

218	Investment	V8 Current
-----	------------	------------

STATEMENT

The principal objective of the Council in respect of the investment of surplus credit funds is the preservation of capital. Whilst a conservative approach is to be adopted with regards to investment decisions, the maximisation of returns within the confines of the policy guidelines is also encouraged.

This policy details the relevant authorities for investment, the nature and type of investments that can be entered into, institution exposure limits, investment performance benchmarks and associated reporting requirements.

PURPOSE

This policy provides specific guidelines for the Council, Chief Executive Officer and relevant employees of the City of Busselton in respect of the investment of surplus funds that are not immediately required for any other purpose.

Compliance with this policy will ensure prudence in the preservation of capital, whilst promoting the maximisation of investment returns within the policy guidelines.

SCOPE

As part of its core financial operations, the City of Busselton is positioned to invest surplus funds not immediately required for any other purpose; in order to add value through increased investment returns. The nature of funds available for investment includes Reserves, other restricted funds (e.g. contributions, bonds etc) and general revenue funds in excess of immediate cash-flow requirements. Investment earnings assist in augmenting reserve balances and also supplementing other general revenue streams.

Whilst the revenue associated with investment earnings represents an important component of the City's funding sources, the Council has identified the preservation of investment capital as a principal objective; and as such, investment decisions must primarily align with this objective.

Whilst this policy reflects the Council's capital preservation objective, it also provides sufficient flexibility to assist in the maximisation of investment returns within the defined investment types and associated exposure limits.

DEFINITIONS

"ADI" – Authorised Deposit-Taking Institutions (ADI's) are corporations that are authorised under the Banking Act 1959 to take deposits from customers.

"APRA" – Australian Prudential Regulation Authority (APRA) is the prudential regulator of the Australian financial services industry. It oversees banks, credit unions, building societies, general insurance companies and most members of the superannuation industry.

"Austraclear" - The Austraclear System, which is regulated by the Reserve Bank, simplifies settlement complexities and enhances straight-through-processing (STP), office integration and cross border opportunities to facilitate the registering,

bookkeeping, clearing and settlement of a broader range of derivative, security and cash asset classes.

“Big four” Bank – For the purposes of this policy, the Australian “Big four” banks comprise the Commonwealth Bank, the National Australia Bank, Westpac and ANZ Bank.

“Counterparty” – A counterparty is both the legal and financial term that refers to the other individual or institution to an agreement or contract.

“Custodian – Safe Custody” - A custodian is a brokerage or other financial institution that holds and manages securities, or other assets, on behalf of an investor.

“Rating Agency” – Credit rating agencies such as Standard and Poors (S & P) are professional organisations that provide opinion on the general credit worthiness of an obligor with respect to particular debt security or other financial obligations.

POLICY CONTENT

1.1 Objectives

- The purpose of this policy is to establish the investment risk management guidelines that the City of Busselton adopts in investing surplus funds that are not immediately required for any other purpose.
- The principal objective of this policy is the preservation of capital (Security).
- To take a conservative approach to investments, but with a focus to add value through prudent investment of funds (Security).
- To achieve a high level of security by using recognised ratings criteria (Security).
- To maintain an adequate level of diversification (Security).
- To have ready access to funds for day-to-day requirements (Liquidity).
- To ensure compliance with appropriate legislative requirements (Compliance).

1.2 Authority for Investment

All investments are to be made in accordance with:

- Local Government Act 1995 – Section 6.14 and any regulations made under that Act including the following;
- Local Government (Financial Management) Regulations 1996 – Regulation 19C
- The Trustees Act 1962 – Part III Investments as amended by the Trustees Amendment Act 1997.

1.3 Delegation of Authority

The Chief Executive Officer is authorised to invest surplus funds in accordance with this policy.

1.4 Authorised Investments

All investments must be denominated in Australian Dollars. Authorised Investments are limited to those permitted by the appropriate legislation, being:

- o With an Authorised institution, being:
 - a. An authorised deposit taking institution as defined in the Banking Act 1959 (Commonwealth) section 5; or
 - b. The Western Australian Treasury Corporation established by the Western Australian Treasury Corporation Act 1986;
- o A Bond that is guaranteed by the Commonwealth Government, or a State or Territory Government;

1.5 Investment Guidelines – Credit Quality, Diversification and Term to Maturity Constraints

(i) Portfolio Credit Framework

The portfolio credit guidelines to be adopted will be based on the Standard & Poor's (S&P) ratings system criteria. The maximum available limits in each rating category is reflected in the below table.

(ii) Counterparty/Institution Credit Framework

Exposure to individual counterparties/financial institutions will be restricted by their S&P rating so that single entity exposure is limited, as detailed in the below table.

Credit (Standard & Poor's or equivalent)		Ratings	Individual Institution Limits	Overall Portfolio Credit Limits
Long Term Credit Ratings	Short Term Credit Ratings		Maximum Percentage With One Financial Institution	Maximum Weighting as % of Total Investment Portfolio
AAA (All Aus. ADI)	A-1+		40%	100%
AA (Aus. "Big four" Bank)	A-2		40%	100%
AA (Other Aus. ADI)	A-2		20%	100%
A (All Aus. ADI)	A-2		15%	60%
BBB (All Aus ADI)	A-3		10%	20%

(iii) Term to maturity Framework

Legislation restricts the term to maturity for a deposit with an ADI to a maximum term of 12 months, and a Bond to a maximum term of 3 years. The investment portfolio is to be invested with the following term to maturity constraints:

Overall Portfolio Term to Maturity Limits	
Duration	Maximum

Portfolio % < 1Year	100%
Portfolio % > 1 Year < 3 Years	20%

1.6 Credit Ratings

If any of the City's investments are downgraded such that they no longer fall within these investment policy guidelines, they will be divested as soon as is practicable.

1.7 Accounting for Premiums and Discounts

From time to time financial assets may be acquired at a discount or premium to their face value. Any such discount or premium is to be taken into account in line with relevant Australian Accounting Standards.

1.8 Base Total Investment Portfolio Value for Percentage Calculations

The value of any funds held in an 11am type account, ~~being one that offers higher interest rates than a standard cheque account but maintains same day access to funds~~, shall be excluded when verifying compliance with this policy.

Deleted: The base total Investment Portfolio value for all percentage calculations shall be set six monthly as at December 31 and June 30, based upon the average of all Investments held for the previous 3 years.

1.9 Safe Custody Arrangements

Where necessary, investments may be held in safe custody on the City's behalf, as long as the following criteria are met:

- The City must retain beneficial ownership of all investments.
- Adequate documentation is provided, verifying the existence of the investments.
- The Custodian conducts regular reconciliation of records with relevant registries and/or clearing systems.
- The Institution or Custodian recording and holding the assets will be:
 - Austraclear or;
 - An institution with an investment grade Standards and Poors or Moody's rating or;
 - An institution with adequate insurance, including professional indemnity insurance and other insurances considered prudent and appropriate to cover its liabilities under any agreement.

Deleted: held with the City's major banker

1.10 General

The City of Busselton will not make ill-informed or unpredictable investment decisions, be engaged in overly speculative investments, or invest other than in compliance with the relevant legislation.

1.11 Reporting

- (i) A report will be provided to the Council on monthly basis as a minimum, detailing the investment portfolio in terms of performance and counterparty percentage exposure of total portfolio. The report will also detail investment income earned versus budget year to date and confirm compliance of the City's investments within legislative and policy limits.

Last updated 27 June 2012

- (ii) For audit purposes, certificates must be obtained from the banks/fund managers/custodian confirming the amounts of investment held on the City's behalf at 30th June each year.

Policy Reference No. - 218

Owner Unit – Finance

Originator – Manager, Finance and Information Services

Policy approved by – Council

Date Approved – 27 June, 2012

Review Frequency – As required

Related Documents –

Background/History -

History

Council Resolution	Date	Information
C1206/154	27 June, 2012	New regulations needed to be recognised in the policy. The City's existing investment portfolio was already fully compliant with the amended legislation. The portfolio currently consists totally of term deposits held with complying banks for maximum terms of nine months. Therefore, only the wording of the actual investment policy required amendment, and not where funds are held. The revised policy removes all reference to any other forms of investment other than those permitted under the revised legislation. It also regulates the term of those investments to reflect the legislative requirements. Finally, reference to the appropriate sections of the revised legislation has been inserted. Version 8
C1111/280	14 September, 2011	Increase to the maximum allocation at any one financial institution Version 7
C1001/021	27 January, 2010	Council resolved to review the investment policy to change its approach to investment in managed funds Version 6
C0905/176	27 May, 2009	Council resolved to remove any reference to all references to Diversified Funds (non-credit-rated). Version 5
C0803/085	12 March, 2008	Council resolved to reword the section of the policy relating to the Base Total Investment Portfolio for Percentage Calculations.

Last updated 27 June 2012

		Version 4
Wording of former Clause		
1.8 Base Total Investment Portfolio Value for Percentage Calculations		
The base total Investment Portfolio value for all percentage calculations shall be set six monthly as at December 31 and June 30, based upon the average of all Investments held for the previous 3 years.		
C0702/040	28 February, 2007	Former investment policy 218/1 (V2) revoked in favour of a new investment policy 218/2. Version 3
C994/012	14 April, 1999	Update to investment strategy and policy. Version 2
		Version 1