



Shire of Wyndham East Kimberley
Council Policy
F17

POLICY No:	F17
DIVISION	Finance
SUBJECT:	Investment Policy
REPORTING OFFICER	Executive Manager of Corporate Services

Objective:

To invest the Shire of Wyndham East Kimberley surplus funds with consideration of risk and at the most favourable rate of interest available to it at the time, for that investment type, whilst ensuring that liquidity requirements are being met.

Preservation of capital is to be the principal objective with consideration given to liquidity, cash flow requirements and return on investment.

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) Regulations 1996 – Regulations 19, 28 and 49
- Australian Accounting Standards

Delegation of Authority

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

Policy:

Prudent Person Standard

Investments are to be managed with the care, diligence and skill that a “prudent person” (as derived by legislation, *Trustees Act 1962*, and case law) would exercise. Officers are to manage investments 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 Council's investments, and must disclose any conflict of interest to the CEO.

Approved Investments

Acceptable methods of investing are:

- State/Commonwealth Government Bonds;
- Interest Bearing Deposits;
- Bank accepted/endorsed bank bills;
- Commercial paper;
- Bank negotiable Certificate of Deposits; and
- Managed funds with a minimum long term Standard & Poor (S&P) rating of “A” and a short term rating of “A2”.

Prohibited Investments

This policy prohibits any investment carried out for speculative purposes including:

- Derivative based instruments; (*Derivatives are financial contracts, or financial instruments, whose values are derived from the value of something else (known as the underlying). The underlying on which a derivative is based can be an asset (e.g., commodities, equities (stocks), residential mortgages, commercial real estate, loans, bonds), an index (e.g., interest rates, exchange rates, stock market indices, consumer price index (CPI) — see inflation derivatives), or other items (e.g., weather conditions, or other derivatives). Credit derivatives are based on loans, bonds or other forms of credit. The main types of derivatives are: forwards (which if traded on an exchange are known as futures); options; and swaps.*)
- 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.

Risk Management Guidelines

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

- Portfolio Credit Framework - to limit overall credit exposure of the portfolio
- Counterparty Credit Framework – to limit exposure to individual counterparties/institutions
- Term to Maturity Framework – limits based upon maturity of securities

a) Overall Portfolio Limits

To control quality on the entire portfolio, the following framework limits the percentage of the portfolio exposed to a 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	A-2	60%	80%

b) Counterparty Credit Framework

Exposure to an individual institution will be restricted by its 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+	45%	50%
AA	A-1	35%	45%
A	A-2	20%	40%

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

Investments fixed for greater than 12 months are to be approved by Council, reviewed on a regular term and invested for no longer than 5 years.

c) Term to Maturity Framework

The following maturity constraints will apply:

Overall Portfolio Term to Maturity Limits	
Portfolio % < 1 year	100 Max; 40% Min
Portfolio % > 1 year	60%
Portfolio % > 3 year	35%
Portfolio % > 5 year	25%

Individual Investment Maturity Limits	
Authorised Deposit Institution	5 years
Non Authorised Deposit Institution	3 years

Note: Authorised Deposit Institutions are corporations that are authorised under the Banking Act 1959 to take deposits from customers.

Investment Guidelines

Municipal funds will be invested for short to medium terms, and reserve funds for medium to long terms. To maintain accountability and transparency, municipal funds and reserve funds are to be invested in separate accounts.

For the purposes of this policy:

- “Long term” refers to a term of up to 12 months.
- “Medium term” refers to a term of up to 6 months.
- “Short term” refers to liquid investments (at call) or up to 3 months or less that are readily convertible to cash with no impairment to the original value of the investment.

Appendix B - Investment Policy checklist from Local Government Operational Guidelines – Number 19 - Investment Policy (February 2008) shall be used to assess each new investment. The form shall be retained as evidence.

Three quotes will be obtained when investing any funds. Once the rate is finalised the investment must be approved by two signatories to the bank account.

Investment Strategy

An Investment Strategy will run in conjunction with this investment policy. The investment strategy will be presented to Councils Audit Committee every six months

. The Strategy will outline:

- Council's cash flow expectations
- Optimal target allocation of investment types, credit rating exposure, and term to maturity exposure and
- Appropriateness of overall investment types for Council's Portfolio

Investment Advisor

Should an Investment Advisor be appointed this must be approved by Council and be licensed by the Australian Securities and Investment Commission. Any advisor appointed must be an independent person who has no actual or potential conflict of interest in relation to investment products being recommended; and is free to choose the most appropriate product within the terms and conditions of the investment policy.

Reporting 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 (if applicable).

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

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

This Investment Policy will be reviewed at least once a year or as required in the event of legislative changes.

ADOPTED: 20/12/2005

REVIEWED: 17/2/2009

AMENDED: 17/2/2009