

Policy

Investment Policy



Investment Policy

Adopted:	08/04/2009 #473
Last reviewed:	28/04/2010 #105 11/07/2012 #163 13/09/2017 #586
New review date:	13/09/2019
Legal Authority:	Local Government Act Section 2.7 – The Role of Council 6.14. Power to invest (1) Money held in the municipal fund or the trust fund of a local government that is not, for the time being, required by the local government for any other purpose may be invested as trust funds may be invested under the Trustees Act 1962 Part III.
Directorate:	City Strategy
Department:	Finance
Related documents:	Acts/Regulations Local Government Act 1995 Local Government (Financial Management) Regulations 1996 The Trustees Amendment Act 1997– Part III Investments Delegated Authority CEO2.6 Power to Invest

Note: Changes to References may be made without the need to take the Policy to Council for review.

Policy:

1. Title

Investment Policy

2. 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 ensures that the City's liquidity requirements are being satisfied.

3. Scope

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

4. Definitions

"Authorised 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.

"Foreign Currency" means a currency other than Australian Dollars (AUD). "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.

5. Policy Statement

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

5.1 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.

5.2 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.

5.3 Authorised Investments

Authorised Investments shall be limited to Australian currency denominated:

- Deposits (including Flexi and At Call deposits) with Authorised Deposit Taking Institutions;
- Deposits with Authorised Deposit Taking Institutions (ADIs) as defined in section 5 of the Banking Act 1959 (Commonwealth) with a Standard & Poor's (or its equivalent) credit rating of BBB or higher (subject to overall limits) and the Western Australian Treasury Corporation (WATC), for a 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.

5.4 Prohibited Investments

5.4.1 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.

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

5.4.3 This policy also requires that the City may not do any of the following when investing money, as per r19C 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 foreign currency

5.5 Risk Management Guidelines

5.5.1 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.

S&P Long Term Rating	S&P Short Term Rating	Direct Investment Maximum for category %
AAA and Bendigo Bank Kwinana Community Branch	A-1+ and Bendigo Bank Kwinana Community Branch	100%
AA	A-1+	100%
A	A-1	60%
BBB	A-2	20%

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.

5.5.2 Portfolio Credit Framework

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	Direct Investment Maximum for category %
AAA and Bendigo Bank Kwinana Community Branch	A-1+ and Bendigo Bank Kwinana Community Branch	45%
AA	A-1+	45%
A	A-1	25%
BBB	A-2	10%

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.

5.5.3 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

5.5.4 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 same limitations provided for in sections 5.5.1 Portfolio Credit Framework and 5.5.2 Counterparty Credit Framework as the highest S&P long and short term rating. 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%.

5.6 Professional Advice

5.6.1 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.

5.6.2 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.

5.6.3 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.

5.7 Reporting and Performance Monitoring

5.7.1 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.

5.7.2 This Investment Policy will be reviewed at least once a year or as required in the event of legislative changes.

- 5.7.3 Documentary evidence must be held for each investment and details thereof maintained in an Investment Register.
- 5.7.4 Certificates must be obtained from the financial institutions confirming the amounts of investments held on the City's behalf as at 30 June each year and reconciled to the Investment Register.

6. Financial/Budget Implications

There are no direct financial or budget implications associated with this policy; however the importance of safe guarding the City's resources and maximising returns is addressed within this policy.

7. Asset Management Implications

There are no asset management implications associated with this Policy.

8. Environmental Implications

There are no environmental implications associated with this Policy.

9. Strategic/Social Implications

This proposal will support the achievement of the following objectives and strategies detailed in the Corporate Business Plan.

Plan	Objective	Strategy
Corporate Business Plan	6.1 Ensure the financial sustainability of the City of Kwinana into the future	6.1.2 Implement sound revenue and expenditure policies, seek additional revenue sources and optimise financial management system

10. Occupational Safety and Health Implications

There are no OSH implications associated with this Policy.