



2/010 Council Investments

Objective

To provide a framework for the investment of Council funds that seeks to maximise the return to Council whilst having due consideration for the risk and security of each investment; and ensures that Council's liquidity requirements are being satisfied.

Strategic Context

This policy links to the Council's Strategic Community Plan 2018-2028 Outcome 4.b.1 to ensure sound long-term financial planning is implemented by the Town.

Policy Statement

- The principal objective is to guide the investment of surplus funds in the preservation of capital and investment decisions must align to this;
- The maximisation of returns within the confines of this policy is encouraged in order to capitalise return on investment;
- The surplus funds available for investment include reserves, other restricted funds and general revenue funds surplus to liquidity requirements;
- Adequate cash reserves will be maintained to allow the Town to conduct its business.
- Factors that guide investment decisions:
  - The use of Rating Agency's "Investment Grade" credit ratings (Security);
  - The maintenance of adequate levels of diversification (Security);
  - The ability to have ready access to funds for day-to-day requirements (Liquidity); and
  - Compliance with appropriate legislative requirements (Compliance).

Legislative requirements

All investments are to comply with the following:

- *Local Government Act 1995 (WA) Section 6.14;*
- *Trustees Act 1962 (WA) Part III - Investments;*
- *Banking Act 1959 (Cth) section 5;*
- *Local Government (Financial Management) Regulations 1996 (WA) Regulations 8,19,19C, 28 and 49.*
- *Local Government (Financial Management) Amendment Regulations 2017 s.19C(2)(b)*

## Delegation of Authority

### **Council**

Council is responsible for approving the Town's Investment Policy.

### **Chief Executive Officer**

The Chief Executive Officer is delegated by the Council for the implementation of the Investment Policy in accordance with the *Local Government Act 1995*. The CEO may in turn delegate the day-to-day management of Council's investment portfolio to staff as per below.

### **Director of Corporate Services**

The Director of Corporate Services is responsible for the compliance, monitoring and reviewing the performance of the Town's investment strategy and reporting performance outcomes to the Council.

### **Manager Financial Services**

The Manager Financial Services is responsible for the daily operation, management and implementation of the Investment strategies.

## Investment Management

### **Approved Investments**

Investments are limited (in accordance with Regulation 19C of the *Local Government (Financial Management) Regulations 1996*), to Australian currency denominated:

- Deposits with Authorised Deposit-Taking Institutions (ADIs) as defined in in the Banking Act 1959 (Commonwealth) section 5 for a term not exceeding 3 years.
- Interest Bearing deposits with the Western Australian Treasury Corporation (WATC) for a term not exceeding 3 years.
- Bonds guaranteed by the Commonwealth Government or State or Territory for a term not exceeding 3 years.

### Prohibited Investments

This policy, in accordance with legislation, prohibits any investment not included in the Approved Investments section. For the avoidance of doubt, prohibited investments include:

- Derivative based instruments; and
- 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

The leveraging of investments (borrowing to invest) is prohibited.

### 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 counterparties/institutions
- c) Term to Maturity Framework: limits based upon maturity of securities

#### a) Portfolio Credit Framework

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.

Long Term Credit Rating *	Investment Maximum %
AAA to AA-	100%
A+ to A-	80%
BBB+ & BBB	60%

#### b) Individual 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:

Long Term Credit Rating *	Investment Maximum %
AAA to AA-	70%
A+ to A-	40%
BBB+ & BBB	30%

*\* Ratings are based on Standard & Poor's (S&P) criteria. Moody's or Fitch equivalent will be used where an S&P rating is not available.*

Investments are to comply with the credit limit frameworks as at the time of placement. Any subsequent unintended breaches due to investment maturities, redemptions, or other causes of changes to portfolio size will be monitored and addressed when practicable but not necessitate divestments in and of itself.

If any of the Council's investments are downgraded such that they no longer fall within the investment policy limits, they will be divested as soon as practicable having regard to potential losses resulting from early redemption and subject to minimising any loss of capital that may arise from compliance with this provision.

**c) Term to Maturity Framework**

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

Term to Maturity Limits	Minimum %	Maximum %
Less than or equal to 1 year	40%	100%
Greater than 1 year & less than or equal to 3 years	0%	60%

**Performance Benchmark**

The performance of the investment portfolio shall be measured against the industry standard Bloomberg Ausbond Bank Bill Index.

**Operational Issues**

**Reporting and Performance Monitoring**

Council will receive a monthly report on the investment portfolio detailing the performance of the investment portfolio and Counterparty percentage exposure of total portfolio. A summary of the composition of the investment portfolio by credit rating and institution will also be included.

**Professional Advice**

The Town may from time to time retain the services of suitably qualified investment professionals to provide assistance in investment strategy formulation, portfolio implementation and monitoring.

Any such advisor must be approved by Council and licensed by the Australian Securities and Investments 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 choose the most appropriate product within the terms and conditions of this Investment Policy.

Any independent advisor engaged by the Town is required to provide written confirmation that they do not have any actual or potential conflicts of interest in relation to the investments they are recommending or reviewing. This includes that they are not receiving any commissions or other benefits in relation to the investments being recommended or reviewed, which are not being fully rebated to their clients, for either the Town or any of its other clients as this can create a conflict of interest.

## Definitions

### Authorised Deposit -Taking Institutions (ADIs)

Means an authorised deposit-taking institution as defined in the Banking Act 1959 (Commonwealth) section 5; or the Western Australian Treasury Corporation established by the Western Australian Treasury Corporation Act 1986.

### Investment Grade

Means that either Standard & Poor Global Ratings (S&P), Fitch or Moody's Corporation (Moody's) has rated an investment as having "Investment Grade" credit rating as below:

S&P & Fitch Investment Grade Rating Scales	Moody's Investment Grade Rating Scale	Risk Profile	Grade Quality
AAA	Aaa	Extremely strong capacity to meet financial commitments. Highest rating	High
AA+	Aa1	Very strong capacity to meet financial commitments	High
AA	Aa2		
AA-	Aa3		
A+	A1	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances	Medium
A	A2		
A-	A3		
BBB+	Baa1	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions	Low
BBB	Baa2		
BBB-	Baa3		



Relevant legislation	<i>Local Government Act 1995 (WA)</i> <i>Local Government (Financial Management) Regulations 1996 (WA)</i> <i>The Trustees Act 1962 (WA)</i> <i>Banking Act 1959 (Cth)</i>
Delegated authority	Yes
Business unit	Financial Services
Directorate	Corporate Services

<i>Governance to complete this section</i>			
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