

Policy P603 Investment of Surplus Funds

Responsible Business Unit/s	Financial Services
Responsible Officer	Director Corporate Services and Manager Finance
Affected Business Unit/s	Financial Services

Policy Objectives

Local governments are required to ensure that they have effective and accountable systems in place to safeguard the City's financial resources. This includes the development of proper systems to authorise, verify and record the investment of monies in appropriate financial instruments.

Policy Scope

This Policy applies to the Financial Services Business Unit.

Policy Statement

Municipal, Trust and Reserve funds considered surplus to the immediate needs of the City (as determined by the Director Corporate Services and Manager Finance) may be invested with approved financial institutions in line with the following principles:

Primary Considerations

- Preservation of Capital
- Meeting Liquidity Requirements
- Meeting the 'Prudent Person' Standard
- Preventing Conflicts of Interest
- Transacting only in 'Approved' Financial Instruments
- Meeting the City's Risk Management Criteria relating to Credit Risk & Counterparty Diversity

Capital Preservation

- Preservation of capital is the principal objective of the investment portfolio.
- All investments are to be made in a manner that seeks to ensure security and safeguard the portfolio by effectively managing credit risk and interest rate risk within identified parameters.
- Investment for speculative purposes is not permitted under this policy.

Liquidity

- Proper consideration is to be given to the present and likely future daily operational cash requirements of the City when selecting investments.
- The liquidity and marketability of the proposed investment during, and on determination, of the proposed financial instrument is to be taken into consideration.
- The term to maturity of an investment shall be in accordance with that specified in the Risk Maturity Framework - but should allow maximum seven (7) day access to Council funds.

Prudent Person Standard

- Investments are to be managed with the care, diligence and skill that a prudent person would exercise.
- Officers are to manage the investment portfolio to safeguard it in accordance with spirit of this policy.

Delegated Authority

- In accordance with Delegation DC603 & DM603 - Investment of Surplus Funds.

Ethics & Conflict of Interest

- Officers authorised under the relevant delegations shall refrain from personal activities that may conflict with the proper execution of transactions and management of Council's investment portfolio.
- Authorised officers should advise the CEO of any conflict of interest.

Approved Instruments

- Interest Bearing term deposits with Authorised Deposit Taking Institutions (ADIs, Australian banks, building societies and credit unions) for a maximum term of three years.
 - Authorised institution means:
 - An authorised deposit-taking institution as defined in the Banking Act 1959 (Commonwealth) section 5; or
 - The Western Australian Treasury Corporation established by the *Western Australian Treasury Corporation Act 1986*.
- Bonds guaranteed by the Commonwealth and State or Territory Government with a maturity of less than three years.

Prohibited Investments

This policy prohibits any investment not specified as an Approved Instrument in this Policy:

- The use of leveraging (borrowing for investment purposes) is prohibited.

Risk Management

Credit Quality

- Credit quality on 70% of the portfolio is to be a minimum of Standard & Poor rating A-1 short term or A+ long term or better.
- Credit quality on a maximum of 30% of the portfolio may be a Standard & Poor rating A-2 short term or BBB+ long term or better.

Counterparty Risk

- Counterparty credit risk is to be managed through adequate level of diversification to spread risk.
- Not more than 25% of the total funds invested at any given time are to be placed with any one institution with a Standard & Poor rating A-2 short term or BBB+ long term.
- For institutions with a minimum Standard & Poor rating A-1 short term or A+ long term or better a maximum of 30% of the total funds invested placed with any one institution will apply.

Maturity Term

- Investment terms to maturity may range from 'at call' to a maximum of one (1) year for Municipal or Trust Fund Investments.
- At least 60% of Reserve Fund investments shall have terms to maturity of less than one (1) year.
- Investments which are downgraded below the ratings approved in this policy are to be liquidated within 7 days of notification of the rating downgrade.

Supplementary Considerations

- Corporate Social Responsibility
- Transaction Costs

Corporate Social Responsibility

- In making investment decisions, consideration may be given to the corporate social responsibility profile of the financial institutions with whom the City invests.
- It is emphasised that this is a subjective criteria and may only be taken into account when making investment decisions **after** all of the Primary Considerations listed in this policy have been met.
- Where this criteria is exercised, the justification for applying it should be recorded for future audit purposes.

Transaction Costs & Administrative Matters

- The administrative, banking and reporting costs that may be associated with the particular financial instrument are to be considered in selecting an appropriate financial instrument.

- Competitive quotations are to be obtained prior to investing Council funds with any institution.

Reporting

- A fully reconciled Investment Register is to be maintained by the City at all times.
- The Investment Register is to record all investments held and those that have matured during that year - including details of financial institution, investment type, interest rate applicable, term to maturity and interest revenues earned and accrued.
- A report summarising the composition of the investment portfolio including investment classes, amounts invested with each financial institution and details of the investment performance shall be provided to Council monthly.

Legislation / Local Law Requirements

Local Government Act 1995

The Trustees Act 1962

Local Government (Financial Management) Regulations 1996

Australian Accounting Standards

Other Relevant Policies / Key Documents

City of South Perth Strategic Community Plan 2021 - 2031