

## FINANCE / ACCOUNTING

### F 4.3 Investment Policy

<i>Responsible Department</i>	Corporate Services
<i>Resolution Number</i>	C.4720
<i>Resolution Date</i>	19/04/2023
<i>Next Scheduled Review</i>	2025
<i>Related Shire Documents</i>	
<i>Related Legislation</i>	Local Government Act 1995, s6.14; The Trustees Act 1995, Pt III Investments; as amended Local Government (Financial Management) Regulations 1996, Regs 19, 19C, 28 & 49, Australian Accounting standards

### OBJECTIVE

The purpose of this policy is to invest the local government's surplus funds, with consideration of risk and at the most favourable rate of interest available to it at the time, for that investment type, while ensuring that its liquidity requirements are being met, whilst minimizing the possibility of incurring capital loss.

While exercising the power to invest, consideration is to be given in preservation of capital, liquidity, and the return of investment.

### SCOPE

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

### POLICY

#### 1. Policy Objectives

To invest the local government's surplus funds, with consideration of risk and at the most favourable rate of interest available to it at the time, for that investment type, while ensuring that its liquidity requirements are being met, whilst minimizing the possibility of incurring capital loss.

While exercising the power to invest, consideration is to be given in preservation of capital, liquidity, and the return of investment.

- Preservation of capital is the principal objective of the investment portfolio. Investments are to be performed in a manner that seeks to ensure security and safeguarding the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters.
- The investment portfolio will ensure there is 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.
- The investment is expected to achieve a predetermined market average rate of return that takes into account the Council's risk tolerance. Any additional return target set by Council will also consider the risk limitation and prudent investment principles.

The objectives of the Policy on Investment of Surplus Funds are:

- To provide maximum capital security of funds;
- To provide the best available rate of interest from an approved source; and,
- To ensure sufficient liquidity to meet Council's cash flow requirements.

## **2. 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, Regulation 19C, Regulation 28 and Regulation 49

## **3. Policy Statement**

Investments shall be restricted to term deposits or commercial bills offered by the following banks or government institutions:

- Commonwealth Bank of Australia
- BankWest

- Australia and New Zealand Bank
- National Australia Bank
- Westpac Banking Corporation
- WA Treasury Corporation.
- Bendigo Bank

Investments shall be spread to ensure that no single institution holds more than 50% of the Shire's invested funds.

#### **4. Prohibited Investments**

The investment policy prohibits any investment carried out for speculative purposes including:

- Derivative based instruments;
- Principal only investments or securities that provide potentially nil or negative cash flow; and
- Standalone securities issued that have underlying futures, options, forwards contracts and swaps of any kind.

Speculative financial instruments are specifically prohibited, together with the use of the portfolio for speculation. Leveraging of the portfolio (borrowing to invest) is prohibited.

Local Government (Financial Management) Regulations 1996 – Reg 19c (2) does not allow the following;

- Deposit with an institution except an authorised institution;
- Deposit for a fixed term of more than 12 months;
- Invest in bonds that are not guaranteed by the Commonwealth Government, or a State or Territory government;
- Invest in bonds with a term to maturity of more than 3 years;
- Invest in a foreign currency.

#### **5. Term and Status Reports**

The term of individual investments shall be consistent with the Shire's cash flow requirements and shall not exceed 12 months.

The status and performance of the investment portfolio is to be reported monthly to Council within the monthly financial report to Council.

## 6. 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 this Investment Policy, and not for speculative purposes.

## 7. 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 officer's to disclose any conflict of interest to the CEO.

## 8. Approved Investments

Without approvals from Council, investments are limited to:

- State/Commonwealth Government Bonds;
- Interest bearing deposits;
- Bank accepted/endorsed bank bills;

## 9. Investment Guidelines

### (a) Quotations on Investments

Not less than three (3) quotations shall be obtained from authorised institutions when an investment is proposed.

### (ii) Credit/Diversification Risk

The short term (0-365 days) credit guidelines will be based on Standard and Poors' Short Term Issue Credit Ratings which are:

- A1+ The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
- A1 The obligor's capacity to meet its financial commitment on the obligation is strong.

- A2 The obligor is susceptible to adverse economic conditions however the obligor's capacity to meet its financial commitment on the obligation is satisfactory.

The amount invested with any one financial institution or product should not exceed the following percentages of average annual funds invested within each risk rating. To Exclude operating accounts and is at the time of initial investment of funds.

Credit Rating	Maximum % in credit rating category	Maximum % in one authorised institution
Short term A1+	100	50
Short term A1	50	50
Bendigo Bank Short Term A2	50	50
Short term A2	25	50

- (i) Preference to community support

Where two or more quotes are equal in terms of risk and return then the institution that can demonstrate a greater community support will be preferred over the other.

- (ii) Change in Credit Ratings

If any of Council's investments are downgraded such that they no longer fall within these investment policy guidelines, they will be divested as soon as is practicable.