

INVESTMENT

(1) OBJECTIVE

- ensure Council conforms with its fiduciary responsibilities under Section 6.14 of the Local Government Act and Section 18 (1)(a) of the Trustees Act 1962 (as amended) (the "Prudent Person" rule)
- ensure Council at all times has in place a current set of policies and delegations for its investment officers;
- ensure adherence to the guidelines and policies outlined in this document by all officers with delegated authority to invest/control surplus funds.
- to take a conservative approach to investments, but with a focus to add value through prudent investment of funds.
- to achieve a return on investments consistent with the SBCWA Bank Bill Index
- to achieve an adequate level of diversification to spread risk.
- to achieve a high level of security by using recognised ratings criteria.

(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 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. Council also seeks to add value to the investment portfolio through product selection and diversification.

(3) ISSUES

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

- Documented authority to invest.
- Documented investment procedures.

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- Documented back-up procedures, i.e.:
 - staff;
 - systems, operations;
 - checking controls, supervision.

Management reporting:

- monthly investment report;
- monthly statements to be received from counter-parties with the exception of term deposits.

The Trustees Amendment Act 1997 replaces the list of prescribed investments with a prudent person rule (Section 18 Part III Investments of the Trustees Act 1962). The main features of the prudent person rule are that:

- the Council Officer shall exercise due care, diligence and skill that a prudent person would exercise in managing the affairs of other persons;
- the Council Officer has a duty to invest funds in investments that are not speculative or hazardous.

(4) POLICY

(a) Prudent Person Rule

When exercising the power of investment, a Council Officer must:

- exercise the due care, diligence and skill that a prudent person would exercise when managing the affairs of other persons;
- deposit funds in investments that are not speculative or hazardous.

When exercising powers of investment, the following matters are to be considered:

- the purpose of the investment and the needs and circumstances
- the desirability of diversifying investments
- the nature of and risk associated with existing investments
- the need to maintain the real value of capital and income
- the risk of capital or income loss or depreciation
- the potential for capital appreciation
- the likely income return and timing of the income return
- the length of the term of the proposed investment
- the liquidity and marketability of the proposed investment
- the aggregate value of the investment
- the effect of the proposed investment in relation to the tax liability (if any)

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- the likelihood of inflation affecting the value of the proposed investment
- the costs of making the proposed investment
- the results of a review of existing investments.

(b) Liquidity

- at least 50% of total investment portfolio must be redeemable within 10 days.
- cash flow report to be monitored at least weekly to ensure cash funds are available to meet commitments.

(c) Long-Term Investments/Reserves

- Council will establish reserves, as required, upon the recommendation of the Chief Executive Officer or Manager Corporate Services.
- Where a Reserve is to be established for long-term projects, investments other than those outlined in this Policy may be appropriate. Council approval would be required in each case.

(d) Diversification

- Portfolio of investments must be diversified to ensure a spread of credit risk and market risk.
- If funds are to be invested 100% in Bank Deposits/Securities, diversification between counter parties is desirable.
- No more than 70% of funds may be invested in one organisation without Council approval.
- No more than 50% of funds may be invested into any one asset class (or product) without Council approval. The only exception being deposits with banks within the meaning of the Banking Act 1959.

(e) Delegated Authorities

Authorised Officer	Activity	Single/Joint	Amount
Finance Manager	Investment decision: Deposit: Withdrawal:	Joint: FM/MCCS Single: CEO Single: CEO	<\$500,000
Manager Corporate and Community Services	Investment decision: Deposit Withdrawal	Joint: MCCS/FM Joint: MCCS/CEO Joint: MCCS/CEO	>\$500,000 <\$1,000,000
Manager Corporate and Community Services	Investment decision: Deposit Withdrawal	Joint: MCS/ACC Joint: MCCS/CEO Joint: MCCS/CEO	>\$1,000,000 <\$2,000,000

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FM = Finance Manger
MCCS = Manager Corporate and Community Services
CEO = Chief Executive Officer

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

(f) Monthly Reporting & Review

Each month an investment report will be included in the Monthly Financial Statement to be submitted to the next ordinary Meeting of Council.

The Report will:

- (1) List all investments as at the month end date and itemise for each investment:
 - the financial institution
 - maturity date
 - investment rate.
- (2) Summarise:
 - exposure percentage for each financial institution
 - returns versus benchmark
 - amount held in bank accounts (not invested).

Review

At least once each year a review of the performance of investments will take place.

(g) Authorised Counterparties and Exposure Limits

	Counterparty Details	Minimum Standard & Poor's Rating	Maximum Exposure as a % of Total Investment Portfolio
11.1	All banks within the meaning of the Banking Act 1959. <u>Note:</u> At all times a minimum of 50% of total investments must remain with a Bank.	A-1 (short) AA (long)	100%
11.2	Commonwealth Government (Max. term 3 years)	A-1 AA	< 1 year 50% > 1 year 20%
11.3	State Government (Max. Term 3 years)	A-1 AA	< 1 year 50% > 1 year 20%

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(h) Authorised Investments

Authorised Officers may invest in the following assets subject to Delegated Authority Section (e) and Authorised Counter-parties and Exposure Limits Section (g):

(i) Cash/Bank Deposits/Securities

- (i) At Call/Short-Dated deposits with a bank within the meaning of the Banking Act 1959 of the Commonwealth or a bank established by or under a law of a State or Territory of the Commonwealth – (maximum term 1 year).
- (ii) Bills of exchange that have been accepted or endorsed by a bank – (maximum term 1 year).
- (iii) Certificates of deposit and term deposits issued by a bank whether negotiable, convertible or not – (maximum term 5 years).
- (iv) Securities of, or guarantees by, the Commonwealth or a State or Territory of the Commonwealth – (maximum term: Commonwealth –10 years, State – 7 years).

(j) Restrictions

- (i) Organisations with which deposits are placed must have a long-term credit rating of AA (or equivalent or higher) as assessed by a recognised Ratings Agency.
- (ii) All securities other than those guaranteed by the Commonwealth or a State Government must have a short-term domestic credit rating of A1 (or equivalent or higher) as assessed by a recognised Ratings Agency. *Refer to Section (g).*
- (iii) Maximum limits (% of investment portfolio) as set out in Section (g).

ADOPTION: July, 2016

REVIEW: July, 2018