

MANAGEMENT OF INVESTMENTS

1. Objective

The objective of this policy is to provide a framework for the investment of the Town's excess funds. While exercising the power to invest, consideration will be given to the following:

- a. Preservation of capital: Investment management is to be undertaken in a manner that seeks to ensure security and safeguarding the investment portfolio. This includes managing credit and interest rate risk where applicable within identified threshold and parameters.
- b. Liquidity: There is to be 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. Investment Return: Investments are expected to achieve a market average rate of return taking into account the Town's risk tolerance.

2. Principles

Notwithstanding the introduction of this Policy Document, the General Financial Management obligations imposed on the Chief Executive Officer under the *Local Government Act 1995* and the *Local Government (Financial Management) Regulations 1996* should at all times be complied with.

The Council and delegated investment officers have fiduciary responsibilities under Section 6.14 of the *Local Government Act 1995* and therefore risks must be kept to a minimum, particularly credit risk. In this respect, the schedule of Authorised Investments (Section 10.0 *Trustees Act 1962*) and limits applying to counter-parties (Section 11.0 *Trustees Act 1962*) are to be adhered to. This will ensure delegated officers comply with the 'Prudent Person' rule.

Council recognises its obligations under the 'Prudent Person' rule by seeking to adhere to an investment policy with a conservative bias.

3. Issues

Council Officers will ensure adequate risk management controls are in place. Risk management controls include:

- Documented authority to invest.
- Documented investment procedures.

2.4. Policy

4.1 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 and Regulation 19C; and

- Australian Accounting Standards.

4.2 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 to safeguard the portfolios in accordance with the spirit of this Investment Policy, and not for speculative purposes.

4.3 Approved Investments

Investments are limited to:

- Interest Bearing term deposits with Authorised Deposit Taking Institutions (ADIs – Australian banks, building societies and credit unions) for a term not exceeding 12 months.
- Interest Bearing deposits with the Western Australian Treasury Corporation (WATC) for a term not exceeding 12 months.
- Bonds guaranteed by the Commonwealth Government or State or Territory for a term not exceeding 3 years.

The *Local Government (Financial Management) Amendment Regulations 2017* specifically prohibits investment in a foreign currency.

4.4 Risk Management Guidelines

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

- Portfolio Credit Framework: limit overall credit exposure of the portfolio.
- Counterparty Credit Framework: limit exposure to individual ADIs and government.
- Term to Maturity Framework: limits based upon maturity of investments.
- Overall Portfolio Limits

4.4.1 Institution Credit Framework

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

S&P* Long Term Rating Category Applicable for Government Bonds Only Investments	S&P Short Term Rating Category Applicable for ADI and WATC Only Investments	Overall Portfolio Maximum Limit
AAA/AA	A-1	45%
	A-2	40%
	A-3 to Unrated ADI	10%

* or Moody's/Fitch equivalents

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

4.4.2 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 30%	Max 100%
> 1 year < 3 years	Min 0%	Max 70%

4.5 Delegated Authorities

Acronyms used in the below table:

- Finance Manager (FM)
- ~~Manager Corporate and Community Services (MCCS)~~ Deputy Chief Executive Officer (DCEO)
- Chief Executive Officer (CEO)

Activity	Authorising Officers	Amount
Investment decision: Deposit withdrawal:	Two of the following three: CEO, MCCS <u>DCEO</u> and FM.	\$0 to <\$2,000,000

Decisions in excess of these limits will be referred to Council.

4.6 Benchmarking

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

4.7 Reporting and Review

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.

Certificates must be obtained from the financial institutions confirming the amounts of investments held on the Town's behalf as at 30 June each year and reconciled to the Investment Register.

This Policy will be reviewed at least every four years or as required in the event of legislative changes. Where, as a result of changes to legislation or the ability arises to invest to the advantage of the Town contrary to the provisions of this policy, the Chief Executive Officer may, ~~in accordance with Delegated Authority as detailed in the Town's Authority Register,~~ 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 approving any variation to the Policy in advance.~~

5. Related Documents

Nil

~~3.6.~~ Appendix

Appendix One – Standard & Poor’s Ratings Description

Adopted	
Expected date of review	

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MANAGEMENT OF INVESTMENTS – APPENDIX ONE

STANDARD & POOR'S RATINGS DESCRIPTION

1. Standard & Poor's Ratings Description

Standard & Poor's (S&P) is a professional organisation that provides analytical services. An S&P 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.
- 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.

2. Short Term Obligation Ratings

2.1. 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.

2.2. 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.

2.3. A-3

A short-term obligation rated A-3 exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

2.4. Unrated

Are not rated by S&P however the City's Investment Policy does allow limited investment in those ADIs that are supervised by the Australian Prudential Regulatory Authority (APRA).

3. Long Term Obligation Ratings

3.1. AAA

An obligation/obligor rated AAA has the highest rating assigned by S&P. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

3.2. AA

An obligation/obligor rated AA differs from the highest rated obligations only in a small degree. The obligor's capacity to meet its financial commitment on the obligations is very strong.

3.3. Plus (+) or Minus (-)

The ratings from 'AA' to 'CCC' may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

3.4. CreditWatch

CreditWatch highlights an emerging situation, which may materially affect the profile of a rated corporation and can be designed as positive, developing or negative. Following a full review the rating may either be affirmed or changed in the direction indicated.

3.5. Rating Outlook

A Rating Outlook highlights an emerging situation, which may materially affect the profile of a rated corporation and can be designed as positive, developing or negative. Following a full review the rating may either be affirmed or changed in the direction indicated.