

Council Policy

Investment Policy



Legislation/local law requirements	<i>Local Government Act 1995</i> s.2.7 – Role of council s.6.14 – Power to invest
Relevant Delegation	See Delegated Authority Register
Related policy procedures and documents	

Introduction

The City of Kwinana will invest surplus funds in accordance with the Local Government Act and Council Delegations.

Purpose

To provide a framework for the investment of the City's surplus funds that seeks to maximise the return to the City whilst having due consideration for the risk and security of each investment and social and environmental expectations are met; and ensures that the City's liquidity requirements are being satisfied.

Objective

The purpose of this policy is to

- Ensure the City takes a conservative approach to the investment of funds but will add value through prudent investment.
- Maximise investment returns.
- Achieve a high level of security of the overall portfolio by using recognised rating criteria.
- Maintain an adequate level of diversification.
- Give preference to investments with institutions that are assessed to have a higher social and environmental responsibility rating.
- Cash flow requirements are maximised without incurring penalties.

Scope

This policy applies to all of the City's investments.

Policy Provisions

Definitions

Authorised Deposit Taking 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.

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.

short-term in relation to investments means it matures in 12 months or less.

long-term in relation to investments means it matures in excess of 12 months.

Socially Responsible Investments include (but are not limited to) fair trade and provision of a living wage, equal opportunity employers and those that support the values of communities, indigenous peoples, and minorities, provision of housing, especially affordable housing, health and safety, animal welfare.

Policy

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

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.

2. Ethics and Conflicts of Interest

Officers shall refrain from personal activities that would conflict with the proper execution and management of the City's investment portfolio. This policy requires Officers to disclose any conflict of interest to the Chief Executive Officer.

3. Authorised Investments

Authorised Investments shall be limited to Australian currency denominated:

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

4. Prohibited Investments

4.1. 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, forward contracts and swaps of any kind.

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

4.3. This policy also requires that the City may not do any of the following when investing money, as per 19C of the Local Government (Financial Management) Regulations 1996:

- Deposit with an institution except an authorised institution
- Deposit for a fixed term of more than 3 years
- Invest in bonds that are not guaranteed by the Commonwealth Government or a State or Territory government
- Invest in bonds with a term to maturity of more than 3 years; and
- Invest in a currency other than Australian Dollars (AUD).

5. Risk Management Guidelines

5.1. 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 particular credit rating category.

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	Maximum % with any one Institution	Maximum % of Total Portfolio
Government Guaranteed Deposits	Government Guaranteed Deposits	100%	100%
Bendigo Bank Kwinana Community Branch	Bendigo Bank Kwinana Community Branch	45%	45%
AAA	A-1+	45%	100%
AA	A-1+	45%	100%
A	A-1	25%	60%
BBB	A-2	20%	40%

If any of the investments within the portfolio are subject to a credit rating downgrade such that the portfolio credit percentages are no longer compliant with the Investment Policy, or there is a review of this policy, the investment will be divested as soon as practicable.

5.2. 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

5.3 Exceptions – Bendigo Bank – Kwinana Community Bank Branch. To recognise the contributions made to the community of Kwinana the following exceptions apply to the Bendigo Bank – Kwinana Community Bank Branch.

Under this policy Bendigo Bank - Kwinana Community Branch have the limitations provided for in section 5.1 Portfolio Credit Framework. The maximum exposure to the Bendigo Bank - Kwinana Community Bank Branch as a single entity/institution is limited to a maximum direct investment of 45%.

6. Professional Advice

- 6.1. The City may from time to time engage the services of suitably qualified investment professionals to provide assistance in investment strategy formulation, portfolio implementation and monitoring.
- 6.2. 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.
- 6.3. Any independent advisor engaged by the City 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.

7. Reporting and Performance Monitoring

- 7.1. 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.
- 7.2. Documentary evidence must be held for each investment and details thereof maintained in an Investment Register.
- 7.3. Certificates must be obtained from the financial institutions confirming the amounts of investments held on the City's behalf as at 30 June.
- 7.4. The report will review exposure to fossil fuel investment risk.

8. Environmentally and Socially Responsible Investment

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

The City will ensure its financial investments consider the reduction of fossil fuels, by investing with non-fossil fuel lending banks. The City will refer to the research of third-party bank services to determine eligible non-fossil fuels lending banks.

OFFICER USE ONLY

Officers may amend this section without council approval.

Responsible Team	Finance
Initial Council adoption	Date: 8 April 2009 Ref#: 473
Reviewed/amended	Date: 23 October 2024 Ref#: 558
Next Review Date	Date: October 2026
Policy Document Number	D12/63257[v7]