

FM 1 – Investment Policy

1 Objectives

To provide a framework for the investment of the Shire’s surplus funds that:

- Seeks to maximise the return on investment to the Shire;
- Has due consideration for the risk and security of each investment; and
- Ensures that the Shire’s liquidity requirements are being satisfied.

2 Scope

This Policy applies to all workers.

3 Definitions

Authorised Institution (ADI)

means the same as that defined in Regulation 19C (1) of the *Local Government (Financial Management) Regulations 1996* as amended.

Counterparty

means the other party that participates in a financial transaction.

Credit Rating

means an estimate of overall ability and willingness of an entity or person to fulfil financial obligations in full and on time, based on previous financial dealings. Ratings are opinions issued by credit rating agencies.

Councillor

means members of an elected body that make decisions on behalf of a local government through a formal meeting process. Generally, local government council members, who include the Mayor or President and Councillors, do not have any authority to act or make decisions as individuals.

Employee

means a person that’s hired to provide a service to a company either on a full-time, part- time or casual basis in exchange for payment. Also known as staff.

Environmentally Responsible Investments

include (but are not limited to): Resource efficiency, especially water and energy (including reducing greenhouse gas emissions and renewable energy), Production of environmentally friendly products, Recycling and waste reduction.

Foreign Currency

means a currency other than Australian Dollars (AUD).

Short- term Investments

means investments that mature in 12 months or less.

Long term Investments

means investments that mature in more than 12 months.

Socially Responsible Investments

include (but are not limited to) investments that subscribe to one or more of the following principles:

- Fair trade;
- Provision of a living wage;
- Equal opportunity employers;
- Employers that support the values of communities;
- Indigenous peoples;
- Minority groups;
- Provision of housing, especially affordable housing;
- Health and safety; and
- Animal welfare.

Worker

means a worker is any person who carries out work for a Person Conducting a Business or Undertaking (PCBU), including work as an employee, Councillor, outworker, apprentice or trainee, work experience student, placed with a 'host employer' and volunteers.

4 Policy

All the Shire's investments will be managed in accordance with the following framework.

4.1 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.

4.2 Ethics and Conflicts of Interest

Officers will refrain from personal activities that would conflict with the proper execution and management of the Shire's investment portfolio. This Policy requires Officers to disclose any conflict of interest to the Chief Executive Officer (or Council if the Chief Executive Officer has the conflict).

4.3 Liquidity

- a. Liquidity ratio: At least 50% of total investment portfolio must be liquifiable within 31 days.
- b. Cash flow report to be monitored at least weekly to ensure cash funds are available to meet commitments.
- c. Maturity analysis report to be monitored at least monthly.

4.4 Diversification

- a. Portfolio of investments must be diversified to ensure a spread of credit risk and market risk.
- b. No more than 50% of funds may be invested in any one asset class (or product) without Council approval. The only exception being deposits with authorised

deposit-taking institutions within the meaning of the Banking Act 1959(Cth).

4.5 Authorised Investments

4.5.1 Authorised Investments will be limited to Australian currency denominated:

- a. Deposits (including Flexi and At Call deposits) with Authorised Deposit Taking Institutions;
- b. Deposits with Authorised Deposit Taking Institutions (ADIs) as defined in section 5 of the *Banking Act 1959* (Commonwealth) with a Standard & Poor's (or its equivalent) credit rating of A or higher (subject to overall limits) and the Western Australian Treasury Corporation (WATC), for a term not exceeding 3 years;
- c. Bonds that are guaranteed by the Commonwealth Government or a State or Territory and which have a term not exceeding three years.

4.6 Prohibited Investments

4.6.1 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, forward contracts and swaps of any kind.

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

4.6.3 This Policy also requires that the Shire may not do any of the following when investing money, as per r.19C of the *Local Government (Financial Management) Regulations 1996*:

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

4.7 Risk Management Guidelines

4.7.1 Portfolio Credit Framework

To control the credit quality on the investment portfolio, the following credit framework limits the percentage of the portfolio exposed to any credit rating category as detailed in Column C of the table below.

Exposure to an individual counterparty/institution will be restricted by any rating category so that single entity exposure is limited at the time of investment, as detailed in Column D of the table below.

| A | B | C | D |
|-------------------------|--------------------------|-----------------------------------|---|
| S&P Long Term Rating | S&P Short Term Rating | Investment portfolio Maximum % | Investments with individual counterparty Maximum |
| AAA | A-1+ | 100% | 50% |
| AA | A-1 | 100% | 45% |
| A | A-1 | 60% | 20% |

4.8 Term to Maturity Framework

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

| Investment Type | Term to Maturity |
|-------------------------------------|-------------------------|
| ADI Deposits | ≤ 3 years |
| State/Commonwealth Government Bonds | ≤ 3 years |

4.9 Professional Advice

- 4.9.1 The Shire may from time to time engage the services of suitably qualified investment professionals to assist in investment strategy formulation, portfolio implementation and monitoring.
- 4.9.2 Any such advisor must be licensed by the Australian Securities and Investment Commission and be within the allocated budget. The advisor must be an independent person who has no actual or potential conflict of interest in relation to investment products being recommended and is free to choose the most appropriate product within the terms and conditions of this Investment Policy.
- 4.9.3 Any independent advisor engaged by the Shire is required to provide written confirmation that they do not have any actual or potential conflicts of interest in relation to the investments they are recommending or reviewing, including that they are not receiving any commissions or other benefits in relation to the investments being recommended or reviewed.

4.10 Reporting and Performance Monitoring

- 4.10.1 A monthly report will be provided to Council in conjunction with the monthly Statement of Financial Activity. The report will detail the investment portfolio in terms of performance, percentage exposure of total portfolio, maturity date and changes in market value.
- 4.10.2 This Investment Policy will be reviewed at least once a year or as required in the event of legislative changes.
- 4.10.3 Documentary evidence must be held for each investment and details thereof maintained in an Investment Register.
- 4.10.4 Certificates must be obtained from the financial institutions confirming the amounts of investments held on the Shire's behalf as of 30 June each year and reconciled to the Investment Register.

4.11 Environmentally and Socially Responsible Investment

The investment should align to Council values through Environmentally Responsible Investment and Socially Responsible Investment subject to meeting the other objectives of this Policy.

4.12 Standard & Poor's Credit Ratings

Standard & Poors (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 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.

Short-Term Obligation Ratings are:

A-1

This is the highest short-term category used by S&P. The institution's capacity to meet its financial commitment to 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.

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 institution's capacity to meet its financial commitment on the obligation is satisfactory.

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 to the obligation.

Long-Term Ratings are:

AAA

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

AA

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

A

An institution rated A is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than institutions in higher rated categories. However, the institution's capacity to meet its financial commitment to the obligation is still strong.

UNRATED

Securities issued by institutions that cannot justify going through the formal and expensive exercise of attaining a credit rating from a credit rating agency such as S&P. 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.

5 Risk Management

The risks of not having this Policy in place include:

- 5.1 Non-compliance with financial legislation;
- 5.2 There is no framework for the investment of the Shire’s surplus funds.
- 5.3 Minimal or no return on investment to the Shire;
- 5.4 There is high risk and low security for each investment; and
- 5.5 The Shire’s liquidity requirements are not satisfied.

6 Accountabilities and Responsibilities

6.1 Council is accountable for:

- Ensuring the organisation has in place a lawful, transparent, and accountable policy framework, supported by a suite of compliant and appropriate policies and procedures.
- Endorsing (or not) each organisational policy document in a timely and effective manner.
- Delegating implementation of each policy document to the CEO.

6.2 The CEO is accountable for ensuring the development, implementation, monitoring and review of this policy document, in accord with governing legislation and Council directives.

6.3 The Executive Management Team and Managers is responsible for:

- Ensuring that all employees under their direction comply with this policy document.
- Enacting process to redress non-compliance with this policy document.

6.4 All employees are individually responsible for complying with this policy document.

7 Legislation, Policy and Other Relevant Documents

| | |
|------------|---|
| Act | <p><i>Local Government Act 1995</i></p> <p>s.2.7(2)(b) – The council is to determine the local government’s policies</p> <p>s.6.14 – Power to invest</p> <p>(1) Money held in the municipal fund or the trust fund of a local government that is not, for the time being, required by the local government for any other purpose may be invested as trust funds under the Trustees Act 1962 Part III.</p> |
| Regulation | <p><i>Local Government (Financial Management) Regulations 1996</i></p> <p>r.19 – Investments, control procedures for</p> <p>r.19C – Investment of money, restrictions on</p> |

| | |
|-------------------|---|
| Local Law | N/A |
| Shire Policies | N/A |
| Related Documents | N/A |
| Related Procedure | Delegated Authority 1.1.21 Power to Invest |

8 Administration

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|-------------------------|---------------|
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