

### 3. Finance

## 3 FINANCE

### 3.1 C-3I01 – Investments

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*Previous Policy Number – 2.1*

#### **PART A - Policy**

##### **Objective**

The objective of this Policy is to set out how the Shire of Dandaragan (Shire) will invest surplus funds in a manner that maximises returns whilst balancing social and environmental benefits, with due consideration of risks, whilst protecting the initial capital investment and future cash flows.

##### **Policy Statement**

The Council and Shire are committed to ensuring all investments of surplus funds maximise return within agreed risk parameters.

The Shires investments are subject to the following principles:

- (a) preservation of capital is the principal objective of the investment portfolio;
- (b) the investment portfolio will ensure that 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 recall of an investment;
- (c) investments will be managed with care, diligence, and skill that a prudent person will exercise

The Chief Executive Officer or their delegate under the powers delegated is to invest surplus funds in accordance with Council Policy and Management Procedure, and Section 6.14(1) of the *Local Government Act 1995* and the associated Regulations.

It is incumbent upon the Chief Executive Officer or their delegate to ensure:

1. That funds surplus to immediate requirements may be placed in any of the following authorised deposit taking institutions (ADI's), being licensed banks as defined under the *Banking Act 1995* , for a period not exceeding 12 months:
  - (a) Western Australian Treasury Corporation
  - (b) Australian and New Zealand Banking Group
  - (c) National Australian Bank
  - (d) Westpac
  - (e) Bank West
  - (f) Commonwealth Bank
  - (g) IMB Ltd
  - (h) St George Bank Ltd
  - (i) Bendigo Bank
  - (j) ING Bank Australia Limited
  - (k) Suncorp Bank
  - (l) Bank of Queensland
  - (m) Rabobank

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2. The Banks as listed in 1 above may be amended by Council from time to time.

3. Prohibitions

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

- (a) derivative based instruments;
- (b) principal only investments or securities that provide potentially nil or negative cash flow; and
- (c) stand-alone securities issued that have underlying futures, options, forward contracts and swaps of any kind.

4. Annual Review

The combined level of Commonwealth and State Government Guarantee on funds invested should be reviewed annually.

5. Council Review

The Short Term Investment Portfolio schedule shall be presented monthly to Councillors as part of the Monthly Financial Statements Report.

6. Australian Currency

Funds invested are required to be in Australian currency.

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#### **PART B - Management Procedures**

##### **Purpose**

To ensure effective controls and procedures are in place with respect to the investment of surplus funds, with consideration of risk and the most favourable rate of return available to it at that time.

##### **Definitions**

For the purpose of the Policy and these Procedures the following definitions apply:

ADI	Authorised Deposit – Taking Institution (“ADIs”) are corporations that are authorised under the <i>Banking Act 1959</i> to take deposits from customers.
Credit Risk	Credit risk is the risk of loss to an investor due to counterparty’s failure to pay the interest and / or repay principal on an investment.
Interest Rate Risk	Interest rate risk is the is the risk that the fair value of future cash flows will fluctuate because of changes in market interest rates.
Investment Portfolio	A collection of investments placed with varying ADIs.
Preservation of Capital	Preservation of capital refers to an investment strategy with the primary goal of preventing losses in an investment portfolio’s total value.
Responsible Officer	The responsible officer is the Chief Executive Officer or his delegate.

##### **Detail**

It is necessary for a responsible officer when investing to do so with care, skill, prudence and diligence that a prudent person would exercise. When selecting investments and weighing up relevant factors in relation to products, consideration is to be given to diversification, appropriateness, risk and anticipated return of investments by completing an investment policy checklist for each investment.

Surplus funds should be placed in approved ADIs as per the investment policy. The responsible officer should provide monthly reports to Council on the performance and value of the investment portfolio.

Preservation of the capital is the principal objective of the investment portfolio. Investments are to be conducted in a manner that seeks to secure and safeguard the investment portfolio. This includes managing credit and interest rate 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 Council’s risk tolerance. Any additional return target set by Council will also consider the risk limitation and prudent investment principles.

Monthly reporting of investment activity should include, but not limited to, the following:

- A list of securities by maturity date.

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- The nature and location of the investment.
- The transactions related to each investment.
- The percentage of the portfolio held by investment type and by counterparty.
- The value of the investment portfolio.
- Reporting on investment category and disclosure of market value maturity dates.
- A note on compliance with investment policy or explanation of any breaches.