

INVESTMENT POLICY

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1. 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; and
- To have ready access to funds for day-to-day requirements.

Consideration of investments to acquire real property should be guided by *CF-04 Investment Policy Property*.

2. PRINCIPLES

Council will invest excess funds in accordance with legislative requirements and will adopt a prudent investment approach. Council and delegated officers have a fiduciary duty under the *Local Government Act 1995*, therefore 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.

Preservation of Capital

The primary objective of the City's investment is to ensure the safety and security of the investment made in relation to the credit risk of the borrowers and interest rate on offer.

Liquidity of Funds

The investment of the City's funds should ensure there is sufficient liquidity to meet the operational daily/weekly/monthly cash flow requirement as and when they fall due, without incurring additional cost to the City.

Return on Investment

The investment made should achieve a predetermined return on investment taking into account the market condition and risk profile of the borrowers.

2.1 Legislative Requirements

In accordance with section 6.14 of the *Local Government Act* and Regulation 19C of the *Financial Management Regulations*, the City will invest excess funds not required for any specific purpose in authorised deposit taking institutions as defined in the *Banking Act 1959* (Cth) Section 5 and/or the Western Australian Treasury Corporation established by the *Western Australian Treasury Corporation Act 1986*, for a term not exceeding ~~3 years~~12 months:

- Bonds that are guaranteed by the Commonwealth Government or a State or Territory for a term not exceeding three years; and in Australian currency.
- All investments are to be made in accordance with:
 - *Local Government Act 1995*, Section 6.14;
 - *Local Government (Financial Management) Regulations* (19, 19C, 28, 49); and
 - The *Trustees Amendment Act 1962*, Part III Investments as amended by the *Trustees Amendment Act 1997*.

2.2 General Policy Guidelines

2.2.1 Quotation on Investments

Not less than three (3) quotations shall be obtained from authorised institutions when an investment is proposed.

2.2.2 Maximising Opportunity on Investments

Council's Municipal and Reserve Bank Accounts are to be maintained so that a maximum return can be achieved from funds required in the short term.

Funds not required for short term cash flow requirements can be invested in interest bearing deposits.

2.2.3 Credit/Diversification Risk

The ~~short term (0-365 days)~~ credit guidelines will be based on Standard and Poor's (or its equivalent) Short Term (0-365 days) and Long Term (1 to 3 years) Term-Issuer Credit Ratings which are:

A1+/AAA The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

AA The obligor's capacity to meet its financial commitment on the obligation is very strong.

A1/A The obligor's capacity to meet its financial commitment on the obligation is strong.

A2/BBB The obligor is susceptible to adverse economic conditions however the obligor's capacity to meet its financial commitment on the obligation is satisfactory.

The amount invested with any one financial institute or product should not exceed the following percentages of average annual funds invested or term within each risk rating.

<u>Short Term Credit Rating</u>	<u>Long Term Credit Rating</u>	Maximum % in credit rating category	Maximum % in one authorised institute	<u>Maximum Term</u>	<u>Additional Limitation</u>
Short term A1+	<u>AAA</u>	100%	100%	<u>3 years</u>	
Short term -A1	<u>AA / A</u>	50 100%	50 0%	<u>3 years</u>	
Short term -A2	<u>N/A</u>	25 80%	50 75%	<u>1 year</u>	<u>Positive/Stable Credit Rating Outlook only</u>
Long term—Government Guaranteed Bonds	<u>Government Guaranteed Bonds</u>	100%	100%	<u>3 years</u>	

2.2.4 Credit Rating Outlook

The Credit Rating Outlook assesses the potential direction of a long term credit rating over the intermediate to longer term:

Positive Rating may be raised.

Negative Rating may be lowered.

Stable Rating is not likely to change.

2.3 **Changes ~~to~~ⁱⁿ Credit Ratings or Credit Rating Outlook**

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.

2.4 **Changes in Portfolio Size or Composition**

If any of the City's investments no longer fall within the investment policy guidelines due to a change in portfolio size or composition, they will be divested as soon as practicable.

2.5 **Investment Reporting**

A monthly report shall be provided to Council, detailing the City's investment portfolio including the name of the institution, investment rate, amount and terms of investment. The report will also include the investment income earned versus budget year to date through variance reporting on the income statement.

For audit purposes, certificates must be obtained from the authorised institutions confirming the amounts of investment held at the 30 June each year.

3. CONSEQUENCES

This policy represents the formal policy and expected standards of the City of Karratha. Appropriate approvals need to be obtained prior to any deviation from the policy. Elected Members and Employees are reminded of their obligations under the Council's Code of Conduct to give full effect to the lawful policies, decisions and practices of the City.

4. ROLES AND RESPONSIBILITIES

CUSTODIAN	OFFICER RESPONSIBLE FOR IMPLEMENTATION
Manager Financial Services/CFO	Management Accountant

5. REFERENCES TO RELATED DOCUMENTS

- *Local Government Act 1995*
- *Local Government (Financial Management) Regulations 1996*
- City of Karratha - Delegated Authorities Register – 18 'Power to invest' CEO delegation
- City of Karratha - Annual Budget
- City of Karratha - Annual Report

Policy Number:	CF-03
Previous Policy Number:	N/A
Resolution Numbers:	5772-Dec 1992; 12738-Sept 2002; 13497-Oct 2004; 14223-Oct 2007; 152396-Feb 2013, 153108-Apr 2015; 153768-Apr 2017; 154386-Jul 2019
Last Review:	July 2019
Next Review:	July 202 3 ⁴ [Every 4 years]
Responsible Officer:	Manager Financial Services/CFO

This policy takes effect from the date of adoption by Council and shall remain valid until it is amended or deleted.