

COUNCIL POLICY NO: 052

Responsible Directorate	Corporate and Community Services
Responsible Section	Finance
Responsible Officer	Manager Finance

OBJECTIVE:

To provide guidelines with respect to investing Council funds which are surplus to immediate requirements and to invest these excess funds in accordance with relevant legislation.

SCOPE:

This policy applies to all Directorates of the Town of Cambridge.

POLICY STATEMENT:

1. Objectives

While exercising the power to invest, consideration needs to be given to preservation of capital, liquidity, and the return of investment.

- (a) Preservation of capital is the principal objective of the investment portfolio. Investments are to be performed in a manner that seeks to ensure security and safeguarding the investment portfolio. This includes managing credit and interest rate risk within identified threshold and parameters.
- (b) The investment portfolio will ensure there is sufficient liquidity to meet all reasonably anticipated cash flow requirements, as and when they fall due, without incurring significant costs due to the unanticipated sale of an investment.
- (c) The investment is expected to achieve a predetermined market average rate of return that takes into account the Council's risk tolerance. Any additional return target set by Council will also consider the risk limitation and prudent investment principles.

2. Legislative Requirements

All investments are to comply with the following:

- *Local Government Act 1995* – Section 6.14;
- *The Trustees Act 1962* – Part III Investments;
- *Local Government (Financial Management) Regulation 1996* – Regulation 19, Regulation 28, and Regulation 49
- *Local Government (Financial Management) Amendment Regulation 2012*
- Australian Accounting Standards

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3 Delegation of Authority to Invest

The authority is to be delegated to the Chief Executive Officer to make investment decisions and sign investment lodgements and withdrawals pursuant to the provisions of Section 5.45 of the *Local Government Act 1995*. The CEO may in turn delegate the day-to-day management of Council's investments.

4 Prudent Person Standard

Investment will be managed with the care, diligence and skill that a prudent person will 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 Approved Investments

Only the following types of securities may be invested in:-

- Interest bearing term deposits with the Western Australian Treasury Corporation or Authorised Deposit Taking Institutions (ADIs - Australian banks, building societies and credit unions) for a maximum term of three years.
- Bonds guaranteed by the Commonwealth and State or Territory Government with a term to maturity of three years or less

Investments held as at the 4 April 2012 the date of the revised *Local Government (Financial Management) Amendment Regulations 2012* that complied with the prevailing Legislation prior to that date are eligible to be held until maturity.

6 Risk Management Guidelines

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

1. Portfolio Credit Framework: limit overall credit exposure of the portfolio;
2. Counter party Credit Framework: limit exposure to individual counterparties/institutions; and
3. Term to Maturity Framework: limits based upon maturity of securities.

(a) Overall Portfolio Limits

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 Category Credit Rating*	S&P Short Term Category Credit Rating*	Limit %
AAA/AA	A-1	Minimum 80%
Not Applicable	A-2	Maximum 20%

(b) Counterparty Credit Framework

Exposure to an individual counterparty/institution will be restricted by their credit rating so that single entity exposure is limited, as detailed in the table below:-

S&P Long Term Category Credit Rating*	S&P Short Term Category Credit Rating	Investment Limit
AAA/AA	A-1	Maximum 45%
Not Applicable	A-2	Maximum \$250,000

* or Moody's or Fitch Equivalent

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.

Where an individual counterparty/institution is or becomes a wholly owned subsidiary of another counterparty/institution, the two institutions shall be regarded as one institution for the purpose of determining the maximum percentage allowed under the counterparty credit framework.

If the exposure to the counterparty is for limited to a short term investment only (ie a period less than twelve months), then the short term credit rating only is to apply.

(c) Term to Maturity Framework

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

Overall Portfolio Return to Maturity		
Portfolio % <1 year	Min 40%	Max 100%
Portfolio % >1 year ≤ 3 years	Min 0%	Max 60%

7 Investment Advisor

Council's investment advisor must be licensed by the Australian Securities and Investment Commission. 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 recommend the most appropriate product within the terms and conditions of the investment policy.

The investment return for the portfolio is to be regularly reviewed by the investment advisor by assessing the market value of the portfolio. The market value is to be assessed at least monthly to coincide with monthly reporting.

The investment advisor should meet with the responsible staff and review Council's investment portfolio no less than every six months.

8 Benchmarking

The performance of the investment portfolio shall be measured against the UBS Warburg 90 Day Bank Bill Index and/or the Reserve Bank of Australia's Official Cash Rate.

9 Reporting and Review

A monthly report will be provided to Council in support of the monthly statement of activity. The report will detail the investment portfolio in terms of performance, percentage exposure of total portfolio and maturity date.

This Investment Policy will be reviewed at least once every two years or as required in the event of legislative changes.

Documentary evidence must be held for each investment and details thereof maintained in an investment Register.

Certificates must be obtained from the financial institutions confirming the amounts of investments held on the Council's behalf as at 30 June each year and reconciled to the Investment Register.

DEFINITIONS:

Definitions are taken as those detailed in the *Local Government Act 1995* and associated legislation.

Document Control				
Office Use Only:				
Previous Policy No	Policy No. 3.2.5			
Statutory Legislation and Compliance	<i>Local Government Act 1995</i>			
Related Documents/Legislation	<i>Local Government (Financial Management) Regulations 1996</i>			
Date of Adoption by Council	Council Meeting – 26 November 1996			
Date Reviewed/Amended	28 October 1997 24 February 2004 27 April 2010	27 June 2000 20 December 2005 26 June 2012	25 March 2003 22 April 2008 26 April 2017	28 October 2003 16 December 2008 28 July 2020
Next Review Date	April 2024			

Appendix 1

Standard & Poor's Ratings Description

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:-

1. Likelihood of payment.
2. 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) **A-1**
This is the highest short-term category used by S&P. The obligor'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.
- (b) **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 obligor's capacity to meet its financial commitment on the obligation is satisfactory.
- (c) **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:

- (d) **AAA**
An obligation/obligor rated AAA has the highest rating assigned by S&P. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
- (e) **AA**
An obligation/obligor rated AA differs from the highest rated obligations only in a small degree. The obligor's capacity to meet its financial commitment on the obligations is very strong.

- (f) **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.
- (g) **CreditWatch** highlights an emerging situation, which may materially affect the profile of a rated corporation and can be designed as positive, developing or negative. Following a full review the rating may either be affirmed or changed in the direction indicated.

A Rating **Outlook** assesses the potential direction of an issuer’s long-term debt rating over the intermediate-to-long term. In determining a Rating Outlook, consideration is given to possible changes in the economic and/or fundamental business conditions. An outlook is not necessarily precursor of a ratings change or future CreditWatch action. A “Rating Outlook – Positive” indicates that rating may be raised. “Negative” means a rating may be lowered. “Stable” indicates that ratings are not likely to change. “Developing” means ratings may be raised or lowered.

Appendix 2

Explanatory Notes to Investment Policy

Overview

- 1) The investment policy is an all encompassing document for the overall management of Council's short and long-term funds.
- 2) The policy's risk management framework consists of four primary guidelines which help ensure the overall security of Council's investment portfolio:
 - a. **Global Credit Framework:** the percentage of the total portfolio exposed to any particular Standard & Poor's rating category is limited to control the overall credit quality of the portfolio. For example, Council may have 100% of its portfolio in AAA rated securities, but only a maximum of 10% in unrated building societies or credit unions.
 - b. **Counterparty Credit Framework:** exposure to an individual institution is also restricted by their S&P credit rating. For example, while Council may have 100% of its portfolio in AAA securities only 25% of its total portfolio may be exposed to an individual AAA rated institution.
 - c. **Term to Maturity Framework:** exposure to longer dated securities is limited by their maturity. For example, 100% of Council's portfolio may be invested in securities of less than 1 year while only 25% of the total portfolio may be invested in securities greater than 5 years.
 - d. **Authorised Deposit Taking Institutions:** Council's authorised investments are to be limited to Standard & Poor's "investment grade" categories (AAA, AA, A, BBB) and a small percentage allowed for Unrated institutions. Any security in the BBB or Unrated Category must be an Authorised Deposit Taking Institution (ADI). ADIs are regulated by, and subject to the prudential standards of, the Australian Prudential Regulation Authority (APRA).
- 3) Individual investment selection for each account (i.e., General Municipal, Reserves and Endowment Land) is to comply with the counterparty credit rating and term to maturity guidelines as detailed in this document.
- 4) Specific strategies for each account will be updated and reviewed on a more regular basis than the investment policy. For example, investment selection for Endowment Land funds will be based upon foreseeable cashflow and time horizon of the holdings while conforming to the overall risk management framework.