

FM 2 – Investment Policy

1 Objectives

- To take a conservative approach to investments, but with a focus to add value through prudent investment of funds.
- To have investment funds achieve a return consistent with the goals set by the CEO from time to time.
- To achieve an adequate level of diversification to spread risk.
- To achieve a high level of security by using recognised ratings criteria.

So as to ensure that Shire officers have ready access to funds for day-to-day operations, without penalty.

2 Overview

The purpose of this Policy is to ensure:

- Council conforms with its fiduciary responsibilities under Section 6.14 of the *Local Government Act 1995* and Section 18(1)(a) of the *Trustees Act 1962* (as amended) (the “Prudent Person” rule) – Refer *Addendum 1*
- Council at all times has in place a current set of policies and delegations for its Investment Officers.
- Adherence to the guidelines and policies outlined in this document by all Officers with delegated authority to invest/control surplus funds.

This document is to be made available to all employees involved in daily investment decisions, as well as to those who approve Council’s policies.

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

3 Policy

3.1 Risk Profile

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) and limits applying to counterparties (Section 11) 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.

3.2 Risk Management Controls

- 1 Documented authority to invest (*Refer Addendum 1*)
- 2 Documented investment procedures.
- 3 Documented back-up procedures, i.e.
 - Staff
 - Systems, operations
 - Checking controls, supervision
- 4 Management reporting:
 - Monthly investment report (refer Section 12.1)
 - Monthly statements to be received from counterparties with the exception of term deposits.

The General Financial Management obligations imposed on Chief Executive Officers, under the Local Government Act and the Local Government (Financial Management) Regulations must at all times be complied with.

3.3 Liquidity

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

3.4 Long Term Investments/Reserves

Council will establish reserves, as required, upon the recommendation of the Chief Executive Officer.

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.

3.5 Diversification

- 1 Portfolio of investments must be diversified to ensure a spread of credit risk and market risk.
- 2 No more than 50% of funds may be invested into any one asset class (or product without Council approval). The only exemption being deposits with authorised deposit-taking institutions within the meaning of the Banking Act 1959.

3.6 “Prudent Person” Rule

Addendum 1 outlines the legislative background of the “Prudent Person” rule.

These guidelines must be adhered to. In case of conflict, the “Prudent Person” ruling must apply, or Council approved obtained.

By way of background, the “Prudent Person” rule replaces the previous legislation which stipulated that all investments had to fall within the list of Authorised Trustee Investments (in accordance with Part III of the Trustees Act 1962), otherwise approval of the Minister for Local Government was required, on the advice and recommendation of the Treasurer (Local Government Act 1995, Section 6.14(1)).

3.7 Delegated Authority to Invest

The CEO is delegated authority by Council to make investment decisions and sign investment lodgements, withdrawals, etc. The CEO is to sub-delegate authority to appropriate Corporate Services staff the authority to place and withdraw investments subject to a minimum of two staff (may include the CEO) to be signatories to any investment decision with a suitable hierarchy of investment responsibility (amount) being established. This hierarchy shall require either the CEO or Executive Manager Corporate Services to be a signatory to any investment decision and the CEO to be a signatory to any investment decision of an amount equal to or greater than \$1 million.

3.8 Authorised Investments

Authorised investments are contained in Addendum 2. These investments may be made by authorised officers subject to the investment policies outlined in this document being adhered to.

3.9 Authorised Counterparties and Exposure Limits

	Counterparty Details	Minimum Standard & Poor's Rating	Maximum Exposure as a % total investment Portfolio
3.9.1	All authorised deposit-taking institution as defined in the <i>Banking Act 1959</i> (Commonwealth) section 5 with a maximum term 3 years (Note: at all times a minimum of 50% total investments must remain with a Bank)	A-1	100%
3.9.2	Western Australian Treasury Corporation fixed term investments with a maximum term of 1 years	A-1	50%
3.9.3	Commonwealth Government (Guaranteed) Bonds (maximum term 3 years)	A-1	50%
3.9.4	State or Territory Government (Guaranteed) Bonds (maximum term 3 years)	A-1	50%

3.10 Management Reporting

3.10.1 Monthly Reports

Each month an investment report must be produced to the Chief Executive Officer. The report will summarise:

- Liquidity levels (cash flow report)
- Maturity profile Investment spread (asset classes)
- Counterparty exposure versus limits
- Returns versus benchmarks
- Any breaches of authority

3.11 Reviews

Annual reviews of the Investment Guidelines and Policy Document must be provided.

Legislative Background – The “Prudent Person”

The investment options available to Local Government Authorities in Western Australia were altered in June 1997 with changes to the Trustees Act.

With the passage of changes to the Trustees Act, the list of prescribed investments has been removed and replaced by the “Prudent Person” rule.

The main features of the prudent person rule include:

- Exercising the care, diligence and skill that a prudent person would exercise in managing the affairs of other persons.
- A duty to invest funds in investments that are not speculative or hazardous.

In exercising powers of investment, there are important matters for consideration:

- 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)
- 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

Authorised Investments

Note: Authorised Officers may invest in the following assets subject to Delegated Authority Section 3.7 and Section 3.9.

- 1 Cash/Authorised Deposit taking Institution Deposits/Securities
 - (a) At Call/Short-dated deposits with an authorised deposit-taking institution as defined in the *Banking Act 1959* (Commonwealth) section 5 – maximum term 3 years.
 - (b) Bills of exchange that have been accepted or endorsed by an authorised deposit-taking institution – maximum term 3 years.
 - (c) Certificates of deposit and term deposits issued by an authorised deposit-taking institution whether negotiable, convertible or not – maximum term 3 years.
 - (d) Bonds guaranteed by the Commonwealth Government or a State or Territory Government of the Commonwealth – maximum term 3 years.
- 2 Restrictions
 - (a) Organisations with which deposits are placed must have a long-term credit rating of A (or equivalent or higher) as assessed by a recognised Ratings Agency.
 - (b) Officers may not invest in currency that is not the currency of Australia, i.e. foreign currency
 - (c) Maximum limits (% of investment portfolio) are set out in Section 11.

4 Applicable Legislation and Documents

Statutory Power <i>(Acts, Regulations, Local Laws, TPS)</i>	<i>Local Government Act 1995</i> s.2.7(2)(b) – The council is to determine the local government’s policies s.6.14 – Power to invest Part III of the <i>Trustees Act 1962 Banking Act</i> <i>Local Government (Financial Management) Regulations 1996</i> r.19 – Investments, control procedures for r.19C – Investment of money, restrictions
Shire Policies	N/A
Related Documents	N/A
Related Procedure	N/A

5 Administration

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