INVESTMENT POLICY

PURPOSE

This policy is to ensure that there are effective and accountable systems in place to safeguard the Shire's financial resources. This includes the development of proper systems to authorise, verify and record the investment of monies in appropriate financial instruments.

This policy ensures the Council and all officers entrusted with a role in the investment of the Shire's funds act with the highest regard for their fiduciary duties.

OBJECTIVE

The policy on investment of surplus funds is intended to reflect the intention of Council to minimise the possibility of incurring capital loss on any investment whilst providing a reasonable rate of return.

The objectives of the Policy on investment of surplus funds are: -

a. To provide maximum capital preservation of funds.

   All investments are to be made in a manner that seeks to ensure security and safeguard the portfolio by effectively managing credit risk and interest rate risk within identified parameters.

b. To provide the best available rate of interest from an approved source.

c. To ensure sufficient liquidity to meet Council's cash flow requirements.

   Proper consideration is to be given to the present and likely future daily operational cash requirements of the Shire when selecting investments.

POLICY & PROCEDURE

1. Authorised Institutions

Investments are limited to authorised institutions, in accordance with *Local Government (Financial Management) Regulations Section 19C*, being: -

a. Authorised deposit-taking institution as defined in the *Banking Act 1959* (Commonwealth) section 5; or

b. The Western Australian Treasury Corporation established by the *Western Australian Treasury Corporation 1986.*

2. Authorised Investments

The only types of authorised investments under *Local Government Act 1995* - section 6.14(1), and *Local Government (Financial Management) Regulations 1996* – Regulation 19C, are as follows: -

a. Deposits with an authorised institution and the term is to be no more than 36 months;

b. Bonds that are guaranteed by the Commonwealth Government, or a State or Territory government with a term to maturity of up to 3 years; and

c. Australian currency only.

3. Prohibited Investments

This investment policy prohibits any investment carried out for speculative purposes including: -

a. Derivative based instruments;

b. Principal only investments or securities that provide potentially nil or negative cash flow; and

c. Stand-alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind.

This policy also prohibits the use of leveraging (borrowing to invest) of an investment.

4. Risk Management Guidelines

Investments obtained are to comply with the two (2) key criteria relating to: -

a. **Portfolio Credit Framework:** Limit overall exposure of the portfolio as a whole, according to credit rating.

b. **Term to Maturity Framework:** limits based upon maturity of securities to ensure adequate working capital needs are met.

If any of the Council’s investments are downgraded such that they no longer fall within the investment policy, they are to be divested as soon as practicable. Investments fixed for greater than 12 months are to be reviewed on a regular term and invested for no longer than 3 years.

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 Short Term Rating	Fitch Ratings	Maximum % in Credit rating Category
AAA	A-1+	AAA	100%
AA	A-1	AA	100%
A	A-2	A	60%
BBB	A-3	BBB	40%

Term to Maturity Framework

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

Investment Type	0 to 3 Months		3 to 6 Months		6 to 12 Months		1 to 2 years		2 to 3 years	
	Min.	Max.	Min.	Max.	Min.	Max.	Min.	Max.	Min.	Max.
Deposit with ADI – Maximum 36 months	15%	100%	0%	60%	0%	40%	0%	20%	0%	10%
Government Bonds	0%	20%	0%	20%	0%	20%	0%	20%	0%	10%

5. **Reporting to Council**

   A monthly report is to be provided to Council. The report is to detail the investment portfolio in terms of holdings and impact of changes in market value since the previous report. The monthly report may also detail the investment income earned versus budget year to date and confirm compliance of Council's investments within legislative and policy limits. Council may nominate additional content for reporting.

6. **Delegated Authority**

   That, under section 6.10 of the *Local Government Act 1995*, and as prescribed in regulation 19 of the *Local Government (Financial Management) Regulations 1996*, the CEO be delegated to administer the Investment Policy.

7. **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 portfolio to safeguard it in accordance with spirit of this policy.

8. **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.

   This policy requires officers to disclose any conflict of interest to the CEO.

SUPPLEMENTARY CONSIDERATIONS

Corporate Social Responsibility

In making investment decisions, consideration may be given to the corporate social responsibility profile of the financial institutions with whom the Shire invests.

It is emphasised that this is a subjective criteria and may only be taken into account when making investment decisions **after** all of the objectives of this policy have been met.

Where this criteria is exercised, the justification for applying it should be recorded for future audit purposes.

Transaction Costs & Administrative Matters

The administrative, banking and reporting costs that may be associated with the particular financial instrument are to be considered in selecting an appropriate financial instrument.

SCOPE

The policy applies to any investment of surplus funds other than bank deposits for operational purposes.

Legislative and Strategic Context

Legislation covering investment of surplus funds includes:

a. *Local Government Act 1995* Section 6.14.

b. The *Trustees Act 1962* – Part III Investments as amended by the Trustees Amendment Act.

c. *Local Government (Financial Management) Regulations 1996* – Regulation 19, Regulation 19C, Regulation 28 and Regulation 49.

d. Australian Accounting Standards.

GUIDELINES

Legislative Requirements

All investments are to be made in accordance with and to comply with the following:

a. *Local Government Act 1995* - Section 6.14;

b. *Trustees Act 1962* - Part III Investments;

c. Bank Act 1959;

d. *Local Government (Financial Management) Regulations 1996* - Regulation 19C, 28, and 49; and

e. Australian Accounting Standards

Annexure A – Definitions

STATUTORY ENVIRONMENT

Local Government Act 1995

Local Government (Financial Management) Regulations 1996 - Regulation 19C, 28, and 49; and

Australian Accounting Standards

Record of Policy Review						
Version	Author	Council Adoption	Resolution	Reason for Review	Review Date	CEO Signature
01	Graeme Fardon	26/08/10	32-100/11	New Policy		
02	Graeme Fardon	31/05/12	226-11/12	Revised		
03	Graeme Fardon	27/0912	58-12/13	Revised		
04	Graeme Fardon	29/05/14	192-13/14	Revised		
05	Graeme Fardon	27/0918	41-18/19	*Policy Review Project – 5/09/2018*		
06	Graeme Fardon	17/12/20	97-20/21	Biennial Policy Review	Dec 2022	
07	Leah Horton	15/12/22	137 - 22/23	Biennial Policy Review	Dec 2024	

ANNEXURE A – DEFINITIONS

Standard & Poor's Rating Guide

S&P Global Ratings credit rating symbols provide a simple, efficient way to communicate creditworthiness and credit quality. The S&P global rating scale provides a benchmark for evaluating the relative credit risk of issuers and issues worldwide.

General Summary of the Opinions Reflected by S&P Ratings

a. '**AAA**' Extremely strong capacity to meet financial commitments. Highest rating
b. '**AA**' Very strong capacity to meet financial commitments
c. '**A**' Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances
d. '**BBB**' Adequate capacity to meet financial commitments, but more subject to adverse economic conditions
e. '**BBB-**' Considered lowest investment grade by market participants

Fitch Ratings

Fitch Ratings publishes credit ratings that are forward-looking opinions on the relative ability of an entity or obligation to meet financial commitments. Financial Institutions Viability Ratings (VRs) measure the intrinsic creditworthiness of a bank or non-bank financial institution and reflect Fitch's opinion on the likelihood that the entity will fail.

a. **aaa**: Highest fundamental credit quality

   '**aaa**' ratings denote the best prospects for ongoing viability and lowest expectation of failure risk. They are assigned only to banks with extremely strong and stable fundamental characteristics, such that they are most unlikely to have to rely on extraordinary support to avoid default. This capacity is highly unlikely to be adversely affected by foreseeable events.

b. **aa**: Very high fundamental credit quality

   '**aa**' ratings denote very strong prospects for ongoing viability. Fundamental characteristics are very strong and stable; such that it is considered highly unlikely that the bank would have to rely on extraordinary support to avoid default. This capacity is not significantly vulnerable to foreseeable events.

c. **A**: High fundamental credit quality

   '**a**' ratings denote strong prospects for ongoing viability. Fundamental characteristics are strong and stable, such that it is unlikely that the bank would have to rely on extraordinary support to avoid default. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.

d. **Bbb**: Good fundamental credit quality

   '**bbb**' ratings denote good prospects for ongoing viability. The bank's fundamentals are adequate, such that there is a low risk that it would have to rely on extraordinary support to avoid default. However, adverse business or economic conditions are more likely to impair this capacity.