

Investment Policy

Reference Number:	P46
Organisational Unit:	Finance
Responsible Position:	Manager Finance
Relevant Delegations:	DA84-86
Date Adopted:	9 October, 2015 (146/2015)
Review Date:	This policy will be reviewed annually or as required by changing Market circumstances or changes in legislation.

Summary

The Investment Policy establishes the guidelines that Central Desert Regional Council adopts in investing funds not required to meet immediate liquidity needs.

Objectives

To invest the council's surplus funds, with consideration of risk and at the most favourable rate of interest available at the time, for that investment type, while ensuring that council's liquidity requirements are being met. While exercising the power to invest, consideration is to be given to preservation of capital, liquidity, and the return of investment.

- Preservation of capital is the principal objective of the investment portfolio. Investments are to be made 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.
- The investment portfolio must 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 Council's risk tolerance. Any additional return target set by Council must also consider the risk limitation and prudent investment principles.

Legislative Requirements

All investments are to comply with the following:

- Local Government Act
- Local Government (Accounting) Regulations
- Australian Accounting Standards

Other Requirements

Prudent Person Standard

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

Ethics and Conflicts of Interest

Staff shall refrain from personal activities that would conflict with the proper execution and management of Council's investment portfolio. This policy requires staff to disclose any conflict of interest to the CEO (refer also to conflict of interest provisions in LG Act).

Approved Investments

Without approval by resolution of Council, investments are limited to:

- State/Commonwealth Government Bonds;
- Interest bearing deposits such as bank accounts and term deposits;
- Bank accepted/endorsed bank bills;
- Commercial paper (a loan of less than 270 days backed by assets such as loans or mortgages);
- Bank negotiable Certificate of Deposits; and
- Managed Funds with a minimum long term Standard & Poor (S&P) rating of "A" and short term rating of "A2".

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.

Risk Management

The risk of all assets included in the investment portfolio must be known, measurable and acceptable to Council.

Risk Appetite

Risk Appetite is the amount and type of risk Council is prepared to pursue to take. It is based on Council's objectives and describes the 'comfort zone' Council wants to operate in. Risk Appetite draws a line between acceptable and unacceptable risk. Risk Appetite has to be within the risk capacity of an organisation. Risk Capacity is the amount of risk Council can afford to take, bear or sustain.

Council's Risk Appetite Statements for Investments activities:

Council has LITTLE or NO APPETITE for risks that foreseeably may:

- have a significant negative impact on Council's long term financial sustainability or assets, or
- compromise the safety and welfare of staff, contractors and / or members of the community, or
- constitute major legal noncompliance, or result in significant successful litigation against Council, or
- significantly disrupt delivery of essential services, or
- cause significant and irreparable damage to the environment, or
- result in widespread and sustained damage to Council's reputation.

Council has SOME APPETITE for risks that maintain and improve levels of service to the community, or that improve efficiency, reduce costs and/ or generate additional income sources, SO LONG AS the tangible



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benefits from treating the risks are higher than the most cost-effective treatment costs, AND there are no higher net benefit opportunities within Council’s risk capacity.

Risk Management Guidelines

Selected investments must comply with key criteria as indicated below relating to:

- a) Portfolio Credit Framework: limit overall credit exposure of the portfolio
- b) Counterparty Credit Framework: limit exposure to individual counterparties/institutions
- c) Term to Maturity Framework: limits based upon maturity of securities.
- d) Protection of Principal: investments entered into must be structured to minimise risk of loss of principal.
- e) Grant Funding Conditions: conditions related to grant funding available to invest must be complied with.

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 %	Managed Fund Maximum %
AAA	A-1+	100%	100%
AA	A-1	100%	100%
A	A-2	60%	80%

Counterparty Credit Framework

Exposure to an individual counterparty/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 Fund Maximum %
AAA	A-1+	45%	50%
AA	A-1	35%	45%
A	A-2	20%	40%

If any of the council’s approved investments are downgraded such that they no longer fall within approved credit rating category documented within the investment policy, they must be divested as soon as practicable. Investments fixed for greater than 12 months are to be approved by Council and reviewed on a regular term and invested for no longer than 5 years.

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% Max; 40% Min
Portfolio % > 1 year	60%
Portfolio % > 3 year	35%
Portfolio % > 5 year	25%
Individual Investment Maturity Limits	
ADI	5 years
Non ADI	3 years

Investment Advisor

The council’s investment advisor must hold an Australian Financial Securities Licence issued by the Australian Securities and Investment Commission and their appointment as advisor must be approved by resolution of Council. The advisor approved by council resolution 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. The advisor must be representative of a recognised reputable firm of investment advisors.

Measurement

The investment return for the portfolio is to be annually reviewed by an independent financial advisor by assessing the market value of the portfolio. The market value is to be assessed by Council at least once a month to coincide with monthly reporting.

Benchmarking

The benchmarks included in the following table are to be complied with for the relevant instruments.

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

Reporting and Review

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

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.

A monthly report will be provided to the elected Council as part of the monthly financial report. The report will detail the investment portfolio in terms of performance, percentage exposure of total investment portfolio, maturity date and current market value as well as other indicators. Additionally, the report will include details of limits to ensure that the investment portfolio is being managed within policy limits and in accordance with the approved strategy.

Review History

8 June 2012	Adopted by Council 334/2012
9 October 2015	Modified to incorporate recommendations of General Guideline 4. Including modification of Counterparty Credit Framework to match guidelines and detail pertaining to benchmarking.