

# Investment of Available Funds Policy

## City Policy

### Responsible Directorate: Corporate Services

**Objective:** To invest the City's surplus funds, with consideration of risk at the most favourable rate of interest available to it at the time, for that investment type, while ensuring that its liquidity requirements are met.

#### 1. Definitions:

**"Authorised Institution"** means the same as that defined in Regulation 19C (1) of the Local Government (Financial Management) Regulations 1996 as amended.

**"Counterparty"** means the other party that participates in a financial transaction.

**"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.

**"Short-term"** in relation to investments means it matures in 12 months or less.

**"Long term"** in relation to investments means it matures in excess of 12 months.

#### 2. Statement:

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. Investing activities are to be performed in a manner that seeks to ensure the security and safeguarding of the investment portfolio. This includes managing credit and interest rate risk within specified limits 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 realisation of an investment.
- c. The investment portfolio is expected to achieve a predetermined market average rate of return that takes into account legislative investment limitations. Any additional return target set by Council must also consider risk limitations, liquidity requirements and prudent investment principles.

### **3. Details:**

#### **3.1. 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) Regulations 1996 – Regulations 19, 19C, Regulation 28 and Regulation 49;
- Australian Accounting Standards.

#### **3.2. Delegation of Authority to Invest:**

Authority is delegated to the Chief Executive Officer to implement this policy. The Chief Executive Officer may in turn delegate the day-to-day management of the City's investments in accordance with the provisions of the *Local Government Act 1995*.

#### **3.3. Prudent Person Standard:**

Investments will be managed with the care, diligence and skill that a prudent person would exercise. Officers delegated with authority to manage investments are to safeguard the portfolios in accordance with the substance of this policy, and not for speculative or any other purposes.

#### **3.4. Approved Investments:**

Unless otherwise approved by Council, investments are limited to:

- State/Commonwealth Government Bonds maturing within three years;
- Interest bearing deposits up to 3 years with Authorised Deposit-taking Institutions (ADI);
- Bank accepted/endorsed commercial bills payable within 12 months;
- Negotiable Certificates of Deposit issued or guaranteed by an Authorised Institution.

#### **3.5. Prohibited Investments:**

This investment of available funds policy prohibits any investment carried out for speculative purposes including but not limited to:

- Derivative or derivative based instruments and/or Structured Products;
- 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; and
- Any form of investment that risks the loss of the initial capital outlay in anticipation of significant gain that may arise from expected changes in future economic conditions.

This policy also prohibits the use of leveraging (borrowing to invest) of an investment.

### 3.6. Risk Management Guidelines:

Officers delegated with the authority to invest must diversify the investment portfolio and avoid excessive risk concentration with any single counterparty.

The approach to diversification must be balanced with the need to seek an adequate rate of return for the City, given that higher rates of return are usually associated with higher credit risk.

Investments obtained are to be guided by:

- a. Portfolio Credit Framework: limit overall credit exposure of the portfolio;
- b. Counterparty Credit Framework: limit exposure to individual counterparties / institutions; and
- c. Term to Maturity Framework: limits based upon maturity of securities.

The portfolio credit guidelines applied to the City's investments will be based on the Standard and Poor's (S&P) ratings system criteria, or the equivalent from Moody's or Fitch as necessary. A description of each S&P rating category is included in Appendix 1 including the meaning of the signs that may be linked to the rating.

Where conflicting ratings levels exist for any counterparty and/or product, the rating level applied by two out of the three ratings agencies will be used, represented by the S&P rating, if valid. Where all three agencies have issued different ratings, the S&P rating will prevail.

#### 3.6.1. Overall Portfolio Limits:

To control the credit quality over the entire portfolio, the following credit framework limits the percentage of the portfolio exposed to any particular combination of long term and short-term credit ratings, as detailed in the matrix below:

Portfolio Limits				
Standard & Poor's Rating		Long Term		
		AAA+ to AAA-	AA+ to AA-	A+ to A-
Short Term	A-1+	100%	100%	Not Applicable
	A-1	Not applicable	75%	50%
	A-2	Not applicable	Not applicable	40%

#### 3.6.2. Counterparty Credit Framework:

Exposure to an individual counterparty/institution will be restricted by a combination of their long term and short-term credit rating so that single entity exposure is limited, as detailed in the table below:

Counterparty Limits				
Standard & Poor's Rating		Long Term		
		AAA+ to AAA-	AA+ to AA-	A+ to A-
Short Term	A-1+	30%	25%	Not Applicable
	A-1	Not applicable	20%	15%
	A-2	Not applicable	Not applicable	10%

In the absence of any evidence to the contrary unrated wholly owned subsidiaries of a rated financial institution will be taken to have the same credit rating as their parent entity.

If the credit rating of any counterparty is downgraded such that any investments held with such party no longer comply with this policy, the City will take steps to divest such investments as soon as practicable, subject to due consideration of penalties and lost interest.

### 3.6.3 Term to Maturity Framework:

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

Overall Portfolio Return to Maturity	Minimum	Maximum
Up to 12 months	70%	100%
13 to 24 months	0%	30%
25 to 36 months	0%	20%

Officers delegated to invest must take into account ongoing liquidity requirements when placing investments to ensure availability of funds to meet the City's payment obligations as and when they fall due.

### 3.7. Investment Advisor:

The City may appoint an investment advisor to provide independent advice regarding the management of the City's investments.

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 of available funds policy.

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 no less than six monthly, to review the City's investment portfolio.

### 3.8. Benchmarking:

The performance benchmark for the City's investment portfolio is set at fifty basis points above the average Reserve Bank Cash Rate for the reporting period.

### 3.9. Reporting and Review:

A monthly 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, maturity date and changes in market value.

Documentary evidence must be held for each investment and details thereof maintained in an Investment Register.

Certificates must be obtained from the financial institutions confirming the amounts of investments held on the Council's behalf as at 30 June each year and reconciled to the Investment Register.

This Investment of Available Funds Policy will be reviewed at least once a year or as required in the event of legislative changes.

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<b>Creation Date:</b>	April 2008  <i>Formally: Sustainable Statement Policy</i>
<b>Amendments:</b>	INT10/29125, CJ213-06/99, CJ121-06/02, CJ232-09/02, CJ213-09/03, CJ206-10/05, CJ207-10/07, CJ052-04/08, CJ187-09/13, CJ048-03/16, CJ170-10/17
<b>Related Documentation:</b>	<ul style="list-style-type: none"><li>• <i>Local Government Act 1995</i></li><li>• <i>Register of Delegation of Authority</i></li><li>• <i>The Trustee Act 1962</i></li><li>• <i>Local Government (Financial Management) Regulation 1996</i></li><li>• <i>Australian Accounting Standards</i></li></ul>

## Appendix 1 – Investment of Available Funds Policy

### Standard & Poor's Ratings 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.

<b>Ratings – Long Term Financial Obligations (Maturity greater than 365 days)</b>	
<b>AAA</b>	Extremely strong capacity to meet financial commitments on the long-term obligation
<b>AA</b>	Very strong capacity to meet financial commitments
<b>A</b>	Strong capacity to meet financial commitments, but somewhat susceptible to adverse circumstances and economic conditions
<b>BBB</b>	Adequate capacity to meet financial commitments, but susceptible to adverse circumstances and economic conditions
<b>BB</b>	Currently has capacity to meet financial commitments, but clearly vulnerable to adverse circumstances and economic conditions
<b>B</b>	Currently has capacity to meet financial commitments, but highly vulnerable to adverse circumstances and economic conditions
<b>CCC</b>	Currently vulnerable to non-payment, and dependent on favourable economic conditions to meet financial commitments
<b>CC</b>	Currently highly vulnerable to non-payment
<b>R</b>	Under regulatory supervision. Highly likely not to meet financial commitments

<b>Ratings – Short Term Financial Obligations (Maturity not more than 365 days)</b>	
<b>A-1</b>	Strong capacity to meet financial commitments on the short-term obligation
<b>A-2</b>	Satisfactory capacity to meet financial commitments, but somewhat susceptible to adverse circumstances and economic conditions
<b>A-3</b>	Adequate capacity to meet financial commitments but susceptible to adverse circumstances and economic conditions
<b>B</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
<b>C</b>	Currently vulnerable to non-payment and is dependent on favourable economic conditions to meet financial commitments
<b>R</b>	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](https://www.standardandpoors.com/en_AU/web/guest/article/-/view/sourceId/504352), accessed 2 February 2016).

## REPORTS – POLICY COMMITTEE – 7 MAY 2019

### Disclosures of interest affecting impartiality

<b>Name/Position</b>	<b>Cr Mike Norman.</b>
<b>Item No./Subject</b>	CJ067-05/19 - Review of City's Investment Policy.
<b>Nature of interest</b>	Interest that may affect impartiality.
<b>Extent of Interest</b>	<ul style="list-style-type: none"> <li>• Cr Norman is a supporter of the Australian Conservation Foundation (ACF) and OXFAM, both of which support stronger action to mitigate climate change.</li> <li>• Cr Norman holds shares in the Bank of Queensland, but below the threshold.</li> </ul>

### CJ067-05/19 REVIEW OF CITY'S INVESTMENT POLICY

<b>WARD</b>	All
<b>RESPONSIBLE DIRECTOR</b>	Mr Mike Tidy Corporate Services
<b>FILE NUMBER</b>	101272, 101515
<b>ATTACHMENT</b>	Attachment 1 Investment Policy
<b>AUTHORITY / DISCRETION</b>	Executive - The substantial direction setting and oversight role of Council, such as adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.

### PURPOSE

For Council to consider options for the management of the City's *Investment Policy* to support greater investment of surplus funds with financial institutions that do not support fossil fuel industries.

### EXECUTIVE SUMMARY

At its meeting held on 16 October 2018 (C18-10/18 refers), Council resolved to request the Chief Executive Officer to prepare a report examining the options for the City to change its risk appetite and *Investment Policy* to place a greater percentage of invested funds in institutions that have all (or a great majority) of their portfolio in fossil fuel free investments, providing that in doing so the City can secure a rate of return that is at least equal to the alternative offered by other institutions.

The City's *Investment Policy* governs the investment of the City's surplus operational funds that may be available from time to time, as well as funds held in the City's reserve and trust accounts. The current policy was originally adopted by Council at its meeting held on 15 April 2008 (CJ052-04/08 refers) and has regularly been reviewed, most recently at the Council meeting held on 10 October 2017 (CJ170/10-17 refers).

Security of investments is the primary consideration when managing public funds, as outlined in the City's *Investment Policy*. Preservation of capital, liquidity, and return on investment are the overriding principles that underpin the City's approach to investments.

After consideration of the City's existing *Investment Policy* and its primary considerations and overriding principles, the risks associated with extending investment policy limits and counterpart limits that would be required to increase the investment in non-fossil fuel investing financial institutions it is therefore recommended that Council does not change its existing *Investment Policy*.

## BACKGROUND

The *Investment Policy* governs the investment of the City's surplus operational funds that may be available from time to time, as well as funds held in the City's reserve and trust accounts. The current policy was developed and initially adopted by Council at its meeting held on 15 April 2008 (CJ052-04/08 refers). Council subsequently adopted two significantly revised policies at its meetings held on 24 September 2013 (CJ187/09-13 refers) and 15 March 2016 (CJ048-03/16 refers). The last review occurred at its meeting held on 10 October 2017 (CJ170/10-17 refers).

The current *Investment Policy* sets out:

- investment objectives
- delegated authority to invest
- types of authorised and prohibited investments
- prudential requirements for engagement of investment advisors
- policy guidelines for the management and diversification of risk
- financial reporting.

The Department of Local Government, Sport and Cultural Industries developed an *Investment Policy Local Government Operational Guideline* that was published in 2008. The primary features of this guideline are already incorporated in the current policy.

The Department of Local Government, Sport and Cultural Industries issued an amendment to the *Local Government (Financial Management) Regulations 1996* in May 2017. This amendment to regulation 19C now allows local governments to invest in deposits for fixed terms of up to three years, revised from the previous ceiling of 12 months. Other restrictions on investment avenues (such as non-government bonds) in the *Local Government (Financial Management) Regulations 1996* remain in place. These have already been reflected in the *Investment Policy* and no change is proposed.

The City currently has no defined position on fossil fuels that would inform the City's *Investment Policy*. In particular, natural gas, while a fossil fuel is also considered a form of energy cleaner than coal, as well forming a critical part of Western Australia's, and Australia's, economy. Actions that may be detrimental to the natural gas industry may not be in the best interests of the community.



## DETAIL

A fossil fuel is defined as “A natural fuel such as coal or gas, formed in the geological past from the remains of living organisms.”<sup>1</sup> Fossil fuel usage for energy purposes is generally considered to be a significant source of carbon pollution, which is held to contribute towards climate change. Reducing the usage of fossil fuels is therefore held to be an important aspect of mitigating this impact. As part of this approach, reducing funding available for fossil fuel extraction and processing industries is considered to limit opportunities for further investment in fossil fuels such as coal, oil and natural gas and, therefore, to reduce the impact of carbon pollution.

Information on banks that do and do not invest in fossil fuel companies is published on the Market Forces website (<http://www.marketforces.org.au/>) and a summary of the City's current investment portfolio has been outlined in the table below in line with this information. It should be noted that the Market Forces data that the City has used for this report has not been independently verified.

Bank	Banks Funding Fossil Fuels (Y / N) (Per Market Forces)	Current Investment Policy Limit	Long-Term Credit Rating *	Short-Term Credit Rating
Bank of Queensland	Y	10%	A-	A-2
Bankwest	Y	25%	AA-	A-1+
Bendigo	N	10%	A-	A-2
Commonwealth Bank	Y	25%	AA-	A-1+
ING	Y	15%	A+	A+
NAB	Y	25%	A+	A-1+
Rural Bank	N	10%	A-	A-2
Suncorp	N	15%	A+	A-1
Westpac	Y	25%	AA-	A-1+
11AM WATC		25%	AA+	A-1+

\*Based on Standard and Poors credit rating categories, except where this conflicts with Moody's and Fitch's ratings. In this case, the rating assigned by two out of the three rating agencies is used, represented by the Standard and Poors rating nomenclature (Appendix 1).

## Comparison to Other Local Governments – Provisions for Fossil Fuel Divestment

Local Government	Provision in <i>Investment Policy</i> for Fossil Fuel Divestment
City of Joondalup	No provision.
City of Wanneroo	No provision.
City of Stirling	Preference is to be given to financial institutions that do not invest in or finance the fossil fuel industry where: <ul style="list-style-type: none"> <li>the investment is compliant with the City's <i>Investment Policy</i></li> <li>the investment rate of interest is favourable to the City relative to other similar investments that may be on offer to the City at the time of the investment.</li> </ul>
City of Perth	No provision.

<sup>1</sup> Oxford Dictionary: *Definition of Fossil Fuel*.

Local Government	Provision in <i>Investment Policy</i> for Fossil Fuel Divestment
City of Melville	<p>When investing surplus City funds, a deliberative preference will be made in favour of authorised institutions that respect the environment by not investing in fossil fuel industries.</p> <p>This preference will however only be exercised after the foremost investment considerations of credit rating, comparable rate of return and risk diversification are fully satisfied.</p>
City of Swan	Subject to the policy objectives and risk management guidelines as outlined in this document, the City will ensure its financial investments consider the reduction of fossil fuels, by investing with non-fossil fuel lending banks.
City of Rockingham	No provision.
City of Fremantle	To this end the City of Fremantle will review and manage its investment portfolio to identify financial institutions which support either direct or indirect support of fossil fuel companies and will limit investments in the institutions to the minimum required which will allow compliance with parts four and five above. 'Deposits qualifying for the Federal Government Guarantee are to be considered Tier 1 in line with the Federal Government's credit rating and should not count towards a counterparty limit as outlined in this policy.'
City of Vincent	<p>When exercising the power of investment, preference is to be given to investments with institutions that have been assessed to have no current record of funding fossil fuels, providing that doing so will secure a rate of return that is at least equal to alternatives offered by other institutions.</p> <p>Where an investment is made with an institution that has been assessed to have a record of funding fossil fuels, due to providing a higher rate of return, the additional return generated will be invested back into carbon abatement initiatives within the City of Vincent.</p>
City of Armadale	When investing surplus Council funds, a deliberative preference will be made in favour of authorised Institutions that respect the environment by not investing in fossil fuel industries. This preference will however only be exercised after the foremost investment considerations of credit rating and risk diversification are fully satisfied.
Town of Bassendean	Preference will be given to invest in financial institutions who do not invest in or finance the fossil fuel industry.
Town of East Fremantle	<p>Prior to placing investments, preference will be given to competitive quotations from financial institutions that are deemed not to invest in or finance the fossil fuel industry where:</p> <ul style="list-style-type: none"> <li>(a) the investment is compliant with Council's <i>Investment Policy</i> with regards to risk management guidelines</li> <li>(b) the investment rate of return is favourable to Council relative to other investment quotations that may be on offer within a competitive environment.</li> </ul>
Town of Cambridge	No provision.

Local Government	Provision in <i>Investment Policy</i> for Fossil Fuel Divestment
City of Bayswater	The City will seek opportunities to invest in financial institutions which do not invest in or finance the fossil fuel industry, subject to all such investments meeting the risk ratings, favourable returns and diversification limits set out in the <i>Investment Policy</i> .
Town of Victoria Park	No provision.

For most local governments in the Perth metropolitan region the prevailing consideration for an investment is still the policy objectives and risk management criteria, notwithstanding provisions made for non-fossil fuel investment. The City of Fremantle has taken a different approach, with its *Investment Policy* stating that “Deposits qualifying for the Federal Government Guarantee are to be considered Tier 1 in line with the Federal Government’s credit rating and should not count towards a counterparty limit as outlined in this policy”, implying that counterparty limits have been relaxed as part of the *Investment Policy*.

Security of investments is the primary consideration when managing public funds, as outlined in the City’s *Investment Policy*. Preservation of capital, liquidity, and return on investment are the overriding principles that underpin the City’s approach to investments.

The Australian Government guarantees deposits up to \$250,000 in Authorised Deposit-taking Institutions (ADIs) such as a bank, building society or credit union. All term deposits across local government are required to be with ADIs by regulation 19C of the *Local Government (Financial Management) Regulations 1996*. The Commonwealth Government guarantee operates at an institution level, not at a deposit level. If a bank collapsed any funds that the City had invested with it over \$250,000 would be in jeopardy regardless of the individual values of each deposit. To mitigate this risk a portfolio credit framework and counterpart credit framework is applied within the City’s *Investment Policy*.

The City’s current limits as outlined in the existing *Investment Policy* are as follows:

Portfolio Limits				
Standard & Poor’s Rating		Long Term		
		AAA+ to AAA-	AA+ to AA-	A+ to A-
Short Term	A-1+	100%	100%	Not Applicable
	A-1	Not applicable	75%	50%
	A-2	Not applicable	Not applicable	40%

Counterparty Limits				
Standard & Poor’s Rating		Long Term		
		AAA+ to AAA-	AA+ to AA-	A+ to A-
Short Term	A-1+	30%	25%	Not Applicable
	A-1	Not applicable	20%	15%
	A-2	Not applicable	Not applicable	10%

During the 2017-18 financial year, the City placed Term Deposits (TD's) to a value of approximately \$201 million. The table below illustrates how these funds were placed with various financial institutions.

Bank	Average Return	Average # of Days	Total Invested	Number of TD's	Long Term Rating	Short Term Rating
Westpac	2.61%	230	\$38,190,000	24	AA+ to AA-	A-1+
Commonwealth	2.56%	265	\$20,990,000	16	AA+ to AA-	A-1+
NAB	2.52%	222	\$36,410,000	21	AA+ to AA-	A-1+
Bankwest	2.51%	203	\$35,045,000	24	AA+ to AA-	A-1+
Suncorp	2.70%	212	\$12,350,000	9	A+ to A-	A-1
ING	2.65%	346	\$14,385,000	10	A+ to A-	A-1
BOQ	2.61%	211	\$19,180,000	14	A+ to A-	A-2
Rural Bank	2.60%	294	\$13,800,000	9	A+ to A-	A-2
Bendigo	2.59%	285	\$10,800,000	9	A+ to A-	A-2
<b>Total</b>	<b>2.58%</b>	<b>241</b>	<b>\$201,150,000</b>	<b>136</b>		

At 31 January 2019, the City had \$147.1 million invested in various financial institutions. Applying the criteria supplied by Market Forces, approximately 34% of these funds are held with financial institutions that do not invest in fossil fuel industries. This was across three banks, Bendigo, Rural Bank and Suncorp. The investments in Rural Bank and Bendigo were at their maximum limits under the policy and Suncorp was just short of its maximum limit.

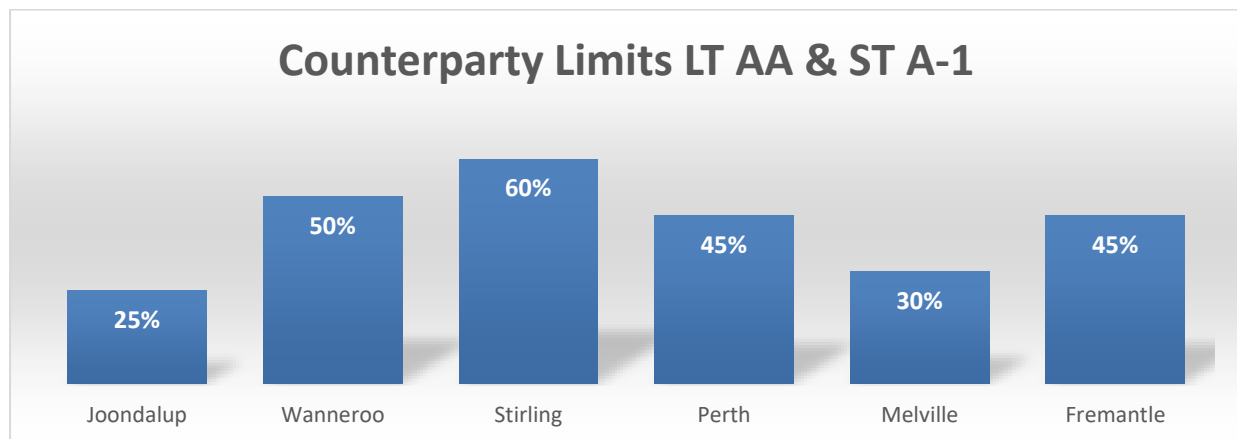
The City currently publishes this information as part of the monthly investment report that forms part of the Financial Activity Statement provided to Council each month.

The table compares the City of Joondalup investment position in non-fossil fuel banks compared with some other local governments that have made some provision in their investment policies regarding non-fossil fuel investment:

Local Government	Date of investment report	Percentage of portfolio in non-fossil fuel lending banks
City of Joondalup	31/01/2019	34%
City of Melville	31/01/2019	18% <i>(includes Trust Fund investments)</i>
City of Stirling	31/01/2019	Not published
City of Swan	31/01/2019	45%
City of Fremantle	31/01/2019	46% <i>(includes Trust Fund investments)</i>
City of Armadale	31/01/2019	45% <i>(includes Trust Fund investments)</i>

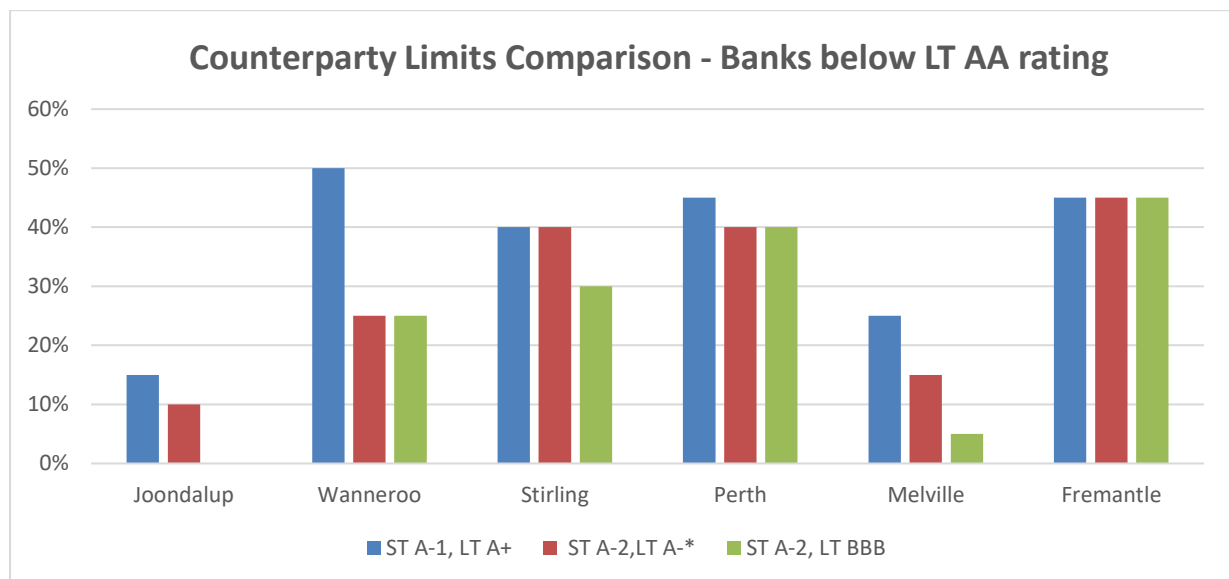
The following tables further illustrate the City's existing investment portfolio risk profile and counterparty limits compared to other local governments.

## Lowest Risk Financial Institutions



The above comparison to Individual Counterparty (Bank) Limits illustrates the City's lower counterpart limits in comparison to similar sized local governments, namely a lower risk appetite and better diversification of risk. The City can thus only invest a maximum of 25% of the total portfolio with any individual bank that meets the above criteria.

With financial institutions that have lower crediting ratings, that is those that carry higher risk, the City's risk appetite is compared to other local governments below, and illustrates that the City maintains a low risk appetite with such institutions as well.



The above comparison illustrates how the City minimises exposure to risk in any individual financial institution.

The City does not invest with ADIs that carry a long-term credit rating below A (based on the rating assigned by at least two out of the three major rating agencies). A number of other organisations employ a higher risk appetite and invest with BBB-rated institutions. The City has on several occasions considered this and determined that increasing exposure to ADIs at or below this rating is not in accordance with the principles of prudent investment of public funds. With the principal objective of the *Investment Policy* being preservation of capital, raising the City's risk appetite would be detrimental to this goal.

## Issues and Options Considered

To increase the level of investment in non-fossil fuel investing banks the City would need to either increase its counter party limits of 10% and 15% on those non-fossil fuel investing banks it currently invests in and / or extend its credit rating limits to include BBB-rated institutions.

It needs to be emphasised that in terms of the Council resolution proviso that the City can secure a rate of return that is at least equal to the alternative offered by other other institutions, the issue is not the interest rate of return it is the additional risk to capital. The current fossil fuel free investment institutions offer higher interest rates than mainstream banks. The reason for this is that they are riskier investments.

### **Option 1: Increase *Investment Policy* Limits and Counterparty Limits to allow greater percentage of funds to Non-Fossil Fuel Banks**

Banking institutions which do not lend to or invest in the fossil fuel industry generally carry relatively lower credit ratings. Therefore, divestment towards such institutions brings with it a potentially higher risk of capital loss.

Increasing the City's appetite for risk is not considered appropriate in order to facilitate movement of investments away from financial institutions considered to support the fossil fuel industry. The City has a primary obligation to all ratepayers and to the community at large for prudent management of ratepayer funds. Increasing the City's risk appetite to this end is not commensurate with this investment objective.

It is not commensurate with the principles of the City's *Investment Policy* or with prudent financial management to increase the City's appetite for risk. Increasing exposure to ADIs with lower credit ratings is not considered prudent in the management of public funds.

This option is not recommended.

### **Option 2: Relax counterparty credit rating requirements to accommodate more financial institutions**

Another option available to the City to increase investment in non-fossil fuel investing ADIs is to relax the credit rating limits currently in the *Investment Policy*. Most ADIs recommended on Market Forces' website for non-fossil fuel investment carry lower credit ratings than the *Investment Policy* permits. The City does not place funds with ADIs rated below 'A'. This is different to a number of other local governments that do permit investment with lower-rated ADIs. In part, this would facilitate more investment in financial institutions that do not invest in fossil fuel industries, as many such institutions are considered riskier for investments.

Relaxing risk criteria for investment purposes, particularly in the management of public funds, must be commensurate with the City's appetite for risk. The City's existing low risk strategy with investments remains the most appropriate mechanism to meet the primary objective of the *Investment Policy*, namely preservation of capital.

This option is not recommended.

### **Option 3: Maintain current *Investment Policy* and continue to support initiatives outlined in Climate Change Strategy 2014-19**

The City of Joondalup has committed to reducing greenhouse gas emissions through its [Climate Change Strategy 2014 – 2019](#), and has taken a number of steps to reduce its greenhouse gas emissions, including the following:

- Installation of photovoltaic cells on 13 of the City's community buildings.
- Offsetting 100% of vehicle fleet emissions.
- Energy efficiency improvements in City buildings as directed by energy audits.
- Installation of LED lighting in public spaces including in the Joondalup CBD.
- Delivery of a household eco-audit program to help households reduce energy and water consumption.
- Implementing an annual urban tree planting program.
- Construction of the Currambine Community Centre to a 4 Star Green Star Rating. The City of Joondalup was the first local government Australia-wide to design in-house a public building that has achieved a 4 Star Green Star rating as certified by the Green Building Council.

The City's *Climate Change Strategy* commits to the reduction of net greenhouse gas emissions by 5% per capita below 2012-13 emissions by 2018-19. Over the life of the *Climate Change Strategy* the City has reduced its total corporate emissions by 23%.

The City's *Climate Change Strategy* will undergo a major review in 2019-20 and will consider the findings of the most recent and relevant reports including the research developed by the Intergovernmental Panel on Climate Change (IPCC) and Western Australian Local Government Association.

The City's Annual Report provides an overview of key actions the City has taken to improve its environmental performance in 2017-2018 and reports on the City's:

- corporate greenhouse gas emissions
- corporate energy consumption
- amount of greenhouse gases avoided through our Renewable Energy Program
- the purchased carbon offset to offset 100% of the City's fleet emissions.

The City is a member of the Global Covenant of Mayors for Climate and Energy and has achieved full compliance of the program demonstrating a commitment to promoting and supporting action to combat climate change and move to a low emission, resilient society. The City was the first fully compliant local government in Western Australia.

The monthly Financial Activity Statement provided to Council includes an investment summary document that outlines the extent to which the City already invests with financial institutions that, according to the Market Forces website, do not support the fossil fuel industry. These investments have been made entirely within the context of the existing *Investment Policy*, purely considering risk and return and without making any particular concession to favour non-fossil fuel investments. At 31 January 2019, the City held approximately 34% of its total investment portfolio at that date with financial institutions considered to not support the fossil fuel industry. This information is currently published with the monthly investment report provided to Council each month with the Financial Activity Statement.

Essentially, the City is already diverting investment to financial institutions considered to not invest in the fossil fuel industry by applying the existing *Investment Policy*. It is not considered necessary to introduce any amendments to the *Investment Policy*, similar to that made by other local governments. The primary obligation to manage ratepayer funds by minimising risk and maximising return should appropriately remain the paramount consideration of the City's *Investment Policy*.

This option is recommended.

### Provision in Policy to accommodate non-fossil fuel investments

Should options 1 or 2 be supported the *Investment Policy* will need to be amended to reflect the relevant change. These options address the application of policy and counterparty limits to the City's investment practices. Separate to this is whether the *Investment Policy* should include a statement in regard to the City's position on investing in financial institutions who invest in the fossil fuel industry. A statement if supported could apply with either of the three options above including option 3 as recommended which is for no change.

A statement could be added to the *Investment Policy* as follows:

*"Preference is to be given to financial institutions that do not invest in or finance the fossil fuel industry where:*

- *the investment is compliant with the City's Investment Policy*
- *the investment offers the City superior returns after all considerations of credit rating and risk diversification outlined in this Policy have been fully satisfied.*

*Financial institutions that do not invest in or finance the fossil fuel industry will be identified based on information published by Market Forces."*

This amendment to the *Investment Policy* will not have any significant financial impact to the City's investment risk and return profile as it would only be exercised after normal investment considerations has been made. It would be similar to amendments made by other local governments to their investment policies but would not change the current investment practice in any way and would essentially be a token gesture without any real substance.

A provision of this nature is not considered to be in keeping with the City's primary values (Transparent, Accountable, Honest, Ethical, Respectful, Sustainable, Professional).

### **Legislation / Strategic Community Plan / policy implications**

#### **Legislation**

*Local Government Act 1995.  
Trustees Act 1962.  
Local Government (Financial Management) Regulations 1996.  
Australian Accounting Standards.*

#### **Strategic Community Plan**

**Key theme** Financial Sustainability.

**Objective** Effective management.

**Strategic initiative** Manage liabilities and assets through a planned, long-term approach.

**Policy** *Investment Policy.*

#### **Risk management considerations**

There are significant risks involved in the management of the City's investment portfolio. The *Investment Policy* sets out provisions for compliance and governance that are designed to diversify and mitigate these risks. In addition to the policy there are internal processes and procedures governing investment activities and these are subject to both internal and external audit.



**Financial / budget implications**

Not applicable.

**Regional significance**

Not applicable.

**Sustainability implications**

Financial sustainability is imperative to the future growth and development of the City of Joondalup. The City's *Investment Policy* maintains the conservative approach to the City's investments which is a critical element of the long-term financial sustainability of the City.

**Consultation**

Investment policies currently in place at other similar local governments were reviewed as outlined earlier in this report, as well as published investment reports.

**COMMENT**

The *Investment Policy* has been reviewed in light of existing market conditions and legislative requirements. It preserves the City's conservative approach to investment that is being practised and is considered most appropriate to the needs of the City and outlines the City's approach to investment of surplus operational funds that may be available from time to time as well as funds held in the City's trust and reserve accounts.

**VOTING REQUIREMENTS**

Simple Majority.

**COMMITTEE RECOMMENDATION**

The committee recommendation to Council for this report (as detailed below) was resolved by the Policy Committee at its meeting held on 7 May 2019.

The committee recommendation is the same as recommended by City officers.

*The Chief Executive Officer left the Chamber at 8.55pm and returned at 8.57pm.*

**MOVED** Cr Dwyer, **SECONDED** Mayor Jacob that Council **NOTES** that no changes are proposed to the *Investment Policy* forming Attachment 1 to Report CJ067-05/19.

**Extension of Time to Speak**

**MOVED Cr Chester, SECONDED Cr Logan that Cr Norman be permitted an extension of time to speak for a further five minutes.**

**The Motion to Extend was Put and**

**CARRIED (12/0)**

**In favour of the Motion:** Mayor Jacob, Crs Chester, Dwyer, Fishwick, Hollywood, Jones, Logan, McLean, May, Norman, Poliwka and Taylor.

**The Motion as Moved by Cr Dwyer, seconded by Mayor Jacob was Put and TIED (6/6)**

**In favour of the Motion:** Mayor Jacob, Crs Dwyer, Hollywood, McLean, May and Taylor.

**Against the Motion:** Crs Chester, Fishwick, Jones, Logan, Norman and Poliwka.

There being an equal number of votes, the Mayor exercised his casting vote and declared the Motion

**CARRIED (7/6)**

*Appendix 18 refers*

*To access this attachment on electronic document, click here: [Attach18brf190514.pdf](#)*