

Council Policy - Investments

Responsible Directorate	Corporate Services
Responsible Business Unit/s	Finance
Responsible Officer	Manager Finance
Affected Business Units	Finance

Objective

The objective of this Policy is to ensure that there are effective and accountable systems in place to safeguard the Shire's financial resources. This includes the development of proper systems to authorise, verify and record the investment of monies in appropriate financial instruments.

This policy ensures the Council and all officers entrusted with a role in the investment of the Shire of Serpentine Jarrahdale's (the Shire) funds act with the highest regard for their fiduciary duties.

This policy facilitates prudent investment of the Shire's surplus funds in authorised investments.

Scope

This Policy applies to the investment and management of all funds held by the Shire including operating and investment accounts.

Policy

Introduction

While exercising the power to invest, consideration is to be given to preservation of capital, liquidity and the return of investment as follows:

- 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 of 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 anticipated cash flow requirements, as and when they fall due, without incurring significant costs due to the unanticipated sale of an investment. Liquidity does not need to be in at-call deposits; securities able to be quickly realised will be considered liquid.
- In determining how much liquidity is "sufficient", management will give regard to:
 - Historical seasonality in the Shire's cash flow.
 - Known or projected major capital expenditure.
 - Holding contingency reserves adequate to cover a major unexpected short-term demand on the Shire.

Subject to the policy objectives and risk management guidelines outlined in this document, the Shire will ensure its financial investments consider the reduction of fossil fuels, by investing with

non-fossil fuel lending banks. The Shire will refer to the research of third-party bank services to determine eligible non-fossil fuels lending banks.

Risk Management Guidelines

Investments obtained are to comply with eight key risk management criteria relating to:

- Portfolio Credit Framework: limits overall credit exposure of the portfolio
- Counterparty Credit Framework: limits exposure to individual counterparties/institutions
- Term to Maturity Framework: Limits based upon maturity of securities
- Liquidity: Portfolio management must always maintain adequate levels of liquidity to cover seasonality, planned capex and contingencies
- Rollover and Income: Where conditions permit, stability and protection of the Shire's income against unexpected weakness in interest rates should be considered, especially in the context of potential for inflation
- Market Value: Investments with highly volatile market values that affect the Shire's income should be minimised if appropriate, and will be dependent on 'term to maturity' risks
- Diversification: limit credit and market risk. Even if funds are to be invested 100% in Bank Deposits/Securities, diversification between counterparties is desirable
- Fraud: Two signatories are required to authorise any investment transaction (refer Delegated Authority)

The Shire will determine credit and short-term obligation ratings in accordance with the Standard and Poor's (S&P) global credit ratings definitions as found on their website (S&P Global Ratings), taking into account any higher guarantors (including government guarantees on any assets). Investments in an Australian Authorised Deposit Taking Institution (ADI) shall be grouped according to the parent bank's rating where applicable.

Overall Portfolio Limit

To control the credit quality on the entire 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%	Managed Funds Maximum %
AAA	A-1+	100%	100%
AA	A-1	100%	100%
A	A-2	60%	60%
BBB (ADI only)	A-3 (ADI only)	20%	0%
Not Rated		0%	20%

* or Moody's / Fitch equivalents

Counterparty Credit Framework

Exposure to an individual counterparty/institution will be restricted by their credit rating so that single entity exposure is limited, as detailed in the table below:

S&P* Long Term Rating	S&P Short Term Rating	Direct Investment Maximum%	Managed Funds Maximum %
AAA	A-1+	45%	45%
AA	A-1	35%	35%
A	A-2	20%	20%
BBB (ADI only)	A-3 (ADI only)	5%	0%
Not Rated		0%	20%

* or Moody's / Fitch equivalents

If any of the Shire's investments are downgraded such that they no longer fall within the Investment Policy, they will be reviewed as soon as practicable. Where it is considered in the Shire's interests to retain the investment (or the investment is not tradeable), the circumstances shall be reported to Council.

Term to Maturity Framework

The investment portfolio is to be invested within the maturity constraints as imposed by the *Local Government (Financial Management) Regulations 1996*.

Prudent Person Standard

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

Ethics and Conflict of Interest

Officers shall refrain from personal activities that would conflict with the proper execution and management of Council's investment portfolio. This policy requires officers to disclose any conflict of interest to the Chief Executive Officer.

Authorised Approved Investments

Without express approvals from Council, investments are limited to:

- State/Commonwealth/Semi-Government Bonds;
- Interest bearing deposits such as Term Deposits or Cash Reserve of an authorised deposit-taking institution except as restricted by the credit rating requirements of this policy;
- Bank accepted/endorsed bank bills; or
- Existing investments that are outside the Local Government Regulations or Investment Policy as they pertain to new investments.

With express approval from Council, investment is also permitted in land and its development – subject to the requirements of the *Local Government Act 1995* (the Act).

Bendigo Bank

Deposits with the Bendigo Community Bank do not require Council approval as long as their Standards and Poor's rating does not drop below a short-term domestic credit rating of A2 strong and a long term credit rating of BBB+.

Prohibited Investments

This Investments Policy prohibits any investment carried out for speculative purposes including:

- Derivative based instruments;
- “Contingent income” investments or securities that provide potentially nil or negative cash flow (except for managed funds which do not guarantee unit prices); and
- Stand-alone securities issued that have underlying futures, options, forward contracts, and swaps of any kind, such that returns are dependent on factors other than issuer solvency.

However, nothing in this policy is intended to force the disposal of any investment held at the date of adoption of this Policy.

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

This policy also requires that the Shire may not do any of the following when investing money, as per the *Local Government (Financial Management) Regulations 1996*:

- Deposit with an institution except an authorised institution;
- Deposit for a fixed term of more than 3 years;
- Invest in bonds that are not guaranteed by the Commonwealth Government or a State or Territory government;
- Invest in bonds with a term to maturity of more than 3 years; and
- Invest in a foreign currency.

Reporting and Review

A monthly report will be provided to 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.

Definitions

Bank Bills refers to Bank-accepted bills that are bills of exchange drawn by a company or individual (the borrower) usually for periods between 30 and 180 days. The bill is accepted by the bank, which in turn accepts the liability for payment at maturity. It is a short-term investment issued at a discount to the face value and is of a very high credit standing and consequently trades at the lowest yields of all commercially issued bills.

Cash Reserve refers to an interest bearing deposit where funds can be recalled and reinvested when required.

Standard & Poor's (S&P) is a professional organisation that provides analytical services. An S&P rating is an opinion of the general credit-worthiness of an obligor with respect to particular debt security or other financial obligation, based on relevant risk factors.

State/Commonwealth/Semi-Government Bonds refers to fixed income securities issued and guaranteed by the Commonwealth, State or Territory Governments of Australia.

Term Deposit refers to an interest bearing deposit where funds are invested with a financial institution at a predetermined rate (or floating rate margin) that applies to the duration of the deposit. The principal is held on deposit for a fixed term with interest payable either at regular intervals or at maturity. It is not a tradeable security and the investor may be penalised when funds are prepaid.

Related Documents

- Council Plan 2023-2033

Legislation / Local Law Requirements

- *Local Government Act 1995*
- *Local Government (Financial Management) Regulations 1996*
- *Trustees Act 1962*
- Australian Accounting Standards

Amendment Record

Relevant Delegations		Refer to the Delegations and Authorisations Register	
		Date	Resolution Number
Council Adoption		25/01/2010	OCM023/01/10
Version	Date	Resolution Number	Amendment Details
2	29/01/2013	OCM119/01/13	Reviewed
3	29/09/2015	OCM187/09/15	Reviewed
4	6/06/2017	ARG003/09/15	Reviewed
5	18/12/2017	OCM179/12/17	Modified
6	23/04/2018	OCM037/04/18	Amended
7	17/03/2025	OCM068/03/25	New template and definitions added.