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## City of Greater Geraldton

### 2.1 INVESTMENT

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#### SUSTAINABILITY THEME

Economy

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#### OBJECTIVES

To provide guidelines for the investment of council funds.

#### POLICY STATEMENT

This policy applies to all investments associated with the operation of the City of Greater Geraldton.

#### POLICY DETAILS

1. The City of Greater Geraldton shall invest its surplus funds with due consideration of risk and at the most favourable rate of interest available to it at the time, while ensuring that its liquidity requirements are being met.
2. While exercising the power to invest, consideration is to be given in preservation of capital, liquidity and the return on investment.
3. Preservation of capital is the principle 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 managing credit and interest rate risk within identified thresholds and parameters.
4. 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.
5. The investment 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 Council will also consider the risk limitation and prudent investment principles.

##### 5.1. Legislative Requirements

All investments are to comply with the following:

- Local Government Act 1995 – Section 6.14
- The Trustees Act 1962 – Part III Investments
- Local Government (Financial Management) Regulations 1996 – Regulation 19, 28 and 49
- Australian Accounting Standards Board (AASB)

##### 5.2. Prudent Person Standard

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

### **5.3. Ethics and Conflicts 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 CEO.

### **5.4. Approved Investments**

Without approval from Council, investments are limited to:

- Bonds that are guaranteed by the State or Commonwealth Government with a maturity of 3 years or less
- Interest bearing deposits with an ADI or WATC with a maturity of 3 years or less
- Bank accepted / endorsed bank bills

### **5.5. Prohibited Investments**

Unless explicitly authorised by Council, this investment policy prohibits any investments in:

- Derivative based instruments
- Principal only investments or securities that provide potentially nil or negative cash flow
- Stand-alone securities issued that have underlying futures, options, forward contracts and swaps of any kind
- Commercial Paper
- Bank negotiable Certificates of Deposit

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

### **5.6. Risk Management Guidelines**

Investments obtained are to be considered in light of the following key criteria:

- Preservation of Capital – the requirement for preventing losses in an investment portfolio's total value.
- Credit Risk – The risk that a party or guarantor to a transaction will fail to fulfil its obligations; risk of loss due to the failure of an institution/entity with which an investment is held to pay the interest and/or repay the principal of an investment.
- 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.
- 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.
- 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.
- 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.

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

### 5.7. Overall Portfolio Limits

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.

Long Term Rating Range	Short Term Rating Range	Direct Investment Maximum %
AAA Category	A-1+	100%
AA Category or Major Bank	A-1+	100%
A Category	A-1	60%
BBB Category	A2 to A3	20%
Unrated ADI's	Not Rated	20%

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

- Australia and New Zealand Banking Group Limited (ANZ);
- Commonwealth Bank of Australia (CBA);
- National Australia Bank Limited (NAB);
- Westpac Banking Corporation (WBC)

Including, ADI subsidiaries (such as BankWest) whether or not explicitly guaranteed, and brands (such as St George).

Council may ratify an alternative definition from time to time. Standard & Poor’s ratings attributed to each individual institution will be used to determine maximum holdings. In the event of disagreement between agencies as to the rating band (“split ratings”) Council shall use the higher in assessing compliance with portfolio Policy limits, but for conservatism shall apply the lower in assessing new purchases.

### 5.8. Counterparty Credit Frameworks

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 Range	Short Term Rating Range	Direct Investment Maximum %
AAA Category	A-1+	60%
AA Category or Major Bank	A-1+	50%
A Category	A-1	40%
BBB Category	A2 to A3	20%
Unrated ADIs	Not rated	10%

Investments not explicitly rated, but issued by an ADI, will be grouped according to the highest rating of the parent ADI.

Note: The “Direct Investment Maximum %” only applies if the City’s investment portfolio at any one time exceeds \$7 million.

If any of the City of Greater Geraldton investments are downgraded such that they no longer fall within the investment policy, they will be divested as soon as practicable.

## 5.9. Investment Horizon Framework

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

Once the primary aim of liquidity is met, Council will ordinarily diversify its maturity profile as this will ordinarily be a low-risk method of obtaining additional return as well as reducing the risks to Council's income. However, Council always retains the flexibility to invest as short as required by cash-flow requirements or the economic outlook.

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

- Council's liquidity requirements to cover both regular payments as well as sufficient buffer to cover reasonably foreseeable contingencies;
- Medium term financial plans and major capital expenditure forecasts;
- Known grants, asset sales or similar one-off inflows;
- Seasonal patterns to Council's surplus funds.

Description	Investment Horizon	Minimum Allocation	Maximum Allocation
Working Capital	0-3 months	10%	100%
Short Term	3-12 months	0%	100%
Medium Term	1-3 years	0%	70%

## 6. Investment Advisor

Should the City of Greater Geraldton wish to employ the services of an investment advisor it must be 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. Independence includes receiving no commissions or other benefits in relation to the investments being recommended or reviewed, except as fully rebated to Council, promptly. The City must advise Councillors if it engages an investment advisor.

### KEY TERM DEFINITIONS

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

**Bond:** A fixed rate obligation guaranteed by an eligible counter party.

**Council Funds:** Surplus monies that are invested by Council in accordance with section 6.14 of the Local government Act.

**Derivative instruments** – instruments which derive their value from the value and characteristics of one or more underlying entities such as an asset, index, or interest rate.

### ROLES AND RESPONSIBILITIES

The Manager of Finance & Treasury is responsible for implementing this Policy.

### WORKPLACE INFORMATION

Local Government Act 1995

City of Greater Geraldton's Code of Conduct

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## POLICY ADMINISTRATION

Directorate		Officer	Review Cycle	Next Due
Corporate and Commercial Services		Manager Treasury and Finance	Biennial	2020
Version	Decision Reference	Synopsis		
2.	CCS364 – 23 October 2018	Policy Review		