



Central Darling Shire Council

Title of Policy	Investment Policy		
This applies to	All Council staff		
Author	Michael Boyd	Date approved:	
Position of Author	General Manager	Authorised by:	
Legislation, Australian Standards, Code of Practice	Local Government Act 1993 Local Government (General) Regulation 2005 Trustee Amendment (Discretionary Investments) Act 1997		
Related Policies/Procedures	Australian Accounting Standards The Local Government Code of Accounting Practice and Financial Reporting Office of Local Government Circulars Relevant Investment Order of the Minister		

1.0 PURPOSE

The purpose of this policy is to establish the framework that Central Darling Shire Council adopts in investing its surplus funds to maximize returns and to ensure the security of those funds having due consideration to all legislative requirements.

2.0 OBJECTIVES

The objectives of this policy are:

- (a) To comply with the legislative requirements relevant to the management of Council’s investments.
- (b) To maximize returns to Council consistent with all requirements of this policy.
- (c) To preserve the capital of the investment portfolio. Investments are to be placed in a manner that seeks to ensure the security and safeguarding of the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters.
- (d) To ensure the investment portfolio has 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.

- (e) To establish a framework for monitoring the investments. The investment portfolio is expected to achieve a predetermined market average rate of return that takes into account Council's risk tolerance. Any additional return target set by Council will also consider the risk limitation and prudent investment principles.
- (f) To confirm delegations and other relevant governance matters in relation to Council's investments

3.0 DELEGATED AUTHORITY

The authority is delegated to the General Manager, the Director Business Services:

- To make investment decisions and sign investment lodgments and withdrawals;
- To invest surplus funds.

The General Manager may approve variations to this policy if the variation is to the Council's advantage and/or due to legislative change, however must inform Council of any such variations at the next available Council meeting.

4.0 PRUDENT PERSON STANDARD

The Council's investments will be managed with care, diligence and skill that a prudent person would exercise. As trustees of public moneys, officers are to manage Council's investment portfolio in accordance with the spirit of this policy, and not for speculative purposes.

5.0 ETHICS AND CONFLICTS OF INTEREST

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

6.0 APPROVED INVESTMENTS

All investments must be denominated in Australian Dollars and must be in accordance with the most current Local Government Act 1993 – Ministerial Investment Order (Order), and relevant Council resolutions.

Investments, only in the forms stipulated in the Order, may be placed with the following:

- (a) Tier one major Australian trading banks – ANZ, Commonwealth Bank, National Australia Bank and Westpac.
- (b) Wholly owned subsidiaries of the tier one Australian trading banks provided the institution is authorized under the current Order, and the subsidiary's rating from Standard and Poors, Moody's or Fitch, is at least equivalent to its parent tier one institution rating.
- (c) Authorized deposit-taking institutions not included in (a) or (b) above and permitted under the current Order, limited to the amount of the Federal Government's "Guarantee Scheme" if applicable.
- (d) Other investment instruments issuing bodies, as referred to in the current Order.

7.0 PROHIBITED INVESTMENTS

In accordance with the Order, this policy prohibits but is not limited to any investment carried out for speculative purposes, including:

- Derivative based investments;
- Principal only investments or securities that provide potentially nil or negative cash flow;
- Stand alone securities issued that have underlying futures, options, forward contracts and swaps of any kind; and
- The use of leveraging (borrowing to invest) of an investment.

8.0 RISK MANAGEMENT GUIDELINES

Investments obtained are to be considered in light of the following key criteria:

- Preservation of Capital – the requirement for preventing losses in an investment portfolio's total value, considering the time value of money
- Diversification – Setting limits to the amounts invested with a particular financial institution or government authority to reduce credit risk
- Credit Risk – the risk that the Council has invested in fails to pay the interest and/or repay the principal of an investment
- Market Risk – the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices
- Liquidity Risk – the risk an investor is unable to redeem the investment at a fair price within a timely period
- Maturity Risk – the risk relating to the length of term to maturity of the investment. The larger the term, the greater the length of exposure and risk to market volatilities.

9.0 INVESTMENT APPROACH

9.1 Diversification

Diversification is used to spread risk through utilization of maximum percentage investment limits to the following:

- Individual institutions (varies per credit rating)
- Credit Rating Bands (e.g. AAA vs A) – these are Standard and Poors Long Term ratings (or Moody's or Fitch equivalents)

These limits are detailed in the following schedule:

Credit Rating of Institution (Standard & Poors)	Direct Investments	Max % With 1 Institution	Max Term
AAA An extremely strong capacity to pay	100%	45%	5 years
AA+, AA, AA- A very strong capacity to pay	100%	40%	5 years
A+, A, A- A strong capacity to pay	60%	30%	1 year
Below A- For example – non-rated Credit Unions and Building Societies that are Approved Deposit taking Institutions and which have a Government Guarantee of deposits	20%	10% or the Government Guarantee limit, whichever is the lesser	1 year

The maximum percentage per institution allowable in line with the table above is applicable at the time of placing investments.

The above limits on direct investments and permissible relative amount per individual institution do not apply to issuing bodies listed in the Order not subject to the credit rating bands above.

9.2 Quotation on investments

Not less than three (3) quotations shall be required from authorised institutions when a new investment or change of investment is proposed. The best quote of the day will be successful after allowing for administrative and finance costs, as well as having regard to the limits set in this policy.

9.3 Term

Council may invest funds for a maximum term of 5 years. Investments exceeding a term of 12 months will only be placed with tier one institutions, or wholly owned subsidiaries thereof, provided the institution is authorised under the current Order and the subsidiary's rating from Standard and Poors, Moody's or Fitch, is at least equivalent to its parent tier one institution rating.

9.4 Liquidity

At least 20% of the total investment portfolio must be liquefiable within 10 days. Cash flow must be monitored daily to ensure cash funds are available to meet commitments.

10.0 MEASUREMENT

A monthly report will be provided to Council by the Responsible Accounting Officer. The report will detail the investment portfolio in terms of performance, percentage exposure of the total portfolio, maturity date and any changes in market value.

11.0 BENCHMARKING

The following performance benchmarks will be used:

- Cash – Reserve Bank Cash Reference Rate
- Direct Investments – UBS 90 Day Bank Bill Index

12.0 REPORTING AND REVIEWING OF INVESTMENTS

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

The documentary evidence must provide Council legal title to the investment.

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 these must be reconciled to the Investment Register.

All investments are to be appropriately recorded in Council's financial records and reconciled at least on a monthly basis.

This policy will be reviewed at least once per year.