



1.3.3 INVESTMENT OF SURPLUS FUNDS MANAGEMENT PROCEDURE

Relevant Council Policy

1.3.3 Investment

Approval Date: 16 March 2018

Appendix-

Relevant CEO Directive

N/A

Review Date: 17 November 2021 (no change)

Objective:

To ensure that there are effective and accountable systems in place to safeguard the Shire's financial resources whilst taking advantage of the interest earning potential from its surplus funds.

Legislation:

- a) Section 6.14(1) of the Local Government Act 1995 provides that "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".
- b) Regulation 19 of the Local Government (Financial Management) Regulations 1996 (FMR) requires a local government to establish and document internal control procedures to be followed by employees to ensure control over investments.
- c) Regulation 19C provides that a local government can only invest money:
 - I. With an authorised deposit taking institution or the WATC –
 - II. For a fixed term of no more than 3 years–
 - III. In bonds guaranteed by the Commonwealth, State or Territory governments –
 - IV. In bonds for a term on no more than 3 years –
 - V. In Australian currency but not in foreign currency •
- d) Regulations 28 and 49 of the FMR prescribe the disclosure requirements for investments in the annual budget and annual financial report.
- e) Local governments when investing are to follow the provisions under the Trustees Act 1962 and exercise the care, diligence and skill of a "Prudent Person" (s 18).

Procedures:

1. Principles and Ethics

- a) Whilst exercising the power to invest, consideration is to be given to the preservation of capital, liquidity and the return on investment.
- b) 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 management of credit and interest risk within identified thresholds and parameters.
- c) 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.
- d) The investment 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.



- e) Officers shall refrain from personal activities that would conflict with the proper executive and the management of the Shire's Investment portfolio. Officers are required to disclose any conflict of interest to the CEO.

2. Investments

2.1 Approved Investments

- a) Without approval from Council, investments are limited to:
 - I. State/Commonwealth Government Bonds with a term of maturity not exceeding three years;
 - II. Fixed term deposits placed with an authorised institution* for a term not exceeding 3 years; and
 - III. Interest-bearing deposits placed with an authorised institution*. (*Authorised Institution as defined in the Bank Act 1959 (Commonwealth) section 5.

2.2 Prohibited Investments

- a) Any investment carried out for speculative purposes is prohibited
- b) The use of leveraging (borrowing to invest) of an investment is prohibited.
- c) In accordance with the Local Government (Financial Management) Regulations 1996, Reg 19C, the following is also prohibited:
 - I. Deposits with any institution other than an authorised institution*;
 - II. Deposits for a fixed term of more than 3 years;
 - III. Investment in bonds that are not guaranteed by the Commonwealth Government, or a State or Territory government;
 - IV. Investment in bonds with a term to maturity of more than three years; and
 - V. Investment in a foreign currency.*Authorised Institution as defined in the Bank Act 1959 (Commonwealth) section

2.3 Quotations

Not less than three quotations shall be obtained from authorised institutions when an investment is proposed. The best quotation will be accepted after allowing for banking, administrative and transactional costs as well as limitations set for each borrower.

3. Risk Management

3.1 Risk Management Controls

- a) Risk Management Controls include:-
 - I. Authority to invest;
 - II. Development of investment control frameworks- portfolio credit framework, counterparty credit framework and term to maturity framework;
 - III. Documented investment procedures;
 - IV. Investment Register;
 - V. Monthly statements from counterparties;
 - VI. Monthly bank reconciliations for each account;
 - VII. Fraud- 2 signatories required to authorise investment as per CD1/CEOD1 Apply money from the Municipal Account delegation.



VIII. Monthly report to Council

3.2 Investment Control Frameworks-

Investments are to be made in accordance with the following frameworks:

- a) **Portfolio Credit Framework** – limits overall credit exposure of the 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 %
AAA	A-1+	100%
AA	A-1	100%
A	A-2	60%

- b) **Counterparty Credit Framework** - limits exposure to individual counterparties/institutions.

S&P Long Term Rating	S&P Short Term Rating	Direct Investment Maximum %
AAA	A-1+	45%
AA	A-1	35%
A	A-2	20%

- c) **Term to Maturity Framework** - limits based upon maturity of securities.

Overall Portfolio Term to Maturity Limits	
Portfolio % < 1 year	100% Max. And 40% Min.
Portfolio % 1- 3 years	60%

3.3 Investment Advisor

- a) It may be appropriate to seek external advice from an investment advisor and if so this person must be:
- I. An independent person who has no conflict of interest in relation to investment products recommended,
 - II. Approved by Council, and
 - III. Licensed by the Australian Securities and Investment Commission.

4. Liquidity

In determining how much liquidity is “sufficient”, management will give regard to:



- a) Historical seasonality in the Shire's cash flow;
- b) Known or projected major capital expenditure;
- c) Holding contingency reserves adequate to cover a major unexpected short-term demand on the Shire.

5. Separate and Common Accounts

- a) Separate accounts must be established for the following purposes: —
 - Money required to be held in the municipal fund;
 - Money required to be held in the trust fund; and
 - Money required to be held in reserve accounts.
- b) Money from different accounts may be placed in a common account for investment purposes.
- c) Interest earned on each individual "Reserves/Restricted Assets" will be applied to that particular account

6. Reporting and Review

- a) Documentary evidence must be held on file for each investment and an investment register maintained by filing the monthly investment report to council in the Register.
- b) A monthly report must be provided to council detailing the investment portfolio. 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 with maturity dates.
- c) The annual financial report is to include information on earnings from investments as specified by Financial Management Regulation (FMR) 49.
- d) The investment policy will be reviewed annually or as required in the event of legislative changes, or marked change in the economic landscape affecting financial markets and interest rates.

7. Reference Material

S&P Global Ratings- Short Term Credit Ratings	
A-1+	extremely strong degree of safety regarding timely payment
A-1	a strong degree of safety for timely payment
A-2	a satisfactory capacity for timely payment

S&P Global Ratings- Long Term Credit Ratings	
AAA	an extremely strong capacity to repay
AA	a very strong capacity to repay
A	a strong capacity to repay
BBB	adequate capacity to repay