

Investment of Surplus Funds Policy & Procedure

Objective

The policy on Investment of Surplus Funds is intended to reflect the intention of Council to minimise the possibility of incurring capital loss on any investment whilst providing a reasonable rate of return.

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.
- To ensure sufficient liquidity to meet Council's cash flow requirements.

Policy Statements

A. Authorised Institutions

Investments are limited to authorised institutions, in accordance *with Local Government (Financial Management) Regulations Section 19C*, being:

- Authorised deposit-taking institution as defined in the *Banking Act 1959* (Commonwealth) section 5; or
- The Western Australian Treasury Corporation established by the *Western Australian Treasury Corporation 1986*.

And, at the request of Council, deposits are limited to authorised deposit taking institutions that have an office presence in Albany.

B. 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.

C. 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.

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

D. Risk Management Guidelines

Investments obtained are to comply with three key criteria relating to:

- **Portfolio Credit Framework:** Limit overall exposure of the portfolio as a whole, according to credit rating.
- **Counterparty Credit Framework:** Limit exposure to individual counterparties /institutions, based on credit rating.
- **Term to Maturity Framework:** limits based upon maturity of securities to ensure adequate working capital needs are met.

If any of the Council's investments are downgraded such that they no longer fall within the investment policy, they will be divested as soon as practicable. Investments fixed for greater than 12 months are to be reviewed on a regular term and invested for no longer than 3 years.

(1) Portfolio Credit Framework

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.

S&P Long Term Rating	S&P Short Term Rating	Fitch Ratings	Maximum % in Credit rating Category
AAA	A-1+	AAA	100%
AA	A-1	AA	100%
A	A-2	A	60%
BBB	A-3	BBB	40%

(2) Counterpart Credit Limit.

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.

S&P Long Term Rating	S&P Short Term Rating	Fitch Ratings	Maximum % in one authorised Institution (Counterparty Credit Limit)
AAA	A-1+	AAA	45%
AA	A-1	AA	35%
A	A-2	A	20%
BBB	A-3	BBB	10%

(3) Term to Maturity Framework

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

Investment Type	0 to 3 Months		3 to 6 Months		6 to 12 Months		1 to 2 years		2 to 3 Years	
	Min.	Max.	Min.	Max.	Min.	Max.	Min.	Max.	Min.	Max.
Deposit with ADI – Maximum 36 months	15%	100%	0%	60%	0%	40%	0%	20%	0%	10%
Government Bonds	0%	20%	0%	20%	0%	20%	0%	20%	0%	10%

E. Reporting to Council

A monthly report will be provided to Council. The report will detail the investment portfolio in terms of holdings and impact of changes in market value since the previous report. The monthly report will also detail the investment income earned versus budget year to date and confirm compliance of Council's investments within legislative and policy limits. Council may nominate additional content for reporting.

F. Delegated 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 CEO be delegated to administer the Investment of Surplus Funds Policy.

G. Prudent Person Standard

The investment will be managed with the care, diligence and skill that a prudent person would exercise.

H. 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 officers to disclose any conflict of interest to the CEO.

Scope

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

Legislative and Strategic Context

Legislation covering investment of surplus funds includes:

- *Local Government Act 1995* Section 6.14.
- The *Trustees Act 1962* – Part III Investments as amended by the Trustees Amendment Act.
- *Local Government (Financial Management) Regulations 1996* – Regulation 19, Regulation 19C, Regulation 28 and Regulation 49.
- Australian Accounting Standards.

Review Position and Date

This policy must be reviewed by the document owner and Council at least every two years.

Definitions:

Standard & 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.

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3.0	Chief Executive Officer	Reviewed & Amended: OCM 19/04/2011 Report Item 4.7, Council resolved: That the Chief Executive Officer AMEND the Investment of Surplus Funds Policy to limit the investment of funds to be no more than \$1 million, or 10 percent (whichever is the greater) across the total investment portfolio with the Bendigo Bank, at any one time, and the investment term to be no more than 30 days.	19/04/2011
4.0	Manager Finance	Review Reference: OCM 19/02/2013 Report Item 1.1. NP073228_4.	9/02/2013
5.0	MGR	Revision Reference: OCM 23/05/2017 Resolution CCCS028. Amended: Minor Formatting. NP1766877.	15/06/2017
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