

## INVESTMENT POLICY

<b>Responsible Directorate:</b>	Corporate Strategy and Performance
<b>Responsible Service Unit:</b>	Transactional Finance
<b>Contact Person:</b>	Chief Financial Officer
<b>Date of Approval:</b>	13 August 2024
<b>Council Resolution No:</b>	CS03-08/24

### 1. POLICY STATEMENT

This policy provides a framework for how the City's municipal and trust funds are to be invested whilst ensuring compliance with legislation and requiring its authorised officers exercise the care, diligence and skill that a prudent person would exercise in investing Council funds.

### 2. OBJECTIVE AND PURPOSE

Whilst exercising the power to invest, the objectives of the Policy are threefold in terms of preservation of capital, liquidity and the return on 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 of the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters.
- b) 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.
- c) The investment is expected to achieve a predetermined market average rate of return that takes into account the City's tolerance risk in accordance to the City's Risk Management Policy. Any additional return target set by Council will also consider the risk limitation and prudent investment principles.

### **3. KEY DEFINITIONS**

#### **S&P Credit Ratings**

S&P stands for Standard and Poors, which is a globally accredited professional organisation that provides analytical services. An S&P credit rating is an opinion of the general creditworthiness of an obligor with respect to particular debt security or other financial obligation based on relevant risk factors.

Credit ratings are based, in varying degrees, on the following considerations:

- Likelihood of payment;
- Nature and provisions of the obligation; and
- Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganisation or other laws affecting creditors' rights.

The issue rating definitions are expressed in terms of default risk.

#### **S&P Short Term Credit Rating A-1**

This is the highest short term category used by S&P. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.

#### **S&P Short Term Credit Rating A-2**

A short term obligation rated A-2 is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.

### **4. SCOPE**

This policy applies to all officers involved in the investment of Council funds. All staff who are engaged in the business process of investment are required to be obliged by this policy and be aware of its implications.

### **5. IMPLICATIONS**

#### **(Financial, Human Resources)**

##### **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 – Regulation 19;*
- Australian Accounting Standards.

## 6. IMPLEMENTATION

There is currently a detailed operational procedure guiding the investment activities of regular funds based on the current policy requirements. By the adoption of this revised Investment Policy, the key changes will be embedded into the operational procedure and be actioned accordingly.

### Approved Investments

Only the following types of investments are allowed:

- Interest Bearing Term Deposits with Authorised Deposit Taking Institutions (ADIs – Australian banks, Western Australian Treasury Corporation (WATC), building societies and credit unions) for a maximum term of three years.
- Bonds guaranteed by the Commonwealth or State or Territory Government with a maturity of less than three years.

### Risk Management Guidelines

Investment decisions are to be made giving consideration to appropriate risk management frameworks of investments.

Three of the major frameworks that should be used to guide and manage investment risk are:

(a) Portfolio Credit Framework:- guides on limits of overall credit exposure of the portfolio;

Overall Portfolio Limits:

To control the credit quality on the ADI invested portfolio, the following maximum investment limit percentages to be followed for each credit rating :

<u>S&amp;P Short Term Credit Rating</u>	<u>Direct Investment Maximum</u>
A-1	100%
A-2	80%

(b) Counterparty Credit Framework:- guides on limits of exposure to individual ADI counterparties/ institutions;

Individual Institution Portfolio limits :

Exposure to an individual ADI counterparty/institution will be restricted by their credit rating so that single entity exposure is limited, as detailed in the table below:

S&P Short Term Credit Rating	Direct Investment Maximum
A-1	50%
A-2	25%

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

(c) Term to Maturity Framework :- guides on limits of maturity terms of investments.

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

Overall Portfolio Term to Maturity		
Portfolio % <1 year	Min 40%	Max 100%
Portfolio % >1 year <3 year	Min 0%	Max 60%

Financial Claims Scheme (**FCS**) should also be considered when placing investments. The FCS is an Australian Government scheme that currently provides a safety net for deposits of up to \$250,000 per account holder per ADI (authorised deposit-taking institutions in an unlikely event that financial institutions fail.

Further to this, before placing any investments in an ADI, the cashflow forecast should be considered and any funds required for short term working capital needs must be invested in "At Call" accounts to avoid penalties on withdrawals prior to maturity. Most banks require a 30-day notice before funds can be withdrawn, prior to maturity.

As per the Local Government (Financial Management) Regulations 1996 Section19c(2), the following investments are not allowed :

- deposit with an institution except an authorised institution;
- deposit for a fixed term of more than 3 years;
- invest in bonds that are not guaranteed by the Commonwealth Government, or a State or Territory government;
- invest in bonds with a term to maturity of more than 3 years; and
- invest in a foreign currency.

A maximum of 50% of the total portfolio can be invested in Commonwealth Government, or a State or Territory government guaranteed bonds. These cannot exceed a maturity term of 3 years.

#### Investment Advisor

The City's investment advisor, if appointed, must be licensed by the Australian Securities and Investment Commission. The 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.

The investment return for the portfolio is to be regularly reviewed by the investment advisor by assessing the market value of the portfolio. The market value is to be assessed at least monthly to coincide with monthly reporting.

The investment advisor should meet with the responsible staff and review the City's investment portfolio no less than every six months.

#### Prudent Person Standard

Investments are to be managed with the care, diligence and skill that a prudent person will exercise. Officers are to manage the investment portfolios to safeguard them in accordance with the spirit of this Investment Policy, and not with speculation.

#### Benchmarking

The performance of the investment portfolio shall be measured against the UBS Warburg 90 Day Bank Bill Index and/or the Reserve Bank of Australia Official Cash Rate.

#### Reporting

A monthly report will be provided to Council in support of the monthly Financial Activity statement. The report will detail the investment portfolio in terms of performance, percentage exposure of total portfolio, maturity date and changes in market value.

Documentary evidence must be held for each investment and details thereof maintained in an Investment Register. These are to be saved in Content Manager (CM) (container 22186).

For audit purposes, confirmations must be obtained from the financial institutions confirming the amounts of investments held on the City's behalf as at 30 June each year and reconciled to the Investment Register. (These are saved in CM file path Financial Management → Investments → Money Market Investments)

### Divestment Profile of Institutions

When exercising the power of investment, preference is to be given to investments with institutions that have been assessed to have no current record of funding fossil fuels, providing that doing so will secure a rate of return that is at least equal to alternative offered by other institutions.

## **7. AUTHORITIES AND ACCOUNTABILITIES**

The implementation of this Investment Policy is delegated by council to the Chief Executive Officer (CEO) in accordance with Section 5.42 of the *the Local Government Act 1995*. Then, the CEO, in accordance with Section 5.44, has sub-delegated the day to day investment activities authority to the Director Corporate Strategy & Performance and Chief Financial Officer (CFO), subject to regular reviews.

## **8. ROLES AND RESPONSIBILITIES**

The Finance team is responsible for ensuring all reporting and transactional tasks required are completed effectively as per this policy. The CFO authorises all investment decisions.

## **9. DISPUTE RESOLUTION**

All disputes in regard to this policy will be referred to the CFO in the first instance, and if unresolved, to the Director Corporate Strategy and Performance and finally be escalated to the CEO for arbitration.

## **10. EVALUATION AND REVIEW**

This Investment Policy will be reviewed every three years or as required in the event of legislative changes. Where, as a result of amendment to legislation or the ability arises to invest to the advantage of the City contrary to the provisions of this policy, the CEO may initiate such variations as deemed necessary subject to the submission of a report to Council advising of the changes implemented to the next ordinary Council meeting.

## **11. RELATED DOCUMENTS**

This policy is supported by the following policies and/or delegations:

1. Accounting Policy
2. Section 1.1.37 of the Delegated Authority Registry

## 12. REFERENCES

1. Standard & Poor's [www.standardandpoors.com](http://www.standardandpoors.com)
2. Local Government Act 1995;
3. Local Government (Financial Management) Regulations 1996; and
4. Australian Accounting Standards Board (AASB) Standards;

## 13. RESPONSIBILITY FOR IMPLEMENTATION

Chief Financial Officer

## REVISION HISTORY

Version	Next Review	Record No.
CS03-03/02 - 19 March 2002		
CS06-08/04 - 31 August 2004		
CS03-11/08 - 28 October 2008	November 2010	
CS03-12/10 - 14 December 2010	November 2012	10/68537
CS03-12/10 14 - December 2010 (Administrative amendment 10 March 2011)	November 2012	11/25148
CS03-12/14 - 9 December 2014	November 2017	11/25148[v2]
CE03-12/17 - 5 December 2017	November 2020	17/386565
CE05-04/19 – 9 April 2019	March 2024	17/386565[v2]
CS03-08/24 - 13 August 2024	March 2027	24/187557