

STRATEGIC OUTCOME SUPPORTED: 11 - Strong, visionary leadership.

OBJECTIVE

1. To invest the Shire'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, while ensuring that its liquidity requirement are being met.

SCOPE

2. This policy applies to all future investments made by the Shire of Donnybrook Balingup.

DEFINITIONS

- 3. **Authorised Institution** means the same as that defined in Regulation 19C (1) of the Local Government (Financial Management) Regulations 1996 as amended.
- 4. **Counterparty** means the other party that participates in a financial transaction.
- 5. **Credit Rating** means an estimate of overall ability and willingness of an entity or person to fulfil financial obligations in full and on time, based on previous financial dealings. Ratings are opinions issued by credit rating agencies.
- 6. **Long term** in relation to investments means it matures in excess of 12 months.
- 7. **Short-term** in relation to investments means it matures in 12 months or less.
- 8. **Shire** means the Shire of Donnybrook Balingup.
- 9. **S&P** means Standard & Poors.

POLICY STATEMENTS

- 10. While exercising the power to invest, consideration is to be given in preservation of capital, liquidity, and the return of investment:
 - a. 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 managing credit and interest rate risk within identified thresholds and parameters.
 - b. 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.



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

Risk Management Guidelines

- 11. Officers delegated with the authority to invest must diversify the investment portfolio and avoid excessive risk concentration with any single counterparty.
- 12. The approach to diversification must be balanced with the need to seek an adequate rate of return for the Shire, given that higher rates of return are usually associated with higher credit risk.
- 13. Investments obtained are to be guided by:
 - 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.
- 14. The portfolio credit guidelines applied to the Shire's investments will be based on the Standard and Poor's (S&P) ratings system criteria, or the equivalent from Moody's or Fitch as necessary.
- 15. A description of each S&P rating category is included in *Appendix 1* including the meaning of the signs that may be linked to the rating. Where conflicting ratings levels exist for any counterparty and/or product, the rating level applied by two out of the three ratings agencies will be used, represented by the S&P rating, if valid. Where all three agencies have issued different ratings, the S&P rating will prevail.

Overall Portfolio Limits

16. 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%
А	A-2	60%

Counterparty Credit Framework

17. 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 %
AAA	A-1+	45%
AA	A-1	35%
Α	A-2	20%

18. If the credit rating of any counterparty is downgraded such that any investment held with the party no longer comply's with this investment policy, the investment will be divested as soon as practicable, subject to due consideration of penalties and lost interest.

Term to Maturity Framework

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

Overall Portfolio Return to Maturity	Minimum	Maximum
Up to 12 months	100%	100%
13 to 24 months	0%	30%
25 to 36 months	0%	20%

20. Officers delegated to invest must take into account ongoing liquidity requirements when placing investments to ensure availability of funds to meet the Shire's payment obligations as and when they fall due.

Exceptions (Bendigo Bank)

- 21. In the interest of maintaining a face-to-face local banking service within Donnybrook, Council has elected to vary its policy to provide for the investment of funds in the Bendigo Bank, through the Donnybrook branch.
- 22. The Donnybrook branch of the Bendigo Bank is administered by Donnybrook Capel Districts Financial Services in accordance with the operational guidelines of the Bendigo Bank.
- 23. Funds invested through the Donnybrook branch are invested with the principal Bendigo Banking Group. Bendigo Banks current long-term S&P rating is A- and the short-term rating is A-2.
- 24. Council has approved a maximum portfolio limit of 50% with Bendigo Bank.

Investment Advisor

- 25. The Shire may appoint an investment advisor to provide independent advice regarding the management of the Shire's investments.
- 26. Any investment advisor appointed by the Shire must be appropriately licensed by the Australian Securities and Investment Commission. The investment advisor 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 recommend the most appropriate product within the terms and conditions of the investment policy.



- 27. The investment advisors appointment is to be subject to a letter of engagement setting out the terms of appointment which may include:
 - a. Monthly reporting;
 - b. Monthly market review of returns and market value of the portfolio and
 - c. Meetings with the responsible Shire officers no less than six monthly to review the Shire's investment portfolio.

Measurement

28. The investment return for the portfolio is to be regularly reviewed. The market value is to be assessed at least once a month to coincide with monthly reporting.

Benchmarking

29. Performance benchmarks need to be established.

Investments	Performance Benchmark
Cash	Cash Rate
Enhanced/Direct Investments	UBSWA Bank Bill

Reporting

- 30. A monthly report will be provided to Council in the monthly financial report . The report will detail the investment portfolio, percentage exposure of total portfolio, maturity date and changes in market value.
- 31. Documentary evidence must be held for each investment and investments are to be recorded in an Investment Register with all details pertaining to the investment such as investment source, date of lodgement, interest rate, maturity date and all investment transactions recorded on a ledger sheet.

DELEGATION AND AUTHORISATION

32. The power to invest and manage investments has been delegated to the Chief Executive Officer and nominated sub-delegates as per delegation 1.2.25 Power to Invest and Manage Investments.

LEGISLATION

- Local Government Act 1995
- Local Government (Financial Management) Regulations 1996
- The Trustees Act 1962



APPENDIX

Appendix 1 – Investment Policy

Standard & Poor's Ratings Definitions

Standard and Poor's (S&P) is a professional ratings agency that provides analysis of corporate and institutional creditworthiness.

An S&P Global Ratings issuer credit rating is a forward-looking opinion about an obligor's overall creditworthiness. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation.

Issuer credit ratings can be either long-term or short-term. Long-term issuer credit ratings focus on the obligor's capacity and willingness over the long-term to meet all of its financial commitments, both long- and short-term, as they come due, whereas short-term issuer credit ratings focus on the obligor's capacity and willingness over the short-term to meet all of its financial commitments as they come due.

Ratings – Long Term Financial Obligations (Maturity greater than 365 days)				
	An obligation rated 'AAA' has the highest rating assigned by S&P Global Ratings. The obligor's			
AAA	capacity to meet its financial commitments on the obligation is extremely strong.			
l AA	An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The			
AA	obligor's capacity to meet its financial commitments on the obligation is very strong.			
	An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in			
A	circumstances and economic conditions than obligations in higher-rated categories. However,			
	the obligor's capacity to meet its financial commitments on the obligation is still strong.			
	An obligation rated 'BBB' exhibits adequate protection parameters. However, adverse			
BBB	economic conditions or changing circumstances are more likely to weaken the obligor's			
	capacity to meet its financial commitments on the obligation.			
	An obligation rated 'BB' is less vulnerable to nonpayment than other speculative issues.			
BB	However, it faces major ongoing uncertainties or exposure to adverse business, financial, or			
	economic conditions that could lead to the obligor's inadequate capacity to meet its financial			
	commitments on the obligation.			
	An obligation rated 'B' is more vulnerable to nonpayment than obligations rated 'BB', but the			
В	obligor currently has the capacity to meet its financial commitments on the obligation. Adverse			
	business, financial, or economic conditions will likely impair the obligor's capacity or			
	willingness to meet its financial commitments on the obligation.			
	An obligation rated 'CCC' is currently vulnerable to nonpayment and is dependent upon			
CCC	favorable business, financial, and economic conditions for the obligor to meet its financial			
	commitments on the obligation. In the event of adverse business, financial, or economic			
	conditions, the obligor is not likely to have the capacity to meet its financial commitments on			
	the obligation.			



66	An obligation rated 'CC' is currently highly vulnerable to nonpayment. The 'CC' rating is used
CC	when a default has not yet occurred but S&P Global Ratings expects default to be a virtual
	certainty, regardless of the anticipated time to default.
	An obligation rated 'D' is in default or in breach of an imputed promise. For non-hybrid capital
D	instruments, the 'D' rating category is used when payments on an obligation are not made on
	the date due, unless S&P Global Ratings believes that such payments will be made within the
	next five business days in the absence of a stated grace period or within the earlier of the
	stated grace period or the next 30 calendar days. The 'D' rating also will be used upon the filing
	of a bankruptcy petition or the taking of similar action and where default on an obligation is a
	virtual certainty, for example due to automatic stay provisions. A rating on an obligation is
	lowered to 'D' if it is subject to a distressed debt restructuring.

Ratings – Short Term Financial Obligations (Maturity not more than 365 days)					
	A short-term obligation rated 'A-1' is rated in the highest category by S&P Global Ratings. The				
A-1	obligor's capacity to meet its financial commitments on the obligation is strong. Within this				
category, certain obligations are designated with a plus sign (+). This indicates that the					
	capacity to meet its financial commitments on these obligations is extremely strong.				
	A short-term obligation rated 'A-2' is somewhat more susceptible to the adverse effects of				
A-2	changes in circumstances and economic conditions than obligations in higher rating				
	categories. However, the obligor's capacity to meet its financial commitments on the				
	obligation is satisfactory.				
	A short-term obligation rated 'A-3' exhibits adequate protection parameters. However,				
A-3	adverse economic conditions or changing circumstances are more likely to weaken an obligor's				
	capacity to meet its financial commitments on the obligation.				
	A short-term obligation rated 'B' is regarded as vulnerable and has significant speculative				
В	characteristics. The obligor currently has the capacity to meet its financial commitments;				
however, it faces major ongoing uncertainties that could lead to the obligor's inade					
	capacity to meet its financial commitments.				
	A short-term obligation rated 'C' is currently vulnerable to nonpayment and is dependent upon				
С	favorable business, financial, and economic conditions for the obligor to meet its financial				
	commitments on the obligation.				
D	A short-term obligation rated 'D' is in default or in breach of an imputed promise. For non-				
	hybrid capital instruments, the 'D' rating category is used when payments on an obligation are				
	not made on the date due, unless S&P Global Ratings believes that such payments will be made				
	within any stated grace period. However, any stated grace period longer than five business				
	days will be treated as five business days. The 'D' rating also will be used upon the filing of a				
	bankruptcy petition or the taking of a similar action and where default on an obligation is a				
	virtual certainty, for example due to automatic stay provisions. A rating on an obligation is				
	lowered to 'D' if it is subject to a distressed debt restructuring.				



Ratings may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

(Source: https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352 (Accessed 18 November 2024).

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Related Policy(s):

- Nil.

Related Procedure(s):

- Nil.

Revision Requirements and Version Control:

Responsible Department(s):		Finance and Corporate			
Review to be conducted by:		Director Finance and Corporate			
Revi	sion Frequency:	⊠ Annual (1yr)	☐ Biennial (2yr) ☐ Triennial (riennial (3yr)
Curr	ent Version Date:	27/08/2025		Next Due:	2026
Poli	cy Version Details and Info	rmation:			
#:	Synopsis:		Date:	Ref.:	Synergy:
1	Initial adoption of Policy		28/03/2001	N/A	N/A
2	authorisations as this into the delegation corbing to "Reporting" and rinformation.	egated authority to nent adviser when ate"- Day to day need for extra ormation regarding information is built anditions rt and Review" to emoved duplicated	10/03/2021	213/21	NPP8036
3	Reviewed and reftemplate;Amendment made toBank portfolio limit to	-	27/08/2025	157/08-25	NPP16044