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## INVESTMENT POLICY

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<b>Policy Owner:</b>	Transactional Finance
<b>Contact Person:</b>	Manager Transactional Finance
<b>Date of Approval:</b>	9 April 2019 (CE05-04/19)

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## POLICY OBJECTIVE

The objective of this policy is to provide 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 the Council funds.

## POLICY STATEMENT

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.

### ***Approved Investments***

Only the following types of securities may be included:

- Interest Bearing Term Deposits with Authorised Deposit Taking Institutions (ADIs – Australian banks, 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.

Investments held as at the 4th April 2012 (the date of the revised Local Government (Financial Management) Amendment Regulations 2012) that complied with the prevailing Legislation prior to that date, are eligible to be held until maturity.

### **Risk Management Guidelines**

Investments obtained are to comply with three key criteria relating to

- (a) Portfolio Credit Framework: limit overall credit exposure of the portfolio;
- (b) Counterparty Credit Framework limit exposure to individual ADI counterparties/institutions; and
- (c) Term to Maturity Framework: limits based upon maturity of securities.

In light of the ongoing Federal Government Guarantee on limited deposits with Australian Authorised Deposit Taking Institutions (ADIs) i.e. Banks, Building Societies and Credit Unions, any applicable investment in such institutions shall be considered to be AAA or A-1+ rated in line with the Federal Government's credit rating.

Further to this, any investment in an ADI that allows Council to demand early repayment (prior to maturity) at no penalty shall be considered to be money "at call".

For Bonds guaranteed by the Commonwealth, State or Territory of Australia, the credit rating allowable will be that of the guaranteeing government and a maximum 50% of the total portfolio can be invested in any one government body.

#### (a) Overall Portfolio Limits

To control the credit quality on the ADI invested portfolio, the following credit framework limits the percentage of the portfolio exposed to any particular credit rating category.

S&P Short Term Credit Rating	Direct Investment Maximum
A-1	100%
A-2	80%

#### (b) Counterparty Credit Framework

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 the 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**

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%

***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***

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

***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 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.

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

For audit purposes, certificates 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.

### ***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.

### **SCOPE**

This policy applies to all officers involved in the investment of Council funds.

### **CONSULTATION WITH STAKEHOLDERS**

Administration has contacted the Department of Local Government to express our concerns on the inconsistency between the legislation and the previous Local Government Operational Guidelines – Number 19 February 2008. Administration noted that the said guideline has recently been temporarily withdrawn from the Department's website.

### **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, Regulation 28, and Regulation 49
- Australian Accounting Standards

### **IMPLEMENTATION**

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

### **ROLES AND RESPONSIBILITIES**

The implementation of this Investment Policy is delegated by Council to the Chief Executive Officer (CEO) in accordance with *the Local Government Act 1995*. Pursuant to the provisions of Section 5.45 of the *Local Government Act 1995*, the CEO has delegated the day to day

investment activities authority to the Director Corporate Strategy & Performance and Manager Transactional Finance, subject to regular reviews.

## **DISPUTE RESOLUTION**

All disputes in regard to this policy will be referred to the Manager Transactional Finance in the first instance, and if unresolved, to the Operations Manager Business & Finance and then Director Corporate Strategy and Performance and finally be escalated to the CEO for arbitration.

## **WHO NEEDS TO KNOW ABOUT THIS POLICY?**

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.

## **EVALUATION AND REVIEW PROVISIONS**

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 Chief Executive Officer may initiate such variations as deemed necessary subject to the submission of a report to the Council advising of the changes implemented to the next ordinary Council meeting.

## **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, reorganization 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.

**RELEVANT POLICIES/MANAGEMENT PROCEDURES/DOCUMENTS OR DELEGATIONS**

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

1. Accounting Policy
2. Section 3.1 of Delegated Authority Registry

**REFERENCES**

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

**RESPONSIBILITY FOR IMPLEMENTATION**

Manager Transactional Finance

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]