



FP3 – INVESTMENTS POLICY

MANAGEMENT PRACTICE:

DELEGATION: 1.2.8 – Power to Invest and Manage Investments

OBJECTIVE

This policy provides guidelines on how the Shire's excess funds are to be invested whilst complying with legislation and requiring its authorised officers to exercise the care, diligence and skill that a prudent person would exercise in investing the Council funds.

The objectives of the policy are:

1. Preservation of Capital

The primary objective of the Shire's investment is to ensure the safety and security of the investment made in relation to the credit risk of the borrowers and interest rate on offer.

2. Liquidity of Funds

The investment of the Shire's funds should ensure there is sufficient liquidity to meet the operational daily/weekly/monthly cash flow requirement as and when they fall due, without incurring additional cost to the Shire.

3. Return on Investment

The investment made should achieve a predetermined return on investment taking into account of the market condition and risk profile of the borrowers.

SCOPE

The policy applies to any investment of surplus funds other than bank deposits for operational purposes and applies to all officers involved in the investment of Council funds.

DEFINITIONS

Standard and Poor's Rating Guide

- **'AAA'** Extremely strong capacity to meet financial commitments. Highest rating
- **'AA'** Very strong capacity to meet financial commitments
- **'A'** Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances
- **'BBB'** Adequate capacity to meet financial commitments, but more subject to adverse economic conditions
- **'BBB-'** Considered lowest investment grade by market participants

Fitch Ratings

- **aaa:** Highest fundamental credit quality
- **'aaa'** ratings denote the best prospects for ongoing viability and lowest expectation of failure risk. They are assigned only to banks with extremely strong and stable fundamental characteristics, such that they are most unlikely to have to rely on extraordinary support to avoid default. This capacity is highly unlikely to be adversely affected by foreseeable events.
- **aa:** Very high fundamental credit quality

- ‘aa’ ratings denote very strong prospects for ongoing viability. Fundamental characteristics are very strong and stable; such that it is considered highly unlikely that the bank would have to rely on extraordinary support to avoid default. This capacity is not significantly vulnerable to foreseeable events.
- **A:** High fundamental credit quality
- ‘a’ ratings denote strong prospects for ongoing viability. Fundamental characteristics are strong and stable, such that it is unlikely that the bank would have to rely on extraordinary support to avoid default. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
- **BBB:** Good fundamental credit quality
- ‘bbb’ ratings denote good prospects for ongoing viability. The bank’s fundamentals are adequate, such that there is a low risk that it would have to rely on extraordinary support to avoid default. However, adverse business or economic conditions are more likely to impair this capacity.

POLICY STATEMENT

Authorised Investments

The only types of authorised investments under *Local Government Act 1995* – section 6.14(1), and *Local Government (Financial Management) Regulations 1996* – regulation 19C, are as follows;

- Deposits with an authorised institution and the term is to be no more than 36 months;
- Bonds that are guaranteed by the Commonwealth Government, or a State or Territory government with a term to maturity of up to 3 years; and
- Australian currency only.

Prohibited Investments

This 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
- Stand-alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind.
- Any investment that is not compliant with Section 19c of the *Local Government (Financial Management) Regulations 1996*.

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

Delegation of Authority

That, under section 6.10 of the *Local Government Act 1995*, and as prescribed in regulation 19 of the *Local Government (Financial Management) Regulations 1996*, the Chief Executive Officer be delegated to administer the Investments Policy.

The Chief Executive Officer has the authority to on- delegate the day to day investment activities to the Deputy Chief Executive Officer or other duly authorised Officers subject to regular reviews.

Prudent Person Standard

Investment of Council's funds will be managed with the care, diligence and skill that a prudent person would exercise. Officers are to manage the investment portfolio at a level where the stated objectives of this policy are achieved and not for speculative purposes.

Ethics and Conflicts of Interest

Officers shall refrain from personal activities that would conflict with the proper management of Council's investment portfolio. Where there is a conflict of interest, it should be disclosed to the Chief Executive Officer as soon as possible.

Reporting

- i. A monthly report must be provided to Council detailing the investment portfolio in terms of overall performance, percentage exposure of total portfolio by investment institution, and in the case of managed investments, the changes in market value.
- ii. The report will also detail investment income earned against budget year to date.
- iii. For audit purposes, certificates of all investments must be made available from banks/financial institutions and fund managers confirming the amount of the investment held on Council's behalf at 30 June each year.

Relevant Legislation:	<i>Local Government Act 1995</i> <i>Local Government (Financial Management) Regulations 1996</i> <i>The Trustees Act 1962</i> <i>Banking Act 1959 (Commonwealth)</i> <i>Western Australian Treasury Corporation Act 1986</i>
Related Documents:	Australian Accounting Standards
Related Local Law:	N/A
Related Policies:	
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