

F1. Investments Policy

Policy Objective

The objectives of the policy are:

- To ensure the investment of funds is undertaken in a prudent manner that results in returns being maximised and risk minimised;
- To achieve a high level of security by using recognised ratings criteria;
- To have ready access to funds for day-to-day requirements

Policy Statement

Council and staff have an obligation to ensure that surplus funds are invested in a responsible manner. Council will invest excess funds in accordance with legislative requirements and will adopt a prudent investment approach. Risks must be kept to an acceptable minimum, particularly credit risk, with a reasonable return on investment generated whilst maximising opportunity, ensuring sufficient liquidity to meet all cash flow requirements, and preserving the capital investment.

While exercising the power to invest, consideration is to be given in preservation of capital, liquidity, and the return of investment.

- 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 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 redemption of an investment or incurring short-term borrowings.
- 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.

Management Guidelines

1. Approved Investments

The Shire will invest surplus funds and the budgeted reserve (restricted cash) funds in:

- Interest bearing term deposits and saving accounts with authorised deposit taking institutions (ADIs) as defined in the Banking Act 1959 (Cth) Section 5 for a maximum fixed term not exceeding 12 months (includes major and regional Australian banks, building societies and credit unions).
- The Western Australian Treasury Corporation established by the Western Australian Treasury Corporation Act 1986
- Bonds that are guaranteed by the Commonwealth Government or a State or Territory for a term not exceeding three years; and
- Australian currency only.

Investments with foreign owned ADI's are prohibited, noting that foreign owned ADI's operating in Australia are regulated by APRA but are exempt from Div 2 of the Banking Act (Protection of Depositors), lessening APRA's intervention powers.

2. Legislative Requirements

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The Shire will invest surplus funds and the budgeted reserve (restricted cash) funds in accordance with:

- Section 6.14 of the Local Government Act;
- Regulation 19, 19C, 28 and 49 of the Financial Management Regulations; and
- The Trustees Amendment Act 1962, Part III Investments as amended by the
- Trustees Amendment Act 1997

3. Delegation of Authority

Authority for implementation of the Investment Policy is delegated by Council to the Chief Executive Officer (CEO) in accordance with the Local Government Act 1995. The CEO may in turn delegate the day-to-day management of Council's Investment to staff subject to regular reviews.

4. Prudent Person Standard

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

5. Credit Management

a) Portfolio Credit Framework

The portfolio credit guidelines to be adopted will be based on the Standard and Poor's (S & P) ratings system criteria determined for each institution. For authorised deposit-taking institution (ADI) investments the portfolio limits for each credit rating group are as follows:

S & P Short Term Rating (1 Year)	S & P Long Term Rating (over 1 Year)	Max Direct Investment
A-1	AAA, AA	100%
A-2	A, BBB	100%
A-3 to Unrated	BB to Unrated	Nil

b) Institution Credit Framework

Exposure to an individual institution will be restricted by their S&P rating and the single entity exposure limits detailed in the table below:

S & P Short Term Rating (1 Year)	S & P Long Term Rating (over 1 Year)	Max Direct Investment
A-1	AAA, AA	50%
A-2*	A, BBB	40%
A-3 to Unrated	BB to Unrated	Nil

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c) Government Issued Bonds

For Bonds guaranteed by the Commonwealth, State or Territory of Australia, the credit rating will be that of the guaranteeing government and will be deemed to be adequate under this policy.

6. Reporting and Review

A monthly report will be provided to Council in support of the monthly financial statement and reports. The report will detail the investment portfolio in terms of the name of the institution, maturity date, yield, amount, and terms of investment.

7. Standard & Poor's Credit Ratings

As per the guidelines adopted in section 5 of this policy, Standard and Poor's and a description of each of their rating is defined as follows:

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

Credit ratings are based, in varying degrees, on the following considerations:

- Likelihood of payment.
- Nature and provisions of the obligation.
- Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganisation or other laws affecting creditors' rights.

The issue rating definitions are expressed in terms of default risk. Short-Term Obligation Ratings are:

A-1

This is the highest short-term category used by S&P. The institution's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.

A-2

A short-term obligation rated A-2 is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the institution's capacity to meet its financial commitment on the obligation is satisfactory.

A-3

A short-term obligation rated A-3 exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

Long-Term Ratings are:

AAA

An institution rated AAA has the highest rating assigned by S&P. The institution's capacity to meet its financial commitment on the obligation is extremely strong.

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AA

An institution rated AA differs from the highest rated obligations only in a small degree. The institution's capacity to meet its financial commitment on the obligations is very strong.

A

An institution rated A is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than institutions in higher rated categories. However, the institutions capacity to meet its financial commitment on the obligation is still strong.

BBB

An institution rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to the institution to meet its financial commitment on the obligation.

UNRATED

Securities issued by institutions that cannot justify going through the formal and expensive exercise of attaining a credit rating from a credit rating agency such as Standard and Poors.

Plus (+) or Minus (-): The ratings from "AA" to "CCC" may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

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