decision Reference</b>	<b>Synopsis</b>
1.	1 April 2008 - Item 11.2.2	Policy adopted.
2.	18 June 2013 - Item 11.2.2	Policy amended to reflect amendments to <i>Local Government (Financial Management) Regulations 1996</i> .
3.	20 June 2017 - Item 11.2.4	