



2.1.2 Investment of Surplus Funds

Type:	Corporate Services – Financial Management
Legislation:	Section 6.14 of the <i>Local Government Act 1995</i> Part 111 Investments of the <i>Trustees Act 1962</i> Regulation 19, 19C, 28 & 49 of the <i>Local Government (Financial Management) Regulations 1996</i> <i>Australian Accounting Standards</i>
Delegation:	DA6 Investment of Funds
Other Related Document:	

Objectives

This policy provides guidelines on how 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, while ensuring that its liquidity requirements are being met.

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.
- 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 redemption 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.

Fossil Fuel Free Investments

Prior to placing investments, preference will be given to competitive quotations from financial institutions that are deemed not to invest in or finance the **fossil fuel industry** where:

- a) the investment is compliant with Council’s investment policy with regards to risk management guidelines, and
- b) a price preference of 0.1% compared to the most favourable investment quotation is to be provided to financial institutions that are deemed not to invest in or finance the fossil fuel industry.

Policy Scope

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.

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

- Deposits with an institution that is not an authorised deposit-taking institution as defined in the *Banking Act 1959* (Commonwealth) Section 5;
- The use of leveraging (borrowing to invest) of an investment;
- A state treasury that is not the Western Australian Treasury Corporation established by the *Western Australian Treasury Corporation Act 1986*;
- Term deposits 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;
- Investment in bonds with a term to maturity of more than 3 years;
- Investment in a foreign currency;
- Derivative based instruments;
- Principal only investments or securities that provide potentially nil or negative cash flow;
- Stand alone securities issued that have underlying futures, options, forward contracts and swaps of any kind.

Without approvals from Council, investments are limited to:

- State/Commonwealth Government Bonds;
- Interest Bearing Deposits;
- Bank accepted/endorsed bank bills.

Policy

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. In times of periodic global financial system liquidity concerns a prudent person would seek higher rated, lower risk, investment placement as a priority.

Investments obtained are to comply with key criteria limiting i) overall credit exposure of the portfolio and exposure to individual institutions, and ii) the term to maturity of securities.

(i) Overall Portfolio and Individual Limits

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. 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:

Long Term Rating	Short Term Rating	Direct Investments Maximum % with any one institution	Maximum % of Total Portfolio by Credit Rating
AAA	A1+(F1+)	50%	100%
AA	A1(F1)	45%	100%
A	A2(F2)	40%	80%

The rating categories are the minimum requirement for both long term and short term ratings per institution that will determine individual and total portfolio exposure. Unless stated otherwise, rating categories include + and – variations.

(ii) **Term to Maturity Framework**

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

Portfolio % <1 year	100% Max - 60% Min
Portfolio % >1 year <3 years	40% Max

Investment performance is benchmarked against the cash rate.

A monthly report will be provided to Council, in support of the monthly financial activity statement, which will detail the investment portfolio in terms of divestment of **fossil fuel** industry supported investments, performance, percentage exposure of total portfolio by rating category and maturity date framework.

If any of the investments are downgraded such that they no longer fall within the risk management guidelines, they will be divested as soon as practicable.

The table below details two rating agencies' credit ratings for short and long term investments. It includes a grade explanation for each credit rating, which can be substituted, if required, with similar categories of rating from other recognised ratings agencies.

The short term <365 days rating as defined by Standard & Poors (or Fitch) is:

A1+(F1+)	Superior, extremely strong degree of safety for timely payment
A1 (F1)	Superior, a strong degree of safety for timely payment
A2 (F2)	Strong, a satisfactory capacity for timely payment

The long term ratings as defined by Standard & Poors and Fitch is:

AAA	Highest quality, an extremely strong capacity to repay
AA+ to AA-	High quality, a very strong capacity to repay
A+ to A-	Above average quality, a strong capacity to repay

Responsible Directorate:	Corporate Services
Reviewing Officer:	Executive Manager Corporate Services
Decision making Authority:	Council
Policy Adopted:	21/06/16
Policy Amended/Reviewed:	17/9/19, 17/3/20
Former Policy No:	4.2.3