CP31 - Investment of Funds

Policy Objective

To provide a framework for the controlled investment of City funds surplus to immediate cash flow requirements.

Policy Detail

1. Investment Objectives

a) To provide a framework for the optimum investment of City funds at the most favourable rate of interest available to it at the time whilst having due consideration of risk, liquidity and security for its investments.

b) To take a conservative approach to investments, but with a focus to meet performance benchmarks through prudent investment of funds.

c) To ensure preservation of the funds through investing within the limits set by this policy.

d) To have investments structured in such a manner as to meet all the City's cash flow requirements, without penalty.

e) To generate income from the investment that exceeds the performance benchmarks.

f) To comply with relevant legislative requirements.

2. Policy Guidelines/Authority for Investment

a) All investments are to be made in accordance with:

i) Sections 6.14 (1) and (2A) of the Act

ii) Point 6, Part III Investments of the *Trustees Amendment Act 1997 (WA)* -

iii) Regulations 19, 28, and 49 of the Regulations

iv) Australian Accounting Standards.

b) The investments will be managed with the care, diligence and skill that a prudent person would exercise. Investment portfolios are to be managed in accordance with the spirit of this policy to safeguard the portfolios, and not for speculative purposes.

3. Ethics and Conflicts of Interest

a) Employees shall refrain from personal activities that would conflict with the proper execution and management of the City's investment portfolio. This policy requires employees to disclose any conflict of interest to the Chief Executive Officer.

b) Independent advisors are also to declare that they have no actual or perceived conflicts of interest and receive no inducements in relation to the City's investments.

4. Authorised Investments

a) The following table lists investment types approved for new investments in accordance with the Regulations.

b) The overall asset mix will depend on the City's view (taking into consideration professional advice) on liquidity needs, security of capital, level and timing of income and general risk management parameters as set out in this policy.

City of Belmont – Approved Investment Types	
1.	Deposits with an authorised deposit-taking institution (ADI) or the Western Australian Treasury Corporation (WATC) with a maturity of 3 years or less.
2.	Bonds that are guaranteed by the Commonwealth or a State or Territory Government with a maturity of 3 years or less.

5. Prohibited Investments

a) This policy prohibits any investment carried out for speculative purposes including:

i) derivative based instruments

ii) principal only investments or securities that provide potentially nil or negative cash flow

iii) stand-alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind

iv) investments for any speculative purpose

v) other investments excluded by Regulations.

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

c) However, nothing in the policy shall prohibit the short-term investment of loan proceeds where the loan is raised for non-investment purposes and there is a delay prior to the spending occurring.

6. Audit and Investment Holdings

a) All City investments must be held in either the City's name or held via an acceptable safe custody arrangement with the City as the beneficial owner. A statement is to be provided by the safe custody provider at each month end, verifying the holdings of the City. There must also be a comprehensive and transparent audit trail of investments placed, with appropriate internal controls over the City's investment portfolio. A separate register of investments must be maintained and be reconciled on a monthly basis.

b) For audit purposes, confirmation certificates must be provided independently, directly to the City's auditors by institutions and fund managers confirming the amounts of investment held on the City's behalf at 30 June each year. These may also be required from time to time as part of an internal audit review.

7. Reporting

A regular report should be provided to Council, detailing the allocation of the investment portfolio and performance.

8. Investment Advisor

a) The City's investment advisor must be licensed by the Australian Securities and Investment Commission. The advisor must be an independent party who is free to choose the most appropriate product within the terms and conditions of the investment policy.

b) The advisor must be independent and must confirm in writing when submitting a quote/tender application that they have no actual or potential conflict of interest in relation to investment products being recommended. This includes receiving no commissions or other benefits (e.g. broking fees) in relation to the investments being recommended.

9. Risk Management

a) Investments are to be considered using the following criteria:

i) Preservation of Capital: the requirement for preventing losses in an investment portfolio's total value.

ii) Credit Risk: The risk that a party or guarantor to a transaction will fail to fulfil its obligations, and the risk of loss due to the failure of an institution/entity that holds an investment to pay the interest and/or repay the principal of an investment.

iii) Diversification: the requirement to place investments in a broad range of products so as not to be over exposed to a particular sector of the investment market.

iv) Fidelity and Legal: fraud, malpractice or misappropriation of funds, failure to obtain title over assets, and litigation.

v) Liquidity Risk: the risk an investor runs out of cash, is unable to redeem investments at a fair price within a timely period, and thereby incurs additional costs or is unable to execute its spending plans.

vi) Market Risk: the risk that fair value or future cash flows will fluctuate due to changes in market prices, or benchmark returns will unexpectedly overtake the investment's return.

vii) Maturity Risk: the risk relating to the length of term to maturity of the investment (the longer the term, the greater the length of exposure and risk to market volatilities).

viii) Rollover Risk: the risk that income will not meet expectations or budgeted requirement because interest rates are lower than expected in future.

ix) Regulatory Risk: risk of changes to regulation forcing disposal on adverse terms, or imposing compliance costs or costs associated with a failure to comply with regulation.

x) Transaction Risk: the risk that transactions do not complete as expected or are not conducted on fair arms-length terms.

b) Mitigants include:

i) Counterparty limits based on credit ratings, as well as directing investments to investments subject to guarantees, prudential supervision, or which are senior and/or secured

ii) Cash buffer, monitoring of seasonal and specific purpose cashflows, availability of liquid assets, matching of investment horizons

iii) Maintaining adequate diversification by counterparty, term, maturity and type of investment (more so for lower rated investments) and

matching maturities to investment horizons to minimise realisation risk

iv) Regulation, including any changes, override the policy. The City will not undertake investments likely to be subject to forced sale under anticipated regulatory changes.

v) Inclusion of fixed rate term investment

vi) Use of collective purchasing power, documented procedures and use of regulated counterparties and issuers

vii) Independent advice

viii) Insurance, separation of duties for settlement, reporting, decision-making, audit and valuation, suitable custodian or direct title over assets

ix) Controls over signatories and direction of funds.

c) The above explains the factors that must be taken into consideration in making decisions about investments in order to manage risk prudently and accountably.

10. Credit Quality

a) Credit ratings estimate the risk of financial loss associated with an investment (generally only at the full term of the investment) or an institution. There are different rating systems for investments that are long term (generally more than 12 months) and short term (generally 12 months or less).

b) The ratings used in this policy are those of the international credit rating service S&P Global. S&P Global is the major credit rating institution operating in Australia, and the most common provider of ratings for the investments used by local government. The equivalent Moody's or Fitch ratings may also be used.

c) However, the primary control of credit quality is the prudential supervision and government support of the ADI sector, not ratings.

d) Investments held by the City must be consistent with the credit rating requirements as per the limits set out in the following table. Short-term ratings are only considered where there is no long-term rating on a security.

Long Term Rating Range	Maximum Holding
AAA Category	100%
AA Category or Major Banks	100%
A Category	80%
BBB Category or Unrated ADIs	60%

e) For the purpose of this Policy, "Major Banks" are currently defined as the ADI deposits issued by the major Australian banking groups:

i) Australia and New Zealand Banking Group Limited

ii) Commonwealth Bank of Australia

iii) National Australia Bank Limited

iv) Westpac Banking Corporation

f) This can include ADI subsidiaries whether or not explicitly guaranteed, and sub-brands.

g) Similarly, with other ADI groups owning multiple banking licences, rating categories are based on the parent bank even if the subsidiary is not explicitly rated.

11. Counterparty Limits

a) Exposure to individual counterparties/financial institutions will be restricted by their rating so that single entity exposure is limited, as detailed in the table below. It excludes any government guaranteed investments.

Long Term Rating Range*	Limit
AAA Category[1]	50%
AA Category or Major Banks	40%
A Category	25%
BBB Category	20%
Unrated Category[2]	5%

**or equivalent short-term rating, where applicable*

[1] 100% Commonwealth Government debt and Government-guaranteed deposits are included in this category, but without any upper limit applying to the government as counterparty.

[2] This category includes unrated ADI's such as some Credit Unions and Building Societies where they fall outside deposit guarantees for at least part of the investment term.

b) Investments that are downgraded outside the acceptable rating benchmark will be divested as soon as practicable only after taking advice from the City's independent fund advisor.

12. Investment Horizon Limits

a) The City's investment portfolio shall be structured around the time horizon of investment to ensure that liquidity and income requirements are met.

b) Once the primary aim of liquidity is met, the City will ordinarily diversify its' maturity profile as this will ordinarily be a low-risk source of additional return as well as reducing the volatility of the City's income. However, the City always retains the flexibility to invest as short as required by internal requirements or the economic outlook.

c) The factors and/or information used by the City to determine minimum allocations to the shorter durations include:

   i) The City's liquidity requirements to cover both regular payments as well as sufficient buffer to cover reasonably foreseeable contingencies.

   ii) Medium term financial plans and major capex forecasts.

   iii) Known grants, asset sales or similar one-off inflows.

   iv) Seasonal patterns to the City's investment balances – especially having regard to the heavy seasonality of the Municipal portfolio.

13. Municipal Portfolio

Investment Horizon Description	Investment Horizon - Maturity Date	Minimum Allocation	Maximum Allocation
Working capital funds	0-3 months	20%	100%
Short term funds	3-12 months	n/a	100%

14. Reserve Portfolio

Investment Horizon Description	Investment Horizon - Maturity Date	Minimum Allocation	Maximum Allocation
Working capital funds	0-3 months	n/a	50%
Short term funds	3-12 months	n/a	100%
Medium term funds	1-3 years	n/a	100%

a) Within these broad ranges, the City relies upon assumptions of expected investment returns and market conditions that have been examined with its investment advisor.

b) Investments involving Trust or the Belmont Trust (Reserve) accounts are invested through the use of a Cash Deposit Account (CDA) with the City's designated ADI. As the funds may be required to be called upon during the year the CDA offers greater flexibility.

15. Environmental Impact

a) The City of Belmont acknowledges climate change and attempts to reduce its investments that fund the fossil fuel industry and contribute to greenhouse gas emissions.

b) Providing the cost is no more than 5 basis points and the associated risks within those limits provided in this policy then preference can be given to those ADI's not involved with new investing in, or lending to the fossil fuel industry.

16. Performance Benchmarks

a) The performance of each investment will be assessed against the benchmarks listed in the table below. The expected performance of each investment will be greater than or equal to the applicable benchmark by sufficient margin to justify the investment considering its' risks, liquidity and other benefits of the investment.

b) The City will seek information about both current and historical reward for the investments contemplated in its Strategic Community Plan. Where insufficient, it will hold cash and not seek to outperform, as to do so mandates risk-seeking at times of minimal reward.

c) It is also expected that the City will take due steps to ensure that any investment, notwithstanding a yield above the benchmark rate, is executed at the best pricing reasonably possible.

Investment Category	Investment	Performance Benchmark	Time Horizon
Working capital	Business Online Account, Notice Accounts, short dated bills, deposits issued by an ADI	AusBond Bank Bill Index (BBI)	3 months or less
Short term funds	Term Deposits of appropriate horizon issued by an ADI	AusBond Bank Bill Index (BBI)	3 to 12 months
Medium term funds	Term Deposits of appropriate horizon issued by an ADI	AusBond Bank Bill Index (BBI)	12 months to 3 years

Reference/Associated Documents

Local Government Act 1995 (WA)

Local Government (Financial Management) Regulations 1996 (WA)

Trustees Act 1962 (WA)

Reference to Internal Procedure

Process Map - Investments

Delegation Register 1.1.20 Investments

Definitions

'**Act**' means *Local Government Act 1995 (WA).*

'**ADI**' means Authorised Deposit-Taking Institutions (ADIs) are corporations that are authorised under the *Banking Act 1959 (Cth)* to take deposits from customers.

'**AusBond Bank Bill Index**' (Formerly the UBS BBI) means the UBS Australia index family was acquired by Bloomberg from Q3 2014, and while branding

changed the benchmark is unaltered. It represents the performance of a notional rolling parcel of bills averaging 45 days and is the widely used benchmark for local councils.

'**City**' means the City of Belmont.

'**City funds**' surplus monies that are invested by the City in accordance with Section 6.14 of the Act.

'**horizon**' represents the intended minimum term of the investment; it is open for an Investment Policy to define a target date for sale of a liquid investment.

'**maturity profile**' means the City's positioning of the investment portfolio to meet liquidity and return objectives.

'**Regulations**' means the *Local Government (Financial Management) Regulations 1996 (WA)*

This Policy is supported by:		
Policy No:	CP31	
Strategic Community Plan:	**Key Performance Area: Performance Outcome:** 10. Effective leadership, governance and financial management.	
Register of Delegations:	1.1.20 - Investments	
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Policy Stakeholder:	n/a	
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28/04/09		12.10
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25/06/13		12.8
28/10/14	Review – Minor	12.4
22/09/15	Review – Minor	10.7
27/09/16	Review – Major	12.9
22/08/17	Review – Major	12.2
25/09/18	Review – Minor	12.5
10/12/19	Review – Minor	12.8
24/05/22	Review - Minor	12.7
22/08/23	Review – Minor	12.10
12/12/23	Review – Minor	12.8
24/02/26	Review - Minor	12.11