

**POLICY NO. CP 4.1.7****POLICY STATEMENT****INVESTMENT****PURPOSE**

To facilitate prudent investment of the City's surplus funds in authorised investments.

POLICY**1. OBJECTIVES**

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

- (a) Preservation of capital is the principal objective of the investment portfolio. Investments are to be made in a manner that seeks to ensure security and safeguard the investment portfolio. This includes managing credit and interest rate risk where applicable within identified thresholds and parameters.
- (b) 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 an investment. In determining how much liquidity is "sufficient", management will give regard to:
 - Historical seasonality in the City's cash flow;
 - Known or projected major capital expenditure (capex); and
 - Holding contingency reserves adequate to cover a major unexpected short-term demand on the City.
- (c) The investment portfolio is expected to earn a level of return at least equivalent to the Reserve Bank of Australia cash rate.

2. LEGISLATIVE REQUIREMENTS

All investments are to comply with the following:

- (a) *Local Government Act 1995* (the Act) – Section 6.14 and (in relation to land transactions) Section 3.59;
- (b) *The Trustees Act 1962* – Part III Investments;
- (c) Internal controls developed in accordance with Regulation 19 of the *Local Government (Financial Management) Regulation 1996*.
- (d) Regulation 19C of the *Local Government (Financial Management) Regulation 1996*; and
- (e) Australian Accounting Standards.

**3. PRUDENT PERSON STANDARD**

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

4. APPROVED INVESTMENTS

4.1 Without express approval from Council, investments are limited to:

- (a) Bonds guaranteed by the Commonwealth or a State or Territory Government;
- (b) Interest bearing deposits of an authorised deposit-taking institution except as restricted by the credit rating requirements of clause 7A of this policy;
- (c) Diversified investment products with a low long-term investment risk profile, subject to no greater than 20% of the City's total investments being in such products at any time.

4.2 With express approval from Council, investment is also permitted in land and its development - subject to the requirements of Section 3.59 of the Act.

5. BORROWING TO INVEST

The City will not borrow funds for investment purposes other than for the acquisition and redevelopment of land for sale on a commercial basis.

6. RISK MANAGEMENT GUIDELINES

Investments obtained are to comply with key risk management criteria relating to:

- (a) Portfolio Credit Framework: Limits overall credit exposure of the portfolio;
- (b) Counterparty Credit Framework: Limits exposure to individual counterparties / institutions;
- (c) Term to Maturity Framework: Limits based upon maturity of securities;
- (d) Liquidity: Portfolio management must always maintain adequate levels of liquidity to cover seasonality, planned capex and contingencies;
- (e) Rollover and Income: Where conditions permit, stability and protection of the City's income against unexpected weakness in interest rates should be considered, especially in the context of potential for inflation;
- (f) Market Value: Investments with highly volatile market values that affect the City's income should be avoided.
- (g) Diversification: Limit credit and market risk. Even if funds are to be invested 100% in Bank Deposits, diversification between counterparties is desirable; and



- (h) Fraud: Two signatures are required to authorise any new investment transaction (refer to Delegated Authority).

7. Portfolio Limits

(a) Portfolio Credit Framework

To control the credit quality over the entire portfolio, the following credit framework limits the percentage of the portfolio exposed to any particular credit rating category.

Standard & Poor's* Long Term Rating	Standard & Poor's* Short Term Rating	Direct Investment Maximum %
AAA	A-1+	100%
AA	A-1	100%
A	A-2	40%
BBB (ADI only)	A-3 (ADI only)	20%

* or Moody's/Fitch equivalents

(b) Counterparty Credit Framework

Exposure to an individual counterparty/institution will be restricted by their credit rating so that single entity exposure is limited, as detailed in the table below:

Standard & Poor's* Long Term Rating	Standard & Poor's* Short Term Rating	Direct Investment Maximum %
AAA	A-1+	60%
AA	A-1	35%
A	A-2	20%
BBB (ADI only)	A-3 (ADI only)	5%

* or Moody's/Fitch equivalents

(c) Term to Maturity Framework

The investment portfolio is to be invested within the maturity constraints as imposed by Regulation.

8. INVESTMENT ADVISOR

- 8.1 The City may appoint an investment advisor to provide independent advice regarding the management of the City's investments.
- 8.2 Any investment advisor appointed by the City must be appropriately licensed by the Australian Securities and Investment Commission. The investment advisor must be an independent person who has no actual or potential conflict of interest in relation to investment products being recommended and is free to recommend the most appropriate product within the terms and conditions of the investment policy.



8.3 The investment advisor's appointment is to be subject to a letter of engagement setting out the terms of appointment which may include:

- Monthly reporting;
- Monthly market review of returns and market value of the portfolio; and
- Meetings with the responsible City officers as required, to review the City's investment portfolio.

9. REPORTING AND REVIEW

A report will be provided to Council in support of the monthly Financial Activity Statement. The report will detail the investment portfolio in terms of performance, percentage exposure of total portfolio, and changes in value.

Documentary evidence must be held for each investment and details thereof maintained in an Investment Register retained in the City's Corporate Record Keeping Systems.

Certificates must be obtained from the financial institutions and retained in the City's Corporate Record Keeping Systems, confirming the amounts of investments held on the City's behalf as at 30 June each year and reconciled to the Investment Register.

**GOVERNANCE REFERENCES**

Statutory Compliance	Local Government Act 1995 - Section 6.14(1) and (2) Local Government (Financial Management) Regulations 1996 - Regulation 8(3) and Regulation 19(1) and (2), Regulation 28 and Regulation 49 Public Trustees Act 1862 - Part III
Industry Compliance	Australian Accounting Standard 139(i) and 139.9(iii)
Organisational Compliance	N/A
Process Links	N/A

POLICY ADMINISTRATION

Directorate		Officer Title		Contact:	
Business Services		Chief Financial Officer		9397 3000	
Risk Rating	High	Review Cycle	Annual	Next Due:	2025
Version	Decision Reference	Synopsis			
1.	OCM 388/24/08/2010	Redraft replaces revoked Council Policy 4.1.7 Investment Policy			
2.	OCM 378/23/08/2011	Reviewed with no amendment.			
3.	OCM 96/13/03/2012	Amended to take into account changes to current market place conditions, the Federal Government Guarantee on retail and wholesale deposits and to provide better guidance in regard to risk management of the City's investment portfolio.			
4.	OCM 415/24/09/2013	Reviewed and amended to add property acquisition, update risk management, reflect new Regulations which further restrict investments and to add lower rated ADI deposits.			
5.	OCM 385/23/09/2014	Reviewed with no amendment.			
6.	OCM 375/22/09/2015	Reviewed with minor grammatical changes.			
7.	OCM 387/25/10/2016	Reviewed with no amendments.			
8.	OCM 317/26/09/2017	Reviewed and amended 6.2(b) fixed investments greater than 12 months to greater than 3 years.			
9.	OCM 302/11/09/2018	Reviewed with amendments.			
10.	OCM 251/08/09/2020	Reviewed and amendments.			
11.	OCM 08/16/02/2022	Reviewed with amendments			
12.	OCM 283/08/11/2022	Reviewed with no amendments.			
13.	OCM 117/14/05/2024	Reviewed with amendments.			

**Appendix 1:****Standard & Poor's Ratings Description****Credit Ratings**

Standard & Poor's (S&P) is a professional organisation that provides analytical services. An S&P rating is an opinion of the general credit-worthiness of an entity with respect to a 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.
- In the case of financial institutions, the perceived likelihood of sovereign support.

The issue rating definitions are expressed in terms of default risk.

Ratings – Long Term Financial Obligations (Maturity greater than 365 days)	
AAA	Extremely strong capacity to meet financial commitments on the long-term obligation.
AA	Very strong capacity to meet financial commitments.
A	Strong capacity to meet financial commitments, but somewhat susceptible to adverse circumstances and economic conditions.
BBB	Adequate capacity to meet financial commitments, but susceptible to adverse circumstances and economic conditions.

Ratings – Short Term Financial Obligations (Maturity not more than 365 days)	
A-1	Strong capacity to meet financial commitment on the short-term obligation
A-2	Satisfactory capacity to meet financial commitments, but somewhat susceptible to adverse circumstances and economic conditions.
A-3	Adequate capacity to meet financial commitments but susceptible to adverse circumstances and economic conditions.

Ratings may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.