

# Investment of Surplus Funds

## Objective

The objectives of this policy are to:

- ensure the investment of funds is undertaken in a prudent manner that achieves a reasonable return on investments consistent with risk tolerance and market conditions;
- achieve a high level of security by using recognised ratings criteria which will preserve capital to protect public funds; and
- maintain sufficient liquidity to have ready access to funds for day-to-day operational and capital expenditure cashflow requirements.
- ensure compliance with relevant legislation, including the *Local Government Act 1995* and *Trustees Act 1962*.
- support ethical and socially responsible investment practices where feasible.

## Scope

Application of this policy relates to all investments of Shire funds including surplus operating funds, general funds, trust funds, reserve funds and other restricted funds.

## Definitions

Term	Definition
Authorised Institution	(a) An authorised deposit taking institution as defined in the <i>Banking Act 1959 (Commonwealth)</i> Section 5; or (b) The Western Australian Treasury Corporation (WATC) established by <i>The Western Australian Treasury Corporation Act 1986</i> .
Corporate Social Responsibility	a business model that considers a company's social and environmental impact in addition to its economic profits. CSR is based on the idea that companies have a responsibility to stakeholders beyond shareholders.
Counterparty Diversity	the practice of diversifying the counterparties, or other parties involved in a financial transaction, to reduce risk by assessing the creditworthiness and reliability of the counterparties involved in a financial transaction
Derivative based instruments	financial products that get their value from something else, like interest rates, shares, or currencies. They are often used for complex trading or speculation and can carry high risk. Because of this, they are <b>not allowed</b> for investing surplus funds.

Term	Definition
Prudent Person Standard	<i>A guideline as to how people manage assets for others; requiring that each investment be evaluated on its own merits, and that risky investments be avoided. Appropriate investments would be stable, blue-chip stocks or municipal bonds.</i>
Standard and Poor's rating (S&P)	A financial services company providing index data and a source of independent credit ratings.
<i>Refer to the Corporate Documents Glossary</i>	<a href="https://www.toodyay.wa.gov.au/documents/470/corporate-documents-glossary-(definitions)">https://www.toodyay.wa.gov.au/documents/470/corporate-documents-glossary-(definitions)</a>

## Policy Statement

Investment principles will be adhered to so that investments are managed with the care, diligence and skill that a prudent person would exercise. Shire Officers are to manage investments to safeguard the portfolios in accordance with the spirit of this policy, i.e. Officers will not engage in speculative deals which involve deliberately taking a higher risk, in the hope of making an extraordinary gain.

## Investment Principles (Primary Considerations)

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

- (a) **Safety:** Investments shall prioritise the preservation of capital. 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.
- (b) **Liquidity:** Investments shall be structured to ensure availability of funds when needed. 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 investment.
- (c) **Return:** Investments shall seek to optimize returns within the constraints of safety and liquidity. The investment is expected to achieve a predetermined market average rate of return that considers the Council's risk tolerance. Any additional return target set by Council will also consider the risk limitation and prudent investment principles.
- (d) **Diversification:** Investment portfolio shall be diversified to mitigate risk.
- (e) **Compliance:** All investments shall comply with statutory requirements and internal policies.

## 1. Delegation of Authority

In accordance with section 5.42 of the Act, Council delegates the CEO to exercise its power to authorise and make payments from the municipal or trust fund and, in accordance with section 6.14, to invest surplus funds.

The CEO may in turn delegate the day-to-day management of Council's investments to the Executive Manager Finance and Corporate Services and the Finance Coordinator.

This policy requires Shire Officers to disclose any conflict of interest to the CEO.

## 2. Authorised Investments

Authorised investments are limited to the following;

- Fixed and floating rate interest bearing term deposits with authorised institutions and with a term to maturity of 3 years or less; and
- State and Commonwealth Government Bonds with a term to maturity of 3 years or less.
- Other investments as permitted by legislation and approved by Council.

Consideration is to be given to the environmental, social, and governance (ESG) factors where practical.

## 3. Prohibited Investments

This policy prohibits investment in:

- (a) foreign and/or crypto currency;
- (b) entities involved in activities contrary to community values (e.g., tobacco, gambling, environmental harm).
- (c) Derivative based instruments;
- (d) products that don't provide regular income or could cost the Shire money instead of earning a return;
- (e) security that is tied to complex products such as futures, options, forwards, or swaps.
- (f) borrowing money to make investments. All investments must be made using Shire funds.
- (g) Deposits with any institution other than an authorised institution.
- (h) Investment in bonds that are not guaranteed by the Commonwealth Government, or a State or Territory Government.
- (i) Investment in bonds with a term of maturity of more than three years.

## 4. Risk Management

The investment portfolio is to be regularly reviewed to assess risk exposure. Credit ratings and market conditions are also to be monitored to reduce risk.

Officers are to take risk into account when investing surplus funds such as:

- (a) ensuring that sufficient funds are available for operating expenses;
- (b) investing only with Authorised Institutions; and

- (c) prioritising projects that could be funded by surplus funds or that are currently deferred due to lack of funding.

#### 4.1 Credit Quality:

To control the credit quality on the entire portfolio, the percentage of the portfolio exposed to any particular credit rating category will be limited as follows:

S&P Long Term Rating	S&P Short Term Rating	Investment Maximum %	Description
AA-	A-1+-	100%	Very strong capacity to repay
A+	A-1+	100%	Strong capacity to pay
BBB+	A-2	60%	Adequate capacity to pay
BBB	A-3	40%	Adequate capacity to pay

#### 4.2 Counterparty credit framework

The Shire of Toodyay will invest funds with authorised financial institutions that provide a service to the local community by establishing branches or agencies in the Shire of Toodyay. Such institutions must maintain a minimum *Standard and Poors rating* of A for short term investments.

#### 4.3 Term to Maturity Framework

Overall Portfolio term to maturity limits	Percentage
Portfolio % < 1 year	100% maximum, 40% minimum
Portfolio % 1-3 Years	60% maximum

#### 4.4 Performance Management

Performance benchmarks will be as follows:

Investment	Performance Benchmark
Cash	Cash Rate
Enhanced / Direct Investments	Reserve Bank of Australia (RBA) Bank Bill Swap Rate(BBSW)

Investment	Performance Benchmark
Diversified Funds	CPI+ appropriate margin over rolling 3-year periods (depending on the composition of the fund).

## 5. Reporting and reviewing Compliance Requirements

- (a) A fully reconciled Investment Register is to be maintained by the Shire at all times.
- (b) The Investment Register is to contain documentary evidence (a record) of all investments held and those that have matured during that year - including details of financial institution, investment type, interest rate applicable, term to maturity and interest revenues earned and accrued.
- (c) A report summarising the composition of the investment portfolio including investment classes, amounts invested with each financial institution and details of the investment performance and compliance on the investments will be included in the Monthly Financial Statements presented to the Council. This will include the following details:
  - (i) Name of institution where investment is lodged;
  - (ii) Amount of funds invested;
  - (iii) Interest rate on investment; and
  - (iv) Date of maturity of investment.
- (d) Certificates must be obtained from the financial institutions confirming the amounts of investments held on the Shire's behalf as at 30 June each year and reconciled to the Investment Register.

## 6. Borrowing (Excluding Overdraft Facilities)

- (a) The Shire of Toodyay will exercise its borrowing power in a financially responsible and prudent way to promote equity amongst current and future ratepayers. In general, the Shire will not borrow to fund operating expenditure.
- (b) The Council will consider its forecast borrowing requirements as part of its:
  - (i) long term financial plan; and the
  - (ii) adoption of the annual budget.

## Reference Information

- [Register of Delegations](#) – CS2 Investment of Surplus Funds;
- [Risk Management](#) (ADM18).
- [Shire of Toodyay Council Plan](#)
- [Western Australian Treasury Corporation : Interest Rate Market – the factors affecting local government.](#)

## Legislation

- [Local Government Act 1995 - s.6.14.](#)
- [The Trustees Act 1962 – Part III Investments as amended by the Trustees Amendment Act 1997.](#)
- [Local Government \(Financial Management\) Regulations 1996 – r.19, 19C, r.28, and r.49.](#)
- [Banking Act 1959.](#)
- [Australian Accounting Standards.](#)

## Associated documents

- [Record D26/1245: Investment Register](#)

Document control information	
Document Category	Finance
Document Title	Investment of Surplus Funds
Document ID	FIN9
Document Owner (position title)	Executive Manager Finance & Corporate Services
Author (position title)	Executive Manager Finance & Corporate Services
Initial Council Adoption <i>(including Date and Resolution No.)</i>	15 November 2007
Last Council Review <i>(including Date and Resolution No.)</i>	5 March 2026 (CRN: OCM033/03/26)
Date of Approval	5 March 2026 (CRN: OCM033/03/26)
Approving authority	Council
Absolute or Simple Majority Decision:	Absolute

<b>Document control information</b>	
<b>Access restrictions</b>	Nil
<b>Date Published</b>	12 March 2026
<b>Date of Next Review</b>	Annually review to ensure alignment with strategic objectives and regulatory changes.