

Investment Policy



Responsible Division	Corporate Services
Responsible Business Unit	Financial Services
Responsible Officer	Manager Financial Services
Affected Business Units	All Branches
ECM Document Set ID	3698740

Purpose

The Investment Policy sets out the requirements for the management of the City's cash and investment portfolio.

Scope

This policy applies to all managers and employees who actively manage the City's cash and investments or have the responsibility for employees who actively manage the City's cash and investments.

Definitions

Standard and Poor's (S&P) Credit Ratings 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 on the following considerations:

- likelihood of payment;
- nature and provisions of the obligation; and
- 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.

Long-term risk ratings (greater than 12 months to maturity)

Category	Definition
AAA	An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
AA	An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong
A	An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.
BBB	An obligation rated 'BBB' 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.

Short-term risk ratings (less than 12 months to maturity)

Category	Definition
A-1	A short-term obligation rated 'A-1' is rated in the highest category by Standard & Poor's. 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.
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.
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.

Reference:

<https://www.spratings.com/documents/20184/86966/Standard+%26+Poor%27s+Ratings+Definitions/fda2a96-be56-47b8-9ad2-390f3878d6c6>

Policy Statement

This policy sets the following objectives:

- safeguard the City's cash and investments portfolio;
- achieve appropriate earnings; and
- manage the City's cash resources to ensure sufficient liquidity to meet the City's business objectives over the long, medium and short term.

This policy reinforces the City's ongoing commitment to maintaining a conservative risk and return portfolio; an important feature of its ongoing prudent financial management practices.

Related Legislation

All investments are to comply with the following:

- Local Government Act 1995 – Section 6.14;
- Trustees Act 1962 – Part III Investments;
- Local Government (Financial Management) Regulations 1996 – Regulations 19, 19C, 28 and 49; and
- Australian Accounting Standards.

PRUDENT PERSON STANDARD

The City requires that all investment activities be exercised with the care, diligence and skill of a prudent person, and not for speculative purposes.

Officers shall not engage in activities that would conflict with the proper execution and management of the City's investment portfolio. Any potential conflicts of interest should be appropriately disclosed to the Chief Executive Officer in accordance with the City's Code of Ethics.

APPROVED INVESTMENTS

Investments are limited to:

- Interest-bearing deposits with an authorised deposit-taking institution (ADI) as defined in the Banking Act 1959 (Commonwealth) section 5 for a term not exceeding three years;
- Interest-bearing deposits with the Western Australian Treasury Corporation established by the West Australian Corporation Act 1986, not exceeding three years; and
- Bonds guaranteed by the Commonwealth Government, or a State or Territory Government for a maturity term not exceeding three years.

All investments are to be in Australian currency.

PROHIBITIVE INVESTMENTS

The City is not able to do any of the following:

- deposit with any institution except an authorised deposit-taking institution;
- deposit for a fixed term exceeding three years;
- invest in bonds that are not guaranteed by the Commonwealth Government, or a State or Territory Government;
- invest in bonds with a maturity term of more than three years; nor
- invest in a foreign currency.

In addition, the Investment Policy prohibits any investment carried out for speculative purposes and includes derivative-based instruments such as mortgage and asset-backed securities, 'principal only' investments and 'stand-alone' securities such as Collateral Debt Obligations (CDO's).

DIVESTMENT

When exercising the power of investment, preference is to be given to financial institutions that have no current record of funding fossil fuels and do not invest in or finance the fossil fuel industry, subject to all such investments meeting the risk ratings, not resulting in less favourable returns and meets diversification limits set out in the Investment Policy. The City will use resources such as Market Forces in determining fossil-free investments <https://www.marketforces.org.au/info/compare-bank-table/>

RISK MANAGEMENT GUIDELINES

Investments are to comply with:

- Portfolio Credit Framework: limit overall credit exposure of the portfolio (Direct investment maximum);
- Counterparty Credit Framework: limit exposure to individual ADI counterparties / institutions (Exposure to a single institution); and
- Term to Maturity Framework: limits on period of maturity.

Investments must have a credit rating and the credit rating structure of the total portfolio must comply with the contents of the following table.

S&P Long-Term Rating	S&P Short-Term Rating	Direct Investment Maximum (as a % of Total Portfolio)	Exposure to a Single Institution (as a % of Total Portfolio)
AAA	A-1+	100%	45%
AA	A-1	100%	35%
A	A-2	80%	30%

If any ADI's or investments are downgraded to an extent that they no longer comply they will be divested as soon as practicable, subject to the risks of default and prevailing market liquidity.

INVESTMENT ADVISOR

Council approval is required to appoint an Investment Advisor to provide expert financial advice. The Investment Advisor must be authorised by an entity licensed by the Australian Securities and Investment Commission. The Investment Advisor is required to have no actual or potential conflict of interest in relation to investment products being recommended, and may recommend the most appropriate products within the terms and conditions of the Investment Policy.

Managed funds on advice from the City's financial advisor, if limited to cash funds or cash plus funds, would take into account the need for funds over a twelve-month period and the security of the principal of the investment. In terms of the various risk levels, with any investment advisor/s approved by the City, the maximum amount of investment held on advice should not exceed 5% of average annual funds invested by the City.

AUDIT

All of the City's investments are to be held in the name of the 'City of Bayswater'. Certificates are to be provided by the ADI and reconciled monthly to the City's financial records.

The City's records are to show a clear and transparent record of investment holdings in accordance with terms, percentage exposure and maturities, and comply with the Local Government Act 1995 and its subordinate legislation.

REPORTING AND REVIEW

The City will maintain a separate record of money it has invested. Pursuant to the *Local Government (Financial Management) Regulations 1996* the City will provide a monthly report to Council on investments. This report will include (among other things): the total value of the portfolio; net investment income for the month; and a complete schedule of all investments within the total portfolio.

Investment performance will be measured monthly in relation to the Reserve Bank of Australia (RBA) average cash rate.

The City will undertake an annual review of its Investment Policy. If there are any significant changes to the Act, Regulations, issued guidelines, or if the market changes to a degree that warrants an earlier examination, the policy will be reviewed and referred to Council for further consideration.

Related Documentation

Nil.

Document details

Relevant delegations	M-D01 Power to Invest		
Risk evaluation	Low		
Strategic link	Goal L2: Plan and deliver projects and services in a sustainable way. Work together to deliver the best outcomes for the community by managing our resources in a financially sustainable way.		
Council adoption	13 September 2016	Resolution	13.5
Next review due	20 November 2026		
Reviewed/modified	OCM 12 December 2023	Resolution	10.5.1.6