

Investment of Funds

Policy Type: Council Policy

Policy Owner: Manager Financial Services

Policy No. CP- 009

Last Review Date: 19 June 2018

Policy Objectives

To provide guidance for the investment of the City's funds, with due consideration of legislative requirements and risk at the most favourable rate of return available to the City at the time for the particular investment type, while ensuring that the City's liquidity requirements are being met.

Policy Scope

This Policy applies to all funds invested by the City. It should be noted that the type of investments that the City has the power to invest in is limited by prescriptive legislative provisions as noted in point 2 of the following Policy Statement.

Policy Statement

The City's investment objectives will be met through the application of this Policy which provides guidelines with respect to the investment of City of Melville (the City) funds by defining levels of risk considered prudent for public monies. Liquidity requirements are determined to ensure the funds are available as and when required and take account of appropriate benchmarks for rates of return commensurate with the low levels of risk and liquidity requirements. The policy ensures that perceived or potential conflicts of interest for the City's officers, investment advisers and fund managers or the sellers or promoters of investment products, are carefully managed and that investments are appropriately authorised and meet ethical and public acceptability standards.

1. Investment Objectives

- Preservation of the real value of capital is the principal objective of the investment policy. Investments are to be placed in a manner that seeks to ensure security and safeguarding of the funds in the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters;
- The investment portfolio will ensure there is sufficient liquidity to meet all reasonably foreseeable cash flow requirements, as and when they fall due, without incurring significant costs due to the unanticipated sale of an investment;
- The investment portfolio 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 the Council will also consider the risk limitation and prudent investment principles;

- To achieve a high level of security for the overall portfolio by investing in investment products that have achieved high credit ratings using recognised rating criteria;
- To maintain an adequate level of diversification;
- To ensure that before investments are made they are appropriately authorised;
- To appropriately manage any actual or potential conflicts of interest that may arise from the actions of investment advisers, managers and the sellers/promoters of investment products;
- To invest in investments that are ethically sound and do not result in a loss of public confidence in the City or the Council due to the nature of the investment or their potential to incur a capital loss
- To exercise a deliberative preference in favour of “green investments”

2. Legislative Compliance

At all times all investments are to comply with the minimum requirements as set out in the:

- *Local Government Act 1995 - Section 6.14 (1) which provides that ‘Money held in the municipal fund or 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 (sic) under the Trustees Act 1962 Part III’.*
- *Local Government Act 1995 - Section 6.14 (2A) which provides that ‘A local government is to comply with the regulations when investing money referred to in subsection (1).’*
- *Local Government Act 1995 Schedule 9.3 Division 2 clause 44. which provides that ‘Section 6.14(1) as in force immediately before the coming into operation of section 19(1) of the amending Act (the **amending provision**) continues to operate in respect of any investment made under section 6.14(1) before the coming into operation of the amending provision but does not operate so as to allow any reinvestment under that provision.’ The relevant date referred to above is 21 April 2012.*
- *Local Government (Financial Management) Regulations 1996, specifically Regulation 19 – Investment, control procedures for and 19C – “Investment of money, restrictions on.”*
- *Local Government (Financial Management) Regulations 1996, Regulation 28 – Investment information required in notes prescribe the disclosure requirements for investment in the annual budget.*
- *Australian Accounting standards prescribe the financial reporting requirement and require extensive balance sheet and income statement disclosures.*
- *Part III of the Trustees Act 1962.*



3. Delegation of Authority for Authorisation of Investments

Authority for implementation of the Investment Policy is delegated by the Council to the Chief Executive Officer (CEO) in accordance with the *Local Government Act 1995*.

Investments that meet the requirements of this policy may be authorised by the delegated authorised category A and B signatories of the City as defined by the delegated authorities of the Council. At no time shall officers, investment managers or advisers commit to an investment unless so authorised.

No investments are to be authorised by City officers that fall outside the parameters of this policy.

4. Prudent Person Standard

The investments will be managed with the care, diligence and skill that a prudent person would exercise. Officers are to manage the investment portfolio to safeguard the portfolio in accordance with the spirit of this Investment Policy and not for speculative purposes.

5. 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 and the City of Melville Code of Conduct requires officers to disclose any actual or perceived conflict of interest to the CEO.

6. Approved Institutions

Investments shall be made with institutions that meet this Policy's guidelines including diversification, credit risk, liquidity, and ethicality.

7. Authorised Investments

In accordance with the powers conferred on it by the *Local Government Act 1995*, the *Local Government (Financial Management) Regulations 1996* and the *Trustees Act 1962 Part 3*, Authorised Investments shall be limited to Australian currency denominated:

- Deposits (including Flexi / 30 day 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 & Poors (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 maturity term not exceeding three years.



8. Prohibited Investments

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, forwards contracts and swaps of any kind. (Note this includes Collateralised Debt Obligations)

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

9. Risk Profile and Objectives

Whilst the investments made in accordance with the *Local Government Act 1995*, the *Local Government (Financial Management) Regulations 1996* and part III of the *Trustees Act 1962*, are inherently low risk, when exercising the power of investment the following principles are also to be given due consideration:

- The purpose of the investment, and its needs together with the circumstances,
- The nature of and the risk associated with the different investments,
- The need to maintain the real value of capital and income,
- The risk of capital loss or income loss,
- The likely income return and the timing of that return,
- The liquidity and marketability of the proposed investment during and at the termination of the term of the proposed investment,
- The aggregate value of the investment,
- The likelihood of inflation affecting the value of the proposed investment,
- The costs (including commissions, fees, charges and duties payable) of making the proposed investment,
- The ethicality and reputational risk of the investment.

The objectives for each investment and the immediacy of the demand for the funds depends on the particular Fund or Reserve Account/s of the City that the investment pertains to as described in the following:

Municipal Funds: - These funds consist of the operating funds (working capital) of the City and are therefore required to be highly liquid. Inflow of funds is usually very strong over the first four to five months of the financial year at which time substantial funds will be available for investment. Such investments are to be liquid and short term in nature as outflows will generally exceed inflows over the remaining seven to eight months. Investments should not therefore exceed a maximum of one year and the term to maturity will be reduced as the financial year progresses. Apart from ensuring liquidity the objective of investment

returns for this fund is to maintain their real value over the short-term i.e. zero to twelve months and not be subject to any loss in value at any time.

Trust Funds: - These funds are held on trust for third parties e.g. where the City acts as a collection agent for levies or charges such as the Building and Construction Industry Training Fund. As such these funds will be required to be highly liquid with maturity dates of between one to three months. Whilst there will generally be a balance in the Trust Fund, due to timing of inflows and outflows, the funds should be managed on the basis that they may be required at short notice. Apart from ensuring liquidity the objective of investment returns for this fund is to maintain their real value over the short-term i.e. zero to twelve months and not be subject to any loss in value at any time.

Citizens Relief Fund: - These funds are managed by the City on behalf of the City of Melville's Citizen Relief Fund. The aim of the management of the Citizens Relief Fund is to steadily increase the invested balance over time in order to generate sufficient investment revenue in order for it to pay out requests for relief. These requests may amount to \$3,000 per month but the impact on the fund will be offset by inflows other than investment returns. The fund will therefore be likely to maintain a minimum balance in excess of \$100,000 which can be invested for periods of up to one year. Apart from ensuring liquidity, the objective of investment returns for this fund is to maintain their real value over the short-term i.e. zero to twelve months and not be subject to any loss in value at any time.

Specific Purpose Reserve Accounts: - These accounts accumulate funds required to finance future major projects of the City or future liabilities. Draw downs on reserves are generally capable of being planned well in advance and therefore a high proportion of this fund lends itself to be invested for the longer term. The objective of investments made from Reserve Accounts should be to maintain the real value of the Reserves over the longer term so as to keep abreast of (and if possible exceed) the increases in costs for the projects or liabilities the Reserve Accounts will finance. Due to the longer term nature of these funds, investments made may be subject to some degree of volatility in market price however such volatility should not exceed 10% of their face value. Only Reserve Account investments would be suitable for investment in bonds that have a term to maturity of up to three years.

10. Investment Guidelines

The City's investments must at all times be maintained within the investment parameters detailed in this Policy. Reporting arrangements that confirm compliance with the requirements of this Policy are required on a monthly basis.

a) The City's Direct Investments

Subject to the overriding requirements and to maintain diversification of invested funds as outlined in 11 (ii) following not less than three quotations shall be obtained from authorised institutions whenever an investment is proposed. The best quote on the day will be successful after allowing for administrative and banking costs, as well as having regard to the maximum investment limits at respective credit rating set out below.

b) Investments placed by the City's officers or authorised advisor/s and managers (if any) must be appropriately documented at the time of placement.



- c) No investments are to be made by an officer or manager of the City's funds, where the officer or manager has any potential, perceived or actual conflicts of interest in the investment product being recommended to the City unless specific authorisation is given by the Council or its appropriately authorised officers. Authorisation will only be entertained on the basis of a full disclosure and the City retains the right to seek further independent advice on the nature of the conflict of interest.
- d) A maximum term to final maturity for individual investments applies as follows:
 - 1. For all Commonwealth, State or Local/Territory Government Bonds, not more than three years (suitable for the long-term proportion of the City's Reserve accounts as determined from time to time).
 - 2. For all ADI securities, not more than three years (suitable for all of the City's funds).

11. Risk Management Guidelines

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

- a) Portfolio Credit Framework: limits overall credit exposure of the portfolio
- b) Counterparty Credit Framework: limits exposure to individual counterparties/institutions
- c) Term to Maturity Framework: limits based upon maturity of securities.

(i) Credit Ratings

If any of the funds / securities held are down graded such that they no longer fall within the City's investment policy guidelines, they will be divested as soon as is practicable but, unless otherwise decided by the Council, not at an amount of more than 5% below the last reported mark to market book value.

The short term (0-365 days) rating as defined by Standard and Poor's Australian Ratings (S&P) is:

A-1+	As below however those obligations that are designated with a plus sign (+) indicates that the obligators capacity to meet its financial commitments on their obligations is extremely strong.
A-1	A short-term obligation rated 'A-1' is rated in the highest category by S&P. The obligators capacity to meet its financial commitment on the obligation is strong.
A-2	A short-term obligation rates '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 obligators capacity to meet its financial commitment on the obligation is satisfactory.
A-3 Note investment in products rated 'A-3' or less is prohibited by this Policy	A short-term obligation rates '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.
B	A short term obligation rated 'B' is regarded as having significant speculative characteristics. The obligator currently has the capacity to meet its financial commitment on the obligation; however, it faces major ongoing uncertainties which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

The long term rating as defined by Standard and Poor's Australian Ratings is:

AAA	The obligator's capacity to meet its financial commitment on the obligation is extremely strong. Highest rating assigned by S&P.
AA+ to AA-	An obligation rated 'AA' differs from the highest rated obligations only to a small degree. The obligator's capacity to meet its financial commitment on the obligation is very strong.
A+ to A-	An obligation rated 'A' is somewhat susceptible to adverse changes in circumstances and economic conditions than obligations in higher-rated categories. However the obligator's capacity to meet its financial commitment on the obligation is still strong.
BBB+ to BBB Note investment in products rated 'BBB' or below are not currently permitted under this Policy.	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 obligator to meet its financial commitment on the obligation.
BBB-	As above and considered lowest investment grade by market participants.
Note re + or – sign	Ratings may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major ratings categories.
BB, B, CCC, CC & C	Obligations rated BB and below are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'C' the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

(ii) Diversification/Credit risk (Counterparty Credit Framework)

The Australian Federal Government provides Government Guarantee on certain deposits placed with ADI's. The guarantee limit is set at a maximum amount of \$250,000 per ADI. Where deposits are made into a government guaranteed deposit account, the level of risk would be that of the Federal Government.

Except when investing into Government Guaranteed Deposit accounts, 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:

Long Term Rating (Standard & Poor's or equivalent ratings agency)	Short Term Rating (Standard & Poor's or equivalent ratings agency)	Direct Investments Maximum % With any one institution	Maximum % of Average Portfolio Balance
Government Guaranteed Deposits	Government Guaranteed Deposits	100%	100%
AAA Category	A1+	40%	100%
AA Category	A1+	30%	80%
A Category	A1	25%	50%
BBB+ Category in Australian ADI's	A2	15%	25%
BBB Category	A2	5%	10%
BBB & below		Nil%	Nil%
Units in Local Government House Unit Trust	NR	NR	As per a decision of the Council

(iii) Term to Maturity Framework

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

Overall Portfolio Term to Maturity Limits		
	Municipal, Trust & Citizens Relief Funds	Reserve
Portfolio % <1 year	100% Max; 90% Min	100% Max; 20% Min
Portfolio % >1 year to 3 years	10%	70%
Individual Investment Maturity Limits		
Authorised Institution	Three years	Three years
Commonwealth, State or Territory Government Guaranteed Bonds	Three years	Three years

Measurement

The investment return for the portfolio may, if the Council elects to do so, be regularly reviewed by an independent financial advisor. The market value of market linked investments deemed by Australian Accounting Standards to be held for resale prior to maturity is to be assessed at least once a month to coincide with the monthly reporting to the Council.

(iv) Benchmarking

Performance benchmarks will be:

Investment	Performance Benchmark
Cash	Cash Rate
Enhanced/Direct Investments	UBSWA Bank Bill
Bonds	CPI + appropriate margin over rolling 3 year periods

(v) Reporting and Review

A monthly report will be provided to the 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, maturity date and changes in market value.

(vi) Investment Advisor

Any investment advisor must be approved by the Council prior to appointment and 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 choose the most appropriate product within the terms and conditions of the investment policy.

(vii) Ethical Investing

The screening of investments to ensure they meet ethical standards could, if carried out to the maximum degree possible, be a resource intensive process that would incur significant cost. A practical approach is therefore to be taken in the application of this clause of the policy and any screening limited in its application to the company or institution with whom the investment is made – referred to in this clause as Direct Investments. For instance funds placed with a banking institution may eventually be used to finance an activity that could be regarded as ethically or morally unsound. To discover such practices would require expert in depth investigations and access to the necessary information may not be easily obtained.

Direct investments shall where practicable be made with institutions that espouse and demonstrate ethical practices or in securities where the funds are used to finance activities that are ethically and morally sound. Investment advisers, funds managers, banks and institutions making use of invested funds should be seen to be socially and environmentally responsible and where practicable screen investments for ethicality in the same manner as required by this clause for Direct Investments. Direct investment in companies where their principle source of revenue relies on the production, distribution or sale of armaments, tobacco, alcohol, gambling, prostitution, low document (sub-prime) mortgages or where their activities are conducted in a manner that contravenes human rights or national and international labour laws, is expressly prohibited. Investment advisers, funds managers, banks and institutions making use of invested funds should demonstrate socially and environmentally responsible practices and high governance standards.

“Green Investments” are authorised investment products made in authorised institutions that respect the environment by not investing in fossil fuel industries.

When investing surplus City funds, a deliberative preference will be made in favour of authorised institutions that respect the environment by not investing in fossil fuel industries. This preference will however only be exercised after the foremost investment considerations of credit rating, comparable rate of return and risk diversification are fully satisfied.

12. Documentation

- (i) Documentary evidence must be held for each investment and details thereof maintained in an Investment Register and document registry system.
- (ii) 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.
- (iii) Investment advisors (if appointed) shall submit a bi-annual written and, if requested, in person performance report to the Financial Management, Audit, Risk and Compliance Committee on the City’s funds under their management.



- (iv) An annual report (financial year) shall be submitted to the Council reviewing the performance of the portfolio and investment strategy as required by Section 18 (3) of the Trustees Act 1962. Managers of the City's funds (if any) are required to submit annual reports in a format acceptable to the City's officers so that they can be included in the overall annual report to the Council via the Financial Management, Audit, Risk and Compliance Committee.

13. Investment Strategy

Due to the limited range of investments now available to the Council, and the limited term for which Council is permitted by legislation to invest, an Investment Strategy is not likely to be required.

A strategy should however be prepared prior to any investment in Government Bonds and such strategy will run in conjunction with the investment policy. The investment strategy will be reviewed with an independent investment adviser every six months with a more formal review once a year. The Investment Strategy will outline:

- The City's cash flow expectations for Bond investments and;
- Optimal target allocation of Bond types, credit rating exposure, and term to maturity exposure.
- Appropriateness of overall investment types for Council's portfolio.

14. Policy Review

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

15. Procedures

Appropriate procedures and controls in regards to record keeping, reconciliation, authorisation forms and accounting for investments shall be prepared and maintained to give effect to this policy.

References that may be applicable to this Policy

Legislative Requirements:

Procedure, Process Maps, Work Instructions:

Other Plans, Frameworks, Documents Applicable to Policy:

Delegated Authority No: DA-033 – Power to Invest.



ORIGIN/AUTHORITY

Corporate & Community Services Committee

21/04/1998

ITEM NO.

Formerly Finance Policy 2

REVIEWS

Corporate & Community Services Committee
Community & Technical Services Committee
Community & Technical Services Committee
Community & Technical Services Committee
Ordinary Meeting of Council
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