



CP 2.1 | Management of Investments

Objective

The objective of this policy is to provide guidance on the investment of City funds that are excess to immediate cash flow needs. Due consideration is to be given to legislative requirements and the risk and return available to the City whilst ensuring that operational liquidity requirements are met.

Scope

This policy applies to officers with delegated authority to invest City funds and to any authorised investment advisor acting on behalf of the City.

Policy statement

The City's investment objectives will be met through the investment of the City's funds in a manner that ensures proper authorisation, manages risk within levels considered prudent for public monies and ensures that funds are available as and when required. This policy is to ensure that perceived or potential conflicts of interest for the City's officers, investment advisers and fund managers or the sellers or promoters of investment products, are carefully managed.

1. Investment Objectives

- Preservation of the real value of capital is the principal objective of the investment policy. Investments are to be placed in a manner that seeks to ensure security and safeguarding of the funds in the investment portfolio. This includes managing credit and interest rate risk within the identified thresholds and parameters.
- The investment portfolio will ensure there is sufficient liquidity to meet all reasonably foreseeable cash flow requirements, as and when they fall due, without incurring significant costs due to the unanticipated sale of an investment.
- The investment portfolio is expected to achieve a rate of return that reflects Council's risk tolerance as defined in Clause 9 of this policy.
- To achieve a high level of security for the overall portfolio by investing in investment products that have achieved high credit ratings using recognised rating criteria as detailed in Clause 11 of this policy.
- To maintain an adequate level of diversification across Authorised Deposit-Taking institutions.
- To ensure that before investments are made, they are appropriately authorised.
- To appropriately manage any actual or potential conflicts of interest that may arise from the actions of investment advisers, managers and the promoters of investment products.



2. Legislative Requirements

All investments are to comply with the following:

- *Local Government Act 1995* - Section 6.14
- *The Trustees Act 1962* - Part III Investments
- *Local Government (Financial Management) Regulation 1996* - Regulation 19 and Regulation 19C
- Australian Accounting Standards.

3. Delegation of Authority for Authorisation of Investments

This policy applies to officers with delegated authority to invest City funds and to any authorised investment advisor acting on behalf of the City.

Authority for implementation of the Management of Investments Policy is delegated by the Council to the Chief Executive Officer (CEO) in accordance with the *Local Government Act 1995*.

Investments that meet the requirements of this policy may be authorised by the delegated authorised signatories of the City. At no time, shall officers, investment managers or advisers commit to an investment unless so authorised.

No investments that fall outside the parameters of this policy are to be authorised by City officers.

4. Prudent Person Standard

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

5. Ethics & Conflicts

Officers shall refrain from personal activities that would conflict with the proper execution and management of the City's investment portfolio. This Policy and the City of Perth Code of conduct require officers to disclose any actual or perceived conflict of interest to the CEO.

6. Authorised Investments

Investments shall be only made with institutions that meet this Policy's guidelines including those relating to diversification, credit risk and liquidity.

7. Approved Investments

Investments are limited (in accordance with Regulation 19C of the *Local Government (Financial Management) Regulations 1996*), to Australian currency denominated:

- Interest Bearing term deposits with Authorised Deposit Taking Institutions (ADIs – Australian banks, building societies & credit unions) for a term not exceeding 3 years.



- Interest Bearing deposits with the Western Australian Treasury Corporation (WATC) for a term not exceeding 3 years.
- Bonds guaranteed by the Commonwealth Government or State or Territory for a term not exceeding 3 years.

Investments held at 4 April 2012 that complied with the prevailing Legislation prior to that date are eligible to be held to maturity. In accordance with Clause 44 (Local Government Act 1995, Transitional provisions, Provisions for the Local Government Amendment Act 2012; Schedule 9.3, Division 2) was inserted on 4 April 2012 to allow local governments to continue to hold any existing investments made prior to insertion of abovementioned regulation 19C under grandfathering arrangements (but it does not allow reinvestment in these existing investments).

8. Prohibited Investments

This policy prohibits any investment carried out for speculative purposes including:

- Derivative based instruments
- Principal only investments or securities that provide potentially nil or negative cash flow
- Stand-alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind. (Note this includes Collateral Debt Obligations)

This policy also prohibits the use of leveraging (borrowing to invest) for a monetary investment.

9. Risk Profile & Objectives

Whilst the investments made in accordance with the Local Government Act 1995, the Local Government (Financial Management) Regulations 1996 and part III of the Trustees Act 1962, are inherently low risk, when exercising the power of investment, the following principles are also to be given due consideration:

- The purpose of the investment, and its needs together with the circumstances
- The nature of and the risk associated with the different investments
- The need to maintain the real value of capital and income
- The risk of capital loss or income loss
- The likely income return, and the timing of that return
- The liquidity and marketability of the proposed investment during and at the termination of the proposed investment term
- The aggregate value of the investment
- The costs (including commissions, fees, charges and duties payable) of making the proposed investment.

The objectives for each investment and the immediacy of the demand for the funds depends on the particular und or reserve accounts of the City that the investment relates to.



Municipal (General) Funds:

These funds consist of the operating funds (working capital) of the City and are therefore required to be highly liquid. Inflow of funds is usually very strong over the first four to five months of the financial year at which time substantial volumes of funds will be available for investment.

Municipal Fund investments are to be liquid and short term in nature as outflows will generally exceed inflows over the remaining seven to eight months of a year. Investments should therefore not exceed a maximum of one year and the investment term to maturity should be reduced as the financial year progresses.

Apart from ensuring liquidity, the investment objective for this fund is to maintain real value over the short-term (ie: zero to twelve months) and not be subject to any loss in value at any time.

Specific Purpose Reserve Accounts

These accounts accumulate funds required to finance future major projects or future liabilities. Draw downs on reserves are generally capable of being planned well in advance and therefore a high proportion of this fund lends itself to be invested for the longer term.

The objective of investments made from Reserve Accounts should be to maintain the real value of the Reserves over the longer term so as to keep abreast of (and if possible, exceed) the increases in costs for the projects or liabilities the Reserve Accounts will finance. Only Reserve Account investments would be suitable for investments that have a term to maturity of up to three years.

10. Investment Guidelines

The City's investments must, at all times, be maintained within the investment parameters detailed in this Policy.

Subject to the overriding requirements and to maintain diversification of invested funds as outlined in clause 11 (b) below,

- Quotations shall be obtained from authorised institutions whenever an investment is proposed.
- In selecting the successful quote, authorised officers should make a balanced decision have regard to the following factors:
 - The rate quoted on the day
 - the maximum financial institution investment limits and the respective credit rating set out in clause 11 below
 - Ease of communication with the financial institution.
 - Ease of execution of investment rollovers.
- Investments placed by the City's officers or authorised advisor/s and managers (if any), must be appropriately documented at the time of placement.



- No investments are to be made by an officer or manager of the City's funds, where the officer or manager has any potential, perceived or actual conflicts of interest in the investment product being recommended to the City unless specific authorisation is given by the Council or its appropriately authorised officers. Authorisation will only be entertained on the basis of a full disclosure and the City retains the right to seek further independent advice on the nature of the conflict of interest.

11. Risk Management Guidelines

Investments obtained are to comply with key criteria relating to:

- Portfolio Credit Guidelines limit overall credit exposure of the portfolio.
- Counterparty Credit Guidelines limit exposure to individual ADIs and to Government.
- Term to Maturity Guidelines limits are based upon maturity of investments.

Portfolio Credit Guidelines

The portfolio credit guidelines to be adopted will be based on the Standard and Poor's (S&P) ratings system criteria for each institution. A description of each rating category is included in Appendix 1 of this policy document.

S&P Long Term Rating	S&P Short Term Rating	Maximum Overall Portfolio Limit
(applies to Govt Bonds only)	(applies to Approved ADI & WATC)	
AAA / AA	A-1 or A-1+	100%
Not Applicable	A-2	60%
Not Applicable	A-3	0%
Not Applicable	B or Below	0%

ADI - Authorised Deposit Taking Institution. WATC - WA Treasury Corporation

Portfolio Credit Ratings

If any of the funds / securities held are down-graded such that they no longer fall within the City's investment policy guidelines, they will be divested as soon as is practicable but, unless otherwise decided by the Council, not at an amount of more than 5% below the last reported mark to market book value.



(a) Counterparty Risk

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

S&P Long Term Rating	S&P Short Term Rating	Maximum Overall Portfolio Limit
(applies to Govt Bonds only)	(applies to Approved ADI & WATC)	
AAA / AA	A-1 or A-1+	45%
Not Applicable	A-2	30%
Not Applicable	A-3	0%
Not Applicable	B or Below	0%

(b) Term to Maturity Guideline

The investment portfolio is to be invested within the following maturity constraints:

Term to Maturity	Minimum Portfolio Limit	Maximum Portfolio Limit
Less than 1 year	30%	100%
Greater than 1 year - Less than 3 years	0%	70%
Only Reserve Fund investments are suitable for 1 - 3 year terms (as per Clause 9)		

12. Investment Advisor

Should the City choose to use an investment advisor, the City's Investment Advisor must be licensed by the Australian Securities and Investment Commission. The 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.

The City engages an external investment advisor at the end of each financial year to provide a statutory valuation for the City's holding of mortgage backed securities. The City's Colonial Mutual Fund is externally valued and marked to market monthly.



13. Reporting and Review

A monthly report will be prepared in support of the monthly statement of activity. The report will detail the investment portfolio in terms of performance, percentage exposure of total portfolio, maturity date and changes in market value.

Documentary evidence must be held for each investment and details thereof maintained in an Investment Register that is reconciled monthly. Certificates must be obtained from the financial institutions confirming the amounts of investments held on the City's behalf at 30 June each year and reconciled to the Investment Register.

This policy will be reviewed every three years or as required in the event of legislative changes. Where, as result of amendment to legislation or the ability arises to invest to the advantage of the City contrary to the provisions of this policy, the Chief Executive Officer may, in accordance with Delegated Authority, initiate such variations as are necessary subject to the submission of a report to the Council advising of the changes implemented to the next ordinary Council meeting.



Appendix 1 - Standard & Poor's Rating Definitions

Standard and Poor's (S&P) is a professional ratings agency that provides analysis of corporate and institutional creditworthiness. An S&P rating is an opinion of the general creditworthiness of an entity, either as a whole or with respect to a particular financial obligation, based on relevant risk factors.

According to S&P, credit ratings are based, in varying degrees, on the following considerations:

- Likelihood of payment;
- Nature and provisions of the obligation; and
- Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganisation or other legal arrangement that affects creditors' rights.

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
BB	Currently has capacity to meet financial commitments, but clearly vulnerable to adverse circumstances and economic conditions
B	Currently has capacity to meet financial commitments, but highly vulnerable to adverse circumstances and economic conditions
CCC	Currently vulnerable to non-payment, and dependent on favourable economic conditions to meet financial commitments
CC	Currently highly vulnerable to non-payment
R	Under regulatory supervision. Highly likely not to meet financial commitments

Ratings – Short Term Financial Obligations (Maturity not more than 365 days)	
A-1	Strong capacity to meet financial commitments 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
B	Current capacity to meet financial commitments but vulnerable to adverse circumstances and economic conditions and faces major ongoing uncertainty which could lead to inadequate capacity
C	Currently vulnerable to non-payment and is dependent on favourable economic conditions to meet financial commitments
R	Under regulatory supervision and highly likely not to meet financial commitments

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

Source: Standard & Poor's Ratings Definitions, https://www.standardandpoors.com/en_AU/web/guest/article/-/view/sourceId/504352



Document control

Policy context

Legislation, standards & external guidelines	<i>Local Government Act 1995</i> – Section 6.14 <i>Trustees Act 1962</i> – Part III <i>Local Government (Financial Management) Regulations 1996</i> – Regulation 19 & 19C
Policies and procedures	
Strategies, plans and frameworks	

Document custodian

Alliance	Corporate Services Alliance	Service unit	Finance
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Review management

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Document management

Version	Adopted by	Adoption date	Synopsis of changes
1.0	Ordinary Council Meeting	23 February 2021	Initial policy submitted for approval.
2.0	Ordinary Council Meeting	29 August 2023	Amended policy considered by Council.