

POLICY: CORP-F-001

INVESTMENT

PURPOSE

This policy sets out the guidelines and principles that need to be followed by City officers when placing funds on investment with other institutions. City needs to take advantage of the interest earning potential of its surplus funds while reducing its exposure to financial risk and ensuring sufficient funds are kept available to meet cash requirements.

DEFINITIONS

Nil

STATEMENT

1.1 Investment Objectives

The objective of the policy is:

- 1.1.1 Preservation of Capital – to ensure the safety and security of the investment made in relation to the credit risk of borrowers and interest rate on offer;
- 1.1.2 Liquidity of Fund – Investments are to be made in a manner to ensure liquidity to meet all reasonably anticipated cash flow requirements, without incurring significant costs due to the unanticipated sale of an investment;
- 1.1.3 Return on Investment – The investment made should be predetermined return on investment taking into account of the market condition and risk profile of the borrowers;
- 1.1.4 Benchmarking – For any period measured, funds invested should have a return that is 0.50% above the official bank rate that is set by the Reserve Bank of Australia (RBA).
- 1.1.5 Adherence to the requirements of Section 6.14 of the *Local Government Act 1995*, Section 19C of the *Local Government (Financial Management) Regulations 1996 (as amended)* and Section 18(1) of the *Trustee Act 1962 (as amended)* (the “Prudent Person” rule).

1.2 Delegated Authority to Invest

Authority for implementation of the Investment Policy is delegated by Council to the Chief Executive Officer in accordance with the Local Government Act 1995.

The Chief Executive Officer may sub-delegate the implementation of the Investment Policy to the Chief Financial Officer and/or Financial Controller.

1.3 Risk Profile

Prudent Person Standard

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

Ethics and Conflicts of Interest

Officers shall refrain from personal activities that would conflict with the proper execution and management of Council's investment portfolio. The Department of Local Government and Communities Guideline No.1 "Disclosure of Interests Affecting Impartiality" and No.21 "Disclosure of Financial Interest in Returns" provide guidance for recognising and disclosing any conflicts of interest.

Professional Advice

The City 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 independent advisor must be approved by Council and 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 choose the most appropriate product within the terms and conditions of this investment policy.

1.4 Approved Investments

Authorised investments shall be limited to Australian currency (AUD)

- Deposit with an Authorised Deposit Taking Institution(ADI); and/or
- The Western Australia Treasury Corporation established by the Western

Australian Treasury Corporation Act 1986;

- Bonds that are guaranteed by the Commonwealth or State or Territory and which has a term not exceeding three years;

1.5 Prohibited Investments

In accordance with 19C(2) of the Local Government (Financial Management) Regulations 1996, when investing money under section 6.14(1) of the Local Government Act, a local government may not do any of the following

- (a) Deposit with an institution except an authorised institution;
- (b) Deposit for a fixed term of more than 3 years;
- (c) Invest in bonds that are not guaranteed by the Commonwealth Government, or a State or Territory government;
- (d) Invest in bonds with a term to maturity of more than 3 years;
- (e) Invest in a foreign currency.

1.6 Council's Direct Investments

1.6.1 *Quotations on Investments*

Not less than two (2) quotations shall be obtained from authorised institutions when an investment is proposed. The best quote on the day will be accepted after allowing for administrative and banking costs, as well as having regard to the limits set above liquidity requirements.

1.6.2 *Term to Maturity*

The term to maturity for an investment may range from “at call” to 3 years.

1.7 Risk Management Guidelines

Investments obtained are to comply with three key criteria relating to:

- Portfolio Credit Framework: limit overall exposure of the portfolio;
- Counterparty Credit Framework: limit exposure to individual counterparties/institution; and
- Term to Maturity Framework: limits based upon maturity of securities to ensure adequate working capital needs are met.

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.

S&P Long Term Rating	S&P Long Term Rating	Direct Investment Maximum %
AAA	A-1+	100%
AA	A-1+	100%
A	A-1	60%
BBB	A-2	40%

Counterpart Credit Limit

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 Long Term Rating	Direct Investment Maximum %
AAA	A-1+	50%
AA	A-1+	50%
A	A-1	30%
BBB	A-2	20%

Term to Maturity Framework

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

Investment Type	Term of maturity
ADI Deposits	<12 months
State/Commonwealth Governments Bond	<3 years

1.8 Reporting to Council

A report will be submitted to the Audit and Finance Committee that addresses the City's Investment performance on an annual basis, as a minimum.

1.9 Review of Policy

This policy must be reviewed by the document owner and Council at least every two years; or under the below circumstance:

- I. There is a marked change in the economic landscape affecting the financial market;
- II. There is sustained volatility in international financial markets affecting the availability of credit and wholesale sourcing of funds;
- III. There is legislation enacted by State or Federal Government affecting the movement and investment of the City's funds.

RELEVANT DOCUMENTS

Banking Act 1959

Local Government Act 1995

Local Government (Financial Management) Regulations 1996

Trust Act 1962