Title	Investment of Funds

Policy Type

Council

Policy Purpose

The principal objective of this policy is to set the City's risk tolerance relating to the investments of surplus funds.

Section 6.14 of the Local Government Act 1995 provides for monies held in the Municipal and Trust funds to be invested in accordance with Part III of the Trustees Act 1962. Regulation 19C of the Local Government (Financial Management) Regulations has placed restrictions on what local governments can invest in and for how long.

This policy aims to ensure investments made by the City comply with these legislative requirements whilst also enabling investment performance to be optimised within a conservative, risk averse framework. It also provides policy direction for investing with certain types of financial institutions.

Policy Statement

(1) The investment portfolio aims to achieve an optimal average rate of return that consistently outperforms the adopted benchmark by a level reflecting prevailing market conditions. Management of the investment portfolio will be in accordance with the following principles:

1. Preservation of Capital – Protecting the principal amount invested is the paramount consideration for all investment decisions and these are to be made exercising the care, diligence and skill that a prudent person with those responsibilities would exercise.
2. Effective Cash Flow Management - The City's cash flows are to be effectively managed to ensure sufficient liquidity to meet operational requirements and allow flexibility in choosing investment terms.
3. Optimising Investment Return – Investment decisions should aim to optimise investment returns within the legislative, credit framework, cash flow and other policy constraints.
4. Held to Maturity - Investments are to be made with the objective of being held to maturity.
5. Fossil Fuel Free Investments - All other things being equal (deposit rates, credit ratings), the City will preference financial institutions deemed free from funding fossil fuel related industries (as determined from time to time by Market Forces, an affiliate project of Friends of the Earth Australia).
6. Ensuring Compliance - Appropriate internal control measures are to be developed and maintained to ensure compliance with Regulation 19 of the Local Government (Financial Management) Regulations, compliance with this policy and ensuring the power to invest is only exercised by appropriately authorised officers.

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7. Operational Efficiency – The City will transact its investments through the Austraclear licensed clearing and settlement facility (when available) in order to minimise operational and settlement risk (through the reduction of manual processing of funds transfer).

(2) Approved Investments

Regulation 19C of the Local Government (Financial Management) Regulations 1996 requires the investment of surplus funds to only be made with an authorised deposit-taking institution (ADI) as defined in the Banking Act 1959, the WA Treasury Corporation or in Commonwealth, State or Territory government guaranteed bonds. This regulation also restricts the fixed terms to no more than 3 years for each type of investment.

In responding to the requirements of Regulation 19C, Council has determined the following policy for its approved investments:

1. Investments will be held in interest bearing term deposits with authorised deposit-taking institutions (ADIs) for a maximum fixed term of three years (includes major and regional Australian banks, building societies and credit unions – maximum term allowed under legislation.
2. Investments with foreign owned ADI's are prohibited, noting that foreign owned ADI's operating in Australia are regulated by APRA but are exempt from Div 2 of the Banking Act (Protection of Depositors), lessening APRA's intervention powers.
3. Government guaranteed bonds with a term to maturity of up to 3 years may be invested in, but only where investment returns are comparable to those achievable from ADI's – maximum term allowed under legislation.

For the avoidance of doubt, all managed investment products, bank bills, floating rate notes, commercial paper, tradeable securities or any derivative based instruments are prohibited investments under this policy and current legislation.

Any non-conforming investments held as at 4 April 2012 being the date of the revised Local Government (Financial Management) Amendment Regulations 2012 and that were compliant with the prevailing Legislation prior to that date, remain eligible to be held to maturity (grandfathered).

(3) Performance Benchmarks

1. Bank Bill Swap (BBSW) Rate

   The performance of the City's investment portfolio will be benchmarked against the Bank Bill Swap (BBSW) Rate, a short-term interest rate used as a benchmark for the pricing of Australian dollar derivatives and securities

2. RBA Cash Rate

   The official RBA cash rate will also be used to compare the portfolio's performance as it is an industry standard and provides an accurate measure.

(4) Credit Management

1. Portfolio Credit Framework

   The portfolio credit guidelines to be adopted will be based on the Standard and Poors (S & P) ratings system criteria determined for each institution. A description of each rating category is included in Section 6. If not rated by S&P, comparable Moody's or Fitch Ragings may be used instead.

   For authorised deposit-taking institution (ADI) investments the portfolio limits for each credit rating group are as follows:

S & P Short Term Rating (1 Year)	S & P Long Term Rating (over 1 Year)	Max Direct Investment
A-1	AAA, AA	100%
A-2	A, BBB	100%
A-3 to Unrated	BB to Unrated	Nil

2. Institution Credit Framework

   Exposure to an individual institution will be restricted by their S&P rating and the single entity exposure limits detailed in the table below:

Short Term Credit Rating	S & P Long Term Rating (over 1 Year)	Direct Investment Maximum
A-1	AAA, AA	50%
A-2*	A, BBB	40%
A-3 to Unrated	BB to Unrated	Nil

3. Government Issued Bonds

   For Bonds guaranteed by the Commonwealth, State or Territory of Australia, the credit rating will be that of the guaranteeing government and will be deemed to be adequate under this policy.

(5) Reporting Requirements

1. A report will be provided to Elected Members each month containing a concise overview of the City's investment portfolio and its performance. This will include a summary of investments held in the portfolio including the following:

   (a) Investments held compared to the Institution Credit Framework.
   (b) Investments held compared to the Global Credit Framework.
   (c) Investments held by sector including foreign owned banks.
   (d) Percentage of investments held deemed free from funding fossil fuel related industries.
   (e) The portfolio's performance against the Performance Benchmark over varying terms.
   (f) The weighted duration of the portfolio.

(g) Overall status of compliance against this policy.

2. An annual report on the performance of the investment portfolio will be submitted to Council outlining the performance of the portfolio for the financial year.

(6) Standard & Poors Credit Ratings:

Standard & Poor's (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 particular 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 on 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 on 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 on 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 on 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 institutions capacity to meet its financial commitment on the obligation is still strong.

BBB

An institution rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to the institution to meet its financial commitment on the obligation.

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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 Standard and Poors.

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.

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