

INVESTMENT POLICY

Purpose

The purpose of this policy is to ensure the investment of cash funds is undertaken in a prudent manner that results in returns being maximised and risk minimised to;

- ~~To~~ achieve a high level of security by using recognised ratings criteria; ~~and~~
- ~~To~~ have ready access to funds for day-to-day requirements; ~~and~~
- ~~To generate additional revenue as an alternate source of income to Council to realise one-off or perpetual financial returns.~~

Definitions

The **Act** means the *Local Government Act 1995*.

Authorised Deposit Taking Institution is a body corporate that Australian Prudential Regulation Authority (APRA) has given written authority to carry on banking business in Australia.

Council Member means a person who is currently serving a term of office as an elected member of the Council in accordance with the Act.

Credit Rating means an estimate of overall ability and willingness of an entity or person to fulfil financial obligations in full and on time, based on previous financial dealings. Ratings are opinions issued by credit rating agencies.

Long Term Investment defined in relation to investments, means it matures in excess of 12 months

Regulations means the *Local Government (Financial Management) Regulations 1996*

Short Term Investment defined in relation to investments, means it matures in 12 months or less.

Policy Statement

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 Act and Regulations; therefore, risks must be kept to an acceptable minimum with a reasonable return on investment generated.

1.0 Key Principles

Preservation of Capital

The primary objective of the City's investment is to ensure the safety and security of the investment of capital by ~~credit risk prioritising and minimising risk of loss 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 requirements as and when they fall due, without incurring additional cost to the City.

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Return on Investment

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

1.1 Treasury Investments

1.1.1 Quotation on Investments

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

1.1.2 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 or as outlined within the credit rating guidelines 2.3 below.

1.1.3 Credit/Diversification Risk

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

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

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

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.

1.1.4 Credit Rating Outlook

The Credit Rating Outlook assesses the potential direction of a ~~long-term~~ Long-term Credit Rating over the intermediate to longer term:

- a. Positive Rating may be raised.
- b. Negative Rating may be lowered.
- c. Stable Rating is not likely to change.

1.1.5 Changes to Credit ratings/or Credit rating Outlook and Portfolio size or Composition

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

~~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 they will be monitored to determine whether divestment is required.~~

2.0 Property Investment

When making decisions to invest in property related investments, one or more of the following criteria must be satisfied:

- (a) Land holdings will have capital growth for future generations; or
- (b) Property will provide a continuous source of ongoing returns and ~~also have capital growth potential; or~~
- (c) Re-development activities that are greenfield or infill through:
 - (i) ~~C~~reating development interests; or
 - (ii) ~~Divest Council-owned operational land holdings; or~~
 - (iii) ~~Facilitate development of Council owned property assets; or~~
- (d) Investment in property must be considered within the following broad investment framework:
 - (i) ~~Within close proximity to major infrastructure including public hospitals, transport, employment, retail and education;~~
 - (ii) ~~purchase at Market Price or if special value is relevant the offer/sale price;~~
 - ~~(iii)~~ based on market driven rationale;
 - (iv) ~~capable of providing reasonable commercial rental returns;~~
 - ~~(v)~~ capital works are to be restricted to value adding projects;
- (e) ~~Consider converting surplus property for reclassification and/or rezoning to be able to convert them to a development or divestment opportunity; or~~
- (f) ~~Invest in property to achieve key strategic goals of the Council that will deliver a broad based benefit to the community without financial return being the key driver; or~~

- (g) Use its land holdings to leverage acquisition of other land critical to the orderly development of important urban or environmental areas;
- (h) Council may also include selling or development activity to generate returns to enable funding of the renewal and replacement of Infrastructure.

2.1 Risk Management

When considering a Property investment, a Business case needs to be prepared identifying and quantifying Financial, Economic, Operational, Reputational and other associated risks.

Property investment/development opportunities will be presented to Council for consideration.

Further consideration of proposals would necessitate specific acquisition and divestment recommendations requiring necessary community consultation, statutory processes, Ministerial approval and Council resolution where appropriate.

2.2 Proceeds from Property Investments

The balance of net funds generated from disposals of property are to be placed in the Infrastructure Reserve.

All net returns from investment property be used for day-to-day municipal activities as recurrent income.

These allocations may be changed from time to time by Council Resolution.

2.3 Funding of Property Investments

Funding requirements and options are to be addressed within the Business Plan for any land transactions and/or property transactions where required.

3.0 Investment Reporting

A monthly report shall be provided to Council in support of the monthly Financial Activity Statement, detailing the City's investment portfolio that details any impacts on the investment and the Return on Investment segregated by cash and other investments. 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.

Related Documents

Legislation & Local Laws	<u>Local Government Act 1995</u> <u>Local Government (Financial Management) Regulations 1996</u> <u>Local Government (Functions and General) Regulations 1996</u> <u>Trustees Amendment Act 1962</u> <u>Trustees Amendment Act 1997</u>
Relevant Delegations	<u>1.98</u> Power to invest' CEO delegation
Strategies & Plans	City of Karratha Annual Budget <u>Strategic Community Plan 2020-2030</u>

Related Council Policies	NA
Procedures, Documents & Forms	<i>Reserve Interest process</i> <i>Prepare Monthly Financial Statements process</i> <i>The Quarter HQ Investment Report process</i> <i>Identify method of disposal of land process</i> <i>Cashflow Forecast (weekly)</i>

Policy Owner

Directorate	<i>Corporate & Commercial</i>
Department	<i>Financial Services</i>

Review Management

Next review due: *January 2029*

Version Management

Version	Date	Council Resolution #	Description
1.0	<i>Dec 1992</i>	<i>5772</i>	
2.0	<i>Sep 2002</i>	<i>12738</i>	
3.0	<i>Oct 2004</i>	<i>13497</i>	
4.0	<i>Oct 2007</i>	<i>14223</i>	
5.0	<i>Feb 2013</i>	<i>152396</i>	
6.0	<i>Apr 2015</i>	<i>153108</i>	
7.0	<i>Apr 2017</i>	<i>153768</i>	
8.0	<i>Jul 2019</i>	<i>154386</i>	
9.0	<i>Oct 2020</i>	<i>154684</i>	<i>Current version</i>
10.0			<i>4 yearly review – amalgamation of Investment property policy (CF04)</i>