

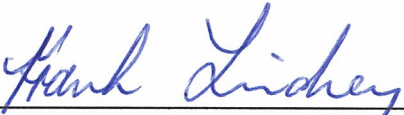


## MINUTES

### CERTIFICATION OF CONFIRMATION OF COMMITTEE MEETING MINUTES

10 MAY 2012

I, Cr Frank Lindsey, hereby certify that the following minutes pages [1 to 30] of the Meeting of **INVESTMENT COMMITTEE** held on 10 May 2012 were confirmed at a meeting of the Committee held on 22 November 2012.

  
\_\_\_\_\_  
Signature

Cr Frank Lindsey

**Person presiding at the Committee Meeting held on 22 November 2012**

## INVESTMENT COMMITTEE

### MINUTES

10 May 2012

(REF: COMMITTEES-13925)

A meeting of the Investment Committee was held at the EMRC Administration Office, 1<sup>st</sup> Floor, 226 Great Eastern Highway, BELMONT WA 6104 on Thursday, **10 May 2012**. The meeting commenced at **5.00pm**.

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## 1 DECLARATION OF OPENING AND ANNOUNCEMENT OF VISITORS

The Chairman opened the meeting at 5.00pm.

## 2 ATTENDANCE, APOLOGIES AND LEAVE OF ABSENCE PREVIOUSLY APPROVED

### Councillor Attendance

Cr Frank Lindsey ( <b>Chairman</b> )	EMRC Member	Shire of Kalamunda
Cr Gerry Pule ( <b>Deputy Chairman</b> ) (from 5.05pm)	EMRC Member	Town of Bassendean
Cr Alan Radford	EMRC Member	City of Bayswater
Cr Alan Pilgrim	EMRC Member	Shire of Mundaring

### EMRC Officers

Mr Peter Schneider	Chief Executive Officer
Mr Hua Jer Liew	Director Corporate Services
Mr David Ameduri	Manager Financial Services
Ms Mary-Ann Winnett	Personal Assistant to Director Corporate Services (Minutes)

### Guests

Mr Haydn Robinson	Haydn Robinson Barrister Solicitor
Mr Ross Atkinson (from 5.07pm)	Oakvale Capital

### Visitors

Mr Ian Walters  
Mr Ron Snelgar

## 3 DISCLOSURE OF INTERESTS

Nil

## 4 ANNOUNCEMENT BY THE CHAIRMAN OR PERSON PRESIDING WITHOUT DISCUSSION

Nil

## 5 RESPONSE TO PREVIOUS PUBLIC QUESTIONS TAKEN ON NOTICE

Nil

## 6 PUBLIC QUESTION TIME

Nil

## 7 APPLICATION FOR LEAVE OF ABSENCE

Nil

## 8 PETITIONS, DEPUTATIONS AND PRESENTATIONS

Nil





## 14 REPORTS OF OFFICERS

### 14.1 INVESTMENT POLICY REVIEW

**REFERENCE: COMMITTEES-13926**

#### **PURPOSE OF REPORT**

The purpose of this report is for the Investment Committee to review Council Policy 3.3 Management of Investments.

#### **KEY ISSUES AND RECOMMENDATION(S)**

- Council Policy 3.3 Management of Investments was last reported to and adopted by Council on 25 November 2010.
- From February 2012, the Government Guarantee on deposits under the Commonwealth's Financial Claim scheme has been amended to only the first \$250,000 per institution.
- From 20 April 2012, new regulations limit local governments to investing in authorised deposit taking institutions for a term not exceeding 12 months and bonds that are guaranteed by the Commonwealth/State/Territory Governments for a term not exceeding three years.
- Portfolio management by institutional investors such as local governments is more prudently addressed through the use of a policy containing risk management guidelines and investment strategies to address the risk issues while at the same time allowing a sufficient amount of institutions to be utilised.

#### **Recommendation(s)**

That the revised EMRC Policy 3.3 Management of Investments forming attachment 3 to this report be adopted by Council.

#### **SOURCE OF REPORT**

Director Corporate Services

#### **BACKGROUND**

Council referred its existing Management of Investments Policy to the Investment Committee when it was reported to Council in September 2008.

In February 2008 the Department of Local Government and Regional Development (the Department) issued Local Government Guideline 19 - Investment Policy, intended to be a "best practice guide" to assist local governments in developing their own investment policy.

On the 2 December 2008 (*Ref: Committees-8786*) the Investment Committee issued guidelines and resolved that:

- "1. THE EMRC SPREAD THE FUNDS UP TO \$1M TO BANKS COVERED BY THE \$1M GUARANTEE.*
- 2. LIMIT ADDITIONAL FUNDS TO THE BIG 4 BANKS AND NOT PURCHASE THE .7% GUARANTEE, HOWEVER IF EMRC OFFICERS CONSIDER THIS NEEDS TO CHANGE THE OFFICERS BE AUTHORISED TO SECURE THE .7% GOVERNMENT INVESTMENT GUARANTEE."*
- 3. THE ESTABLISHED FLOATING RATE NOTES ABOVE \$1M BE SECURED BY THE .7% GOVERNMENT INVESTMENT GUARANTEE."*



*Item 14.1 continued*

A revised Investment Policy was referred to the Investment Committee at its meeting held 6 May 2010 (Ref: Committees-10616) where it was broadly supported subject to some comments being taken into consideration.

These matters were subsequently addressed and Council approved the revised Investment Policy on 19 August 2010 (Ref: Committees-11332).

At the 23 September 2010 Council Meeting (Ref: Committees-11431), when dealing with item 14.5 Review of Council Policies, a query was raised in relation to the Overall Portfolio Limits contained within the Investment Policy. As a result, Council resolved inter alia:

*“That 3.3 Management of Investments Policy be adopted but a further review be undertaken by the Investment Committee.”*

At the 25 November 2010 Council Meeting (Ref: Committees-11605), Council adopted the revised Investment Policy by reducing the direct investment weighting for the Counterparty Credit Framework for A (Long Term) and A-2 (Short Term) investments from 20% to 10%. Council also adopted the reduction in the Overall Portfolio limits for A (Long Term) and A-2 (Short Term) from 60% to 40%.

## REPORT

For the purposes of this report and the Investment Policy, the following definitions are applicable:

**Direct Investments** are those investments which are invested directly by EMRC and are not managed by external investment professionals such as fund managers. The investment is solely owned by EMRC and is not pooled with other investors. Examples of Direct Investments include term deposits.

**Managed funds** are vehicles that pool money with a number of other investors into a single fund which is able to invest in assets that might otherwise be out of Council's reach. Managed funds are funds managed for the investor by investment professionals such as fund managers. All managed funds have a prospectus which allows investors to see where the investment funds are being invested.

**Counterparty** - In any financial contract, the persons or institutions entering the contract on the opposite sides of the transaction are called the counterparties.

From February 2012, the Government Guarantee on deposits under the Commonwealth's Financial Claim Scheme has been amended. The Government's guarantee on the first \$1m with any Authorised Deposit taking Institution (ADI) has been scaled back to only the first \$250,000 per institution for all new deposits from February 2012 onwards. This action was targeted towards the safety of retail and small business deposits, rather than institutional investors.

Portfolio management by institutional investors, such as local governments, is more prudently addressed through the use of a policy containing risk management and investment strategies rather than capping deposits to \$250,000 among several institutions. Additionally, \$250,000 tranches attract lower rates offered by ADIs than those offered for deposits of \$500,000 or \$1,000,000.

The revised policy (attachments 2 and 3) has been reviewed and developed in conjunction with the EMRC's legal representative and investment advisors and incorporates recent legislative amendments.

Under the existing policy (Attachment 1), the EMRC can invest up to 40% of its investment funds in financial institutions rated A (Long Term) and A-2 (Short Term). Additionally, the Investment Policy under the Counterparty Credit Framework, also stipulates that for any individual institution rated A (Long Term) and A-2 (Short Term), the EMRC can only invest up to 10% of total investments directly (see Table 1).



Item 14.1 continued

**Table 1 – Proposed changes to Counterparty Credit Framework**

<b>S&amp;P Long Term Rating</b>	<b>S&amp;P Short Term Rating</b>	<b>Existing Direct Investment Maximum %</b>	<b>Proposed Direct Investment Maximum % or \$</b>
AAA	A-1+	45%	45%
AA	A-1	35%	35%
A	A-2	10%	\$1m

It is proposed that the EMRC maintain a \$1m cap on deposits with institutions rated A long term / A-2 short term but reduce its overall portfolio limit for this category to no more than 10%, down from 40% (see Table 2). No changes to the limits for higher rated categories, i.e. AAA/A1+ and AA/A1, is recommended.

**Table 2 – Proposed changes to Overall Portfolio Limits**

<b>S&amp;P Long Term Rating</b>	<b>S&amp;P Short Term Rating</b>	<b>Existing Direct Investment Maximum %</b>	<b>Proposed Direct Investment Maximum %</b>
AAA	A-1 +	100%	100%
AA	A-1	100%	100%
A	A-2	40%	10%

In order to secure the best rates it is also recommended to remove the list of specified banks, i.e. the four majors and their wholly owned subsidiaries, and allow deposits with all Australian ADIs (excluding branches of foreign banks) rated within EMRC's stated credit rating categories and within allowable limits.

As a result of the change to the Government Guarantee and how it is proposed that Council manage investment risk when making deposits with lower rated institutions, the strategy detailed within the policy has been updated.

Previously the policy has been limited to a list of specified banks – specifically the four majors and their wholly owned subsidiaries being ANZ, National Australia Bank, Commonwealth Bank, Bankwest, Westpac and St George. A list of the allowable institutions, based upon their current credit ratings has been supplied as an Appendix.

These changes will address the risk issues while at the same time allow a sufficient amount of institutions to be utilised.

At this stage it is recommended that the limits be maintained for managed funds as they have a higher level of diversification which reduces the risk. Maintaining the limits will provide sufficient scope to investigate other opportunities for maximising the returns for EMRC's cash reserves.

While the reduction in investment cap for the Overall Portfolio Limits and the Counter Party Credit Framework will reduce the opportunities to maximise interest rate earnings, the new limits are manageable.



*Item 14.1 continued*

At the same time the proposed changes will provide Council with the comfort that future investments are still geared more towards the safer AAA / AA (Long Term) and A-1+ / A-1 (Short Term) institutions.

The Local Government (Financial Management) Amendment Regulations 2012 were gazetted on Friday 20 April 2012. These regulations contain amendments required to give effect to provisions in the Amendment Act as well as other reform amendments. One of the key amendments includes a new regulation prescribing restrictions on local government investment practices.

The new regulation limits local governments to investing money referred to in section 6.14(1) of the Act in:

- (a) Authorised deposit taking institutions and the Western Australian Treasury Corporation for a term not exceeding 12 months;
- (b) Bonds that are guaranteed by the Commonwealth Government or a State or Territory for a term not exceeding three years; and
- (c) Australian currency.

This will take effect as existing investments mature or new investments are made.

Consequently the following changes to the Council policy are proposed:

**Table 3 – Proposed changes to Overall Term to Maturity Limits**

<b>Portfolio % Term to Maturity</b>	<b>Existing Maximum %</b>	<b>Proposed Maximum %</b>
Portfolio % < 1year	100%	100%
Portfolio % > 1year and < 3 year	60%	60%
Portfolio % > 3year and < 5 year	35%	0%

## **STRATEGIC/POLICY IMPLICATIONS**

Key Result Area 4 – Good Governance

- 4.1 To improve member Council and EMRC financial viability
- 4.6 To provide responsible and accountable governance and management of the EMRC
- 4.7 To continue to improve financial and asset management practices

## **FINANCIAL IMPLICATIONS**

Has financial risk implications.

## **SUSTAINABILITY IMPLICATIONS**

Has future economic sustainability implications.





*Item 14.1 continued*

## **MEMBER COUNCIL IMPLICATIONS**

<b>Member Council</b>	<b>Implication Details</b>
Town of Bassendean	} No direct implications
City of Bayswater	
City of Belmont	
Shire of Kalamunda	
Shire of Mundaring	
City of Swan	

## **ATTACHMENT(S)**

1. Original Management of Investments Policy 3.3 (Ref: Committees-14036)
2. Revised Management of Investments Policy 3.3 with tracked changes (Ref: Committees-14038)
3. Revised Management of Investments Policy 3.3 (Ref: Committees-14039)

## **VOTING REQUIREMENT**

Simple Majority

## **RECOMMENDATION**

That the revised EMRC Policy 3.3 Management of Investments forming attachment 3 to this report be adopted by Council.

## **Discussion ensued**

The CEO summarised the report and advised that the EMRC had been working with Oakvale to revise the Investment Policy and incorporate legislative changes regarding investments. The EMRC's legal representative had also provided some recommendations late this afternoon so the CEO suggested an alternative recommendation that the revised Management Investments Policy be noted and the recommendations of EMRC's legal representative be taken into account and be referred to a future IC meeting.

## **IC RECOMMENDATION**

MOVED CR PILGRIM

SECONDED CR PULE

That the revised EMRC Policy 3.3 Management of Investments forming attachment 3 to this report be noted and the recommendations of EMRC'S legal representative be taken into account and be referred to a future Investment Committee meeting.

**CARRIED UNANIMOUSLY**

## 3.3 Management of Investments Policy

### STRATEGIC PLAN OBJECTIVE

3.4 To improve member Council and East Metropolitan Regional Council (EMRC) financial viability.

### PURPOSE

To establish a policy for the Investment of EMRC's surplus funds at the most favourable rate of return whilst ensuring prudent consideration of risk and security for the investment type and that liquidity requirements are being met.

To ensure that investments are managed with care, diligence and skill and that the management of the portfolio is carried out to safeguard the portfolio and not for speculative purposes.

Establish guidelines to ensure investments:

- Meet legislative requirements;
- Optimise investment income and returns within acceptable risk parameters;
- Ensure that investments match the liquidity needs of the EMRC; and
- Are invested at the most favourable rate of interest available to it at the time whilst having due consideration of risk and security for that investment type.

### LEGISLATION

Local Government Act 1995 Section 6.14  
Local Government (Financial Management) Regulations 1996 Regulations 19, 28 and 49  
Trustees Act 1962 – Part III Investments  
Australian Accounting Standards

### POLICY STATEMENT

#### 1. Ethics and Conflicts of Interest

Officers shall refrain from personal activities that would conflict with the proper execution and management of EMRC's investment portfolio. This policy requires officers to disclose any conflict of interest to the CEO.

#### 2. Delegation of Authority

Authority for implementation of the Investment Policy is delegated by Council to the CEO in accordance with the Local Government Act 1995. The CEO may in turn delegate the day-to-day management of Council's Investment to the Director, Corporate Services.



### **3. Investment Ratings**

Investments rating in this policy are based on those issued by Standard and Poor's. International ratings agencies used as a basis for assessing EMRC's investments are required to be reviewed periodically by the CEO.

### **4. Approved Investments**

Without approvals from Council, new investments are limited to:

- Commonwealth/State/Territory or Local Government Bonds;
- Interest bearing deposits and securities issued by Australian authorised deposit-taking institutions (ADIs) as authorised by the Australian Prudential and Regulatory Authority (APRA) and with a Standard & Poor's (or its equivalent) credit rating of A-2 (short term) or A (long term) or higher (subject to overall limits);
- Bank accepted/endorsed bank bills, guaranteed by Australian authorised deposit-taking institutions (ADI's);
- Bank negotiable Certificate of Deposits; and
- Managed Funds with a minimum long term Standard & Poor (S&P) rating of "A" and short term rating of "A-2".

### **5. Prohibited Investments**

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

- Derivative based instruments;
- Principal only investments or securities that provide potentially nil or negative cash flow; and
- Stand alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind.

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

### **6. Risk Management Guidelines**

Investments obtained are to be considered in light of the following key criteria:

- Preservation of Capital – the requirement for preventing losses in an investment portfolio's total value;
- Diversification – the requirement to place investments in a broad range of products so as not to be over exposed to a particular sector of the investment market;
- Market Risk - the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices;
- Liquidity Risk - the risk an investor is unable to redeem the investment at a fair price within a timely period;
- Maturity Risk - the risk relating to the length of term to maturity of the investment. The larger the term, the greater the length of exposure and risk to market volatilities; and
- Leveraging Risk - the magnification of an investor's risk and return that occurs when the investor takes on financial leverage through an investment product.



Furthermore investments are to comply with three key criteria relating to:

**a. Overall Portfolio Limits**

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

S&P Long Term Rating	S&P Short Term Rating	Direct Investment Maximum %	Managed Funds Maximum %
AAA	A-1 +	100%	100%
AA	A-1	100%	100%
A	A-2	40%	80%

**b. Counterparty Credit Framework**

Exposure to an individual counterparty/institution will be restricted by its 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	Direct Investment Maximum %	Managed Funds Maximum %
AAA	A-1+	45%	50%
AA	A-1	35%	45%
A	A-2	10%	40%

**c. Term to Maturity Framework**

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

Overall Portfolio Term to Maturity Limits		
	Min	Max
Portfolio % < 1year	40%	100%
Portfolio % > 1year	0%	60%
Portfolio % > 3year	0%	35%
Portfolio % > 5year	0%	25%

Individual Investment Maturity Limits	
Maximum term to maturity limit of all investments	5 years



Standard and Poors Long term rating definitions:

AAA	An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
AA	An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.
A	An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.
BBB	An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments

Standard and Poors Short term rating definitions:

A-1	A short-term obligation rated 'A-1' is rated in the highest category by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.
A-2	A short-term obligation rated 'A-2' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.
A-3	A short-term obligation rated 'A-3' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

Source: <http://www.standardandpoors.com>

**7. Measurement**

The investment return for the portfolio is to be regularly reviewed. The market value and investment maturities are to be assessed at least once a month to coincide with management reporting.

**8. Procedures**

Investments placed by Council's authorised advisor/s and managers must be appropriately documented at the time of placement.

Furthermore appropriate procedures and controls in regards to record keeping, reconciliation, authorisation forms and accounting for investments shall be prepared and maintained to give effect to this policy.



## 9. Reporting

An investment report is to be prepared for each month detailing compliance with the key criteria outlined in section 6 (a), (b) and (c) of this policy.

The investment report is to be presented to Council at the next ordinary meeting of the Council following the end of the month to which the report relates. If the statement is not prepared in time to present it to that meeting it is to be presented at the next Ordinary Meeting of the Council following that meeting.

## 10. Investment Advisor

The CEO has delegated authority to appoint an investment adviser when considered appropriate.

The local government'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 choose the most appropriate product within the terms and conditions of the investment policy.

## 11. Investment Strategy

EMRC's current investment strategy in light of the 'Global Financial Crisis' is to optimise investment income within its acceptable levels of risk whilst ensuring the security of these funds enabling the EMRC to meet its business objectives.

Key considerations in this regard include funding requirements identified in the Five Year Plan.

Given the Federal Government Guarantee on retail deposits up to \$1 million with Australian Authorised Deposit Taking Institutions (ADIs) until 11th October 2011, any investment in such institutions to this date shall be considered to be AAA or A-1+ rated in line with the Federal Government's credit rating.

The investment strategy employed over the period of the Federal Government Guarantee that complies with relevant legislation would be:

1. Invest funds in Australian ADI's up to \$1 million covered by the guarantee
2. Limit additional funds to the specified banks listed below from the 31<sup>st</sup> March 2010
3. Investment terms not to exceed 5 years.

Specified banks; National Australia Bank, Bankwest, Westpac, St George, Commonwealth Bank, and ANZ.

## FINANCIAL CONSIDERATIONS

Nil

Adopted/Reviewed by Council

1. 29 June 2000
2. 27 July 2000
3. 02 May 2002
4. 17 June 2004
5. 23 February 2006
6. 18 September 2008 (reported to Council and referred to Investment Committee)
7. 19 August 2010
8. 23 September 2010

Next Review

Following the Ordinary Elections in 2013

Responsible Unit

Governance and Corporate Services



## 3.3 Management of Investments Policy

### STRATEGIC PLAN OBJECTIVE

3.4 To improve member Council and East Metropolitan Regional Council (EMRC) financial viability.

### PURPOSE

To establish a policy for the Investment of EMRC's surplus funds at the most favourable rate of return whilst ensuring prudent consideration of risk and security for the investment type and that liquidity requirements are being met.

To ensure that investments are managed with care, diligence and skill and that the management of the portfolio is carried out to safeguard the portfolio and not for speculative purposes.

Establish guidelines to ensure investments:

- Meet legislative requirements;
- Optimise investment income and returns within acceptable risk parameters;
- Ensure that investments match the liquidity needs of the EMRC; and
- Are invested at the most favourable rate of interest available to it at the time whilst having due consideration of risk and security for that investment type.

### LEGISLATION

Local Government Act 1995 [Section 6.14](#)  
 Local Government (Financial Management) Regulations 1996 [Regulations 19, 28 and 49](#)  
 Trustees Act 1962 – Part III Investments  
 Australian Accounting Standards

### POLICY STATEMENT

#### 1. Ethics and Conflicts of Interest

Officers shall refrain from personal activities that would conflict with the proper execution and management of EMRC's investment portfolio. This policy requires officers to disclose any conflict of interest to the CEO.

#### 2. Delegation of Authority

Authority for implementation of the Investment Policy is delegated by Council to the CEO in accordance with the Local Government Act 1995. The CEO may in turn delegate the day-to-day management of Council's Investment to the Director, Corporate Services.

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COMMITTEES-14035 - Original Management of Investments Policy with Tracked Changes On - 10 May 2012.docx





### 3. Investment Ratings

Investments rating in this policy are based on those issued by Standard and Poor's. International ratings agencies used as a basis for assessing EMRC's investments are required to be reviewed periodically by the CEO.

### 4. Approved Investments

Without approvals from Council, new investments are limited to:

- Commonwealth/State/Territory ~~or Local Government~~ Bonds for a term not exceeding 3 years;
- Interest bearing deposits and securities issued by Australian authorised deposit-taking institutions (ADIs) as authorised by the Australian Prudential and Regulatory Authority (APRA) and with a Standard & Poor's (or its equivalent) credit rating of A-2 (short term) or A (long term) or higher (subject to overall limits) not exceeding 12 months;
- Bank accepted/endorsed bank bills, guaranteed by Australian authorised deposit-taking institutions ~~(ADIs)~~ not exceeding 12 months; and
- Bank negotiable Certificate of Deposits; ~~and~~
- ~~Managed Funds with a minimum long term Standard & Poor (S&P) rating of "A" and short term rating of "A-2".~~

### 5. Prohibited Investments

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

- Derivative based instruments;
- Principal only investments or securities that provide potentially nil or negative cash flow; and
- Stand alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind.

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

### 6. Risk Management Guidelines

Investments obtained are to be considered in light of the following key criteria:

- Preservation of Capital – the requirement for preventing losses in an investment portfolio's total value;
- Diversification – the requirement to place investments in a broad range of products so as not to be over exposed to a particular sector of the investment market;
- Market Risk - the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices;
- Liquidity Risk - the risk an investor is unable to redeem the investment at a fair price within a timely period;
- Maturity Risk - the risk relating to the length of term to maturity of the investment. The larger the term, the greater the length of exposure and risk to market volatilities; and
- Leveraging Risk - the magnification of an investor's risk and return that occurs when the investor takes on financial leverage through an investment product.



Furthermore investments are to comply with three key criteria relating to:

**a. Overall Portfolio Limits**

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

S&P Long Term Rating	S&P Short Term Rating	Direct Investment Maximum %	Managed Funds Maximum %
AAA	A-1 +	100%	100%
AA	A-1	100%	100%
A	A-2	40%	80%

**b. Counterparty Credit Framework**

Exposure to an individual counterparty/institution will be restricted by its 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	Direct Investment Maximum % or \$	Managed Funds Maximum %
AAA	A-1+	45%	50%
AA	A-1	35%	45%
A	A-2	40%/\$1m	40%

**c. Term to Maturity Framework**

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

Overall Portfolio Term to Maturity Limits		
	Min	Max
Portfolio % < 1year	40%	100%
Portfolio % > 1year and < 3 year	0%	60%
Portfolio % > 3year	0%	35%
Portfolio % > 5year	0%	25%

Individual Investment Maturity Limits	
Maximum term to maturity limit of all investments	5-3 years



Standard and Poors Long term rating definitions:

AAA	An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
AA	An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.
A	An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.
BBB	An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments

Standard and Poors Short term rating definitions:

A-1	A short-term obligation rated 'A-1' is rated in the highest category by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.
A-2	A short-term obligation rated 'A-2' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.
A-3	A short-term obligation rated 'A-3' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

Source: <http://www.standardandpoors.com>

**7. Measurement**

The investment return for the portfolio is to be regularly reviewed. The market value and investment maturities are to be assessed at least once a month to coincide with management reporting.

**8. Procedures**

Investments placed by Council's authorised advisor/s and managers must be appropriately documented at the time of placement.

Furthermore appropriate procedures and controls in regards to record keeping, reconciliation, authorisation forms and accounting for investments shall be prepared and maintained to give effect to this policy.



## 9. Reporting

An investment report is to be prepared for each month detailing compliance with the key criteria outlined in section 6 (a), (b) and (c) of this policy.

The investment report is to be presented to Council at the next ordinary meeting of the Council following the end of the month to which the report relates. If the statement is not prepared in time to present it to that meeting it is to be presented at the next Ordinary Meeting of the Council following that meeting.

## 10. Investment Advisor

The CEO has delegated authority to appoint an investment adviser when considered appropriate.

The local government'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 choose the most appropriate product within the terms and conditions of the investment policy.

## 11. Investment Strategy

EMRC's ~~current~~ investment strategy ~~in light of the 'Global Financial Crisis'~~ is to optimise investment income within its acceptable levels of risk whilst ensuring the security of these funds enabling the EMRC to meet its business objectives.

Key considerations in this regard include funding requirements identified in the Five Year Plan.

~~From February 2012, Given the Federal Government Guarantee on retail new deposits up to \$1 million with Australian Authorised Deposit Taking Institutions (ADIs) until 11th October 2011 was reduced from \$1m to \$250,000 per institution, any investment in such institutions to this date shall be considered to be AAA or A-1+ rated in line with the Federal Government's credit rating.~~

~~The investment strategy employed over the period of the Federal Government Guarantee that complies with relevant legislation would be~~ will be as follows:

1. ~~Invest funds in Australian ADI's ADIs up to \$1 million covered by the guarantee within the policy's credit rating limits such that:~~
  - a. ~~Deposits with ADI's ADIs rated AAA/A-1+ are limited to 45% of the portfolio per institution;~~
  - b. ~~Deposits with ADI's ADIs rated AA/A-1 are limited to 35% of portfolio per institution;~~
  - c. ~~Deposits with ADI's ADIs rated A/A-2 are limited to \$1m per institution and no more than 10% of the overall portfolio in the A/A-2 rated institutions; and~~
  - d. ~~Where long term and short term ratings of an institution are in different categories, the short term limits will be used~~
2. ~~Limit additional funds to the specified banks listed below from the 31<sup>st</sup> March 2010 Target an 85% short term to 15% long term portfolio weighting where short term is defined as less than one year maturity.~~
3. Investment terms not to exceed ~~5-3~~ years.

~~A list of complying ADIs are reflected in the Appendix and may vary from time to time.~~

~~Specified banks; National Australia Bank, Bankwest, Westpac, St George, Commonwealth Bank, and ANZ.~~



## FINANCIAL CONSIDERATIONS

Nil



## Appendix: List of Compliant ADIs

As at March 2012:

ADI Name	Standard & Poor's Credit Rating (Long/Short)	EMRC Policy Limit per ADI based on short-term credit rating limits
<b><u>First tier:</u></b>		
ANZ Banking Group Ltd.	AA- / A-1+	45%
Bank of Western Australia Ltd.	AA- / A-1+	45%
Commonwealth Bank of Australia	AA- / A-1+	45%
HSBC Bank Australia Ltd.	AA- / A-1+	45%
Rabobank Australia Ltd.	AA / A-1+	45%
National Australia Bank Ltd.	AA- / A-1+	45%
Westpac Banking Corp.	AA- / A-1+	45%
<b><u>Second tier:</u></b>		
AMP Bank Ltd.	A / A-1	35%
Cuscal Ltd.	A+ / A-1	35%
ING Bank (Australia) Ltd.	A / A-1	35%
Macquarie Bank Ltd.	A / A-1	35%
Suncorp-Metway Ltd.	A+ / A-1	35%
<b><u>Third tier:</u></b>		
Bank of Queensland Ltd.	A-2 (short only allowed)	\$1m
Bendigo and Adelaide Bank Ltd.	A- / A-2	\$1m
Citigroup Pty Ltd.	A- / A-2	\$1m
Credit Union Australia Ltd.	A-2 (short only allowed)	\$1m
Greater Building Society Ltd.	A-2 (short only allowed)	\$1m
IMB Ltd.	A-2 (short only allowed)	\$1m
Members Equity Bank Pty Ltd.	A-2 (short only allowed)	\$1m
mecu Ltd.	A-2 (short only allowed)	\$1m
Newcastle Perm Bldg Society Ltd.	A-2 (short only allowed)	\$1m
Rural Bank Ltd.	A- / A-2	\$1m
Teachers Credit Union Ltd.	A-2 (short only allowed)	\$1m
Wide Bay Australia Ltd.	A-2 (short only allowed)	\$1m



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Adopted/Reviewed by Council

1. 29 June 2000
2. 27 July 2000
3. 02 May 2002
4. 17 June 2004
5. 23 February 2006
6. 18 September 2008 (reported to Council and referred to Investment Committee)
7. 19 August 2010
- ~~8.~~ 23 September 2010
- ~~9.~~ 25 November 2010
- ~~8-10.~~ 10 May 2012

Next Review

Following the Ordinary Elections in 2013

Responsible Unit

Governance and Corporate Services



## 3.3 Management of Investments Policy

### STRATEGIC PLAN OBJECTIVE

3.4 To improve member Council and East Metropolitan Regional Council (EMRC) financial viability.

### PURPOSE

To establish a policy for the Investment of EMRC's surplus funds at the most favourable rate of return whilst ensuring prudent consideration of risk and security for the investment type and that liquidity requirements are being met.

To ensure that investments are managed with care, diligence and skill and that the management of the portfolio is carried out to safeguard the portfolio and not for speculative purposes.

Establish guidelines to ensure investments:

- Meet legislative requirements;
- Optimise investment income and returns within acceptable risk parameters;
- Ensure that investments match the liquidity needs of the EMRC; and
- Are invested at the most favourable rate of interest available to it at the time whilst having due consideration of risk and security for that investment type.

### LEGISLATION

Local Government Act 1995 Local Government (Financial Management) Regulations 1996  
Trustees Act 1962 – Part III Investments  
Australian Accounting Standards

### POLICY STATEMENT

#### 1. Ethics and Conflicts of Interest

Officers shall refrain from personal activities that would conflict with the proper execution and management of EMRC's investment portfolio. This policy requires officers to disclose any conflict of interest to the CEO.

#### 2. Delegation of Authority

Authority for implementation of the Investment Policy is delegated by Council to the CEO in accordance with the Local Government Act 1995. The CEO may in turn delegate the day-to-day management of Council's Investment to the Director, Corporate Services.





### **3. Investment Ratings**

Investments rating in this policy are based on those issued by Standard and Poor's. International ratings agencies used as a basis for assessing EMRC's investments are required to be reviewed periodically by the CEO.

### **4. Approved Investments**

Without approvals from Council, new investments are limited to:

- Commonwealth/State/Territory Bonds for a term not exceeding 3 years;
- Interest bearing deposits and securities issued by Australian authorised deposit-taking institutions (ADIs) as authorised by the Australian Prudential and Regulatory Authority (APRA) and with a Standard & Poor's (or its equivalent) credit rating of A-2 (short term) or A (long term) or higher (subject to overall limits) not exceeding 12 months;
- Bank accepted/endorsed bank bills, guaranteed by Australian authorised deposit-taking institutions (ADIs) not exceeding 12 months; and
- Bank negotiable Certificate of Deposits.

### **5. Prohibited Investments**

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

- Derivative based instruments;
- Principal only investments or securities that provide potentially nil or negative cash flow; and
- Stand alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind.

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

### **6. Risk Management Guidelines**

Investments obtained are to be considered in light of the following key criteria:

- Preservation of Capital – the requirement for preventing losses in an investment portfolio's total value;
- Diversification – the requirement to place investments in a broad range of products so as not to be over exposed to a particular sector of the investment market;
- Market Risk - the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices;
- Liquidity Risk - the risk an investor is unable to redeem the investment at a fair price within a timely period;
- Maturity Risk - the risk relating to the length of term to maturity of the investment. The larger the term, the greater the length of exposure and risk to market volatilities; and
- Leveraging Risk - the magnification of an investor's risk and return that occurs when the investor takes on financial leverage through an investment product.



Furthermore investments are to comply with three key criteria relating to:

**a. Overall Portfolio Limits**

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

S&P Long Term Rating	S&P Short Term Rating	Direct Investment Maximum %
AAA	A-1 +	100%
AA	A-1	100%
A	A-2	10%

**b. Counterparty Credit Framework**

Exposure to an individual counterparty/institution will be restricted by its 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	Direct Investment Maximum % or \$
AAA	A-1+	45%
AA	A-1	35%
A	A-2	\$1m

**c. Term to Maturity Framework**

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

Overall Portfolio Term to Maturity Limits		
	Min	Max
Portfolio % < 1year	40%	100%
Portfolio % > 1year and < 3 year	0%	60%

Individual Investment Maturity Limits	
Maximum term to maturity limit of all investments	3 years



Standard and Poors Long term rating definitions:

AAA	An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
AA	An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.
A	An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.
BBB	An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments

Standard and Poors Short term rating definitions:

A-1	A short-term obligation rated 'A-1' is rated in the highest category by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.
A-2	A short-term obligation rated 'A-2' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.
A-3	A short-term obligation rated 'A-3' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

Source: <http://www.standardandpoors.com>

## 7. Measurement

The investment return for the portfolio is to be regularly reviewed. The market value and investment maturities are to be assessed at least once a month to coincide with management reporting.

## 8. Procedures

Investments placed by Council's authorised advisor/s and managers must be appropriately documented at the time of placement.

Furthermore appropriate procedures and controls in regards to record keeping, reconciliation, authorisation forms and accounting for investments shall be prepared and maintained to give effect to this policy.

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An investment report is to be prepared for each month detailing compliance with the key criteria outlined in section 6 (a), (b) and (c) of this policy.

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#### **11. Investment Strategy**

EMRC's investment strategy is to optimise investment income within its acceptable levels of risk whilst ensuring the security of these funds enabling the EMRC to meet its business objectives.

Key considerations in this regard include funding requirements identified in the Five Year Plan.

From February 2012, the Federal Government Guarantee on new deposits with Australian Authorised Deposit Taking Institutions (ADIs) was reduced from \$1m to \$250,000 per institution.

The investment strategy will be as follows:

1. Invest funds in Australian ADIs within the policy's credit rating limits such that:
  - a. Deposits with ADIs rated AAA/A-1+ are limited to 45% of the portfolio per institution;
  - b. Deposits with ADIs rated AA/A-1 are limited to 35% of portfolio per institution;
  - c. Deposits with ADIs rated A/A-2 are limited to \$1m per institution and no more than 10% of the overall portfolio in the A/A-2 rated institutions; and
  - d. Where long term and short term ratings of an institution are in different categories, the short term limits will be used
2. Target an 85% short term to 15% long term portfolio weighting where short term is defined as less than one year maturity.
3. Investment terms not to exceed 3 years.

A list of complying ADIs are reflected in the Appendix and may vary from time to time.

## **FINANCIAL CONSIDERATIONS**

Nil



## Appendix: List of Compliant ADIs

**As at March 2012:**

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IMB Ltd.	A-2 (short only allowed)	\$1m
Members Equity Bank Pty Ltd.	A-2 (short only allowed)	\$1m
mecu Ltd.	A-2 (short only allowed)	\$1m
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Rural Bank Ltd.	A- / A-2	\$1m
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Next Review

Following the Ordinary Elections in 2013

Responsible Unit

Governance and Corporate Services



**15 REPORTS OF DELEGATES**

Nil

**16 MEMBERS MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN**

Nil

**17 NEW BUSINESS OF AN URGENT NATURE APPROVED BY THE CHAIRMAN OR PERSON PRESIDING OR BY DECISION OF MEETING**

Nil

**18 CONFIDENTIAL MATTERS FOR WHICH THE MEETING MAY BE CLOSED TO THE PUBLIC**

**RECOMMENDATION (Closing meeting to the public)**

That the meeting be closed to members of the public in accordance with Section 5.23 (2) (c) of the Local Government Act for the purpose of dealing with matters of a confidential nature.

**IC RESOLUTION(S)**

MOVED CR PILGRIM

SECONDED CR RADFORD

THAT WITH THE EXCEPTION OF MR ROBINSON, MR ATKINSON, THE CEO, THE DIRECTOR CORPORATE SERVICES, THE MANAGER FINANCIAL SERVICES AND THE PERSONAL ASSISTANT TO THE DIRECTOR CORPORATE SERVICES, THE MEETING BE CLOSED TO MEMBERS OF THE PUBLIC IN ACCORDANCE WITH SECTION 5.23 (2) (C) OF THE LOCAL GOVERNMENT ACT FOR THE PURPOSE OF DEALING WITH MATTERS OF A CONFIDENTIAL NATURE.

**CARRIED UNANIMOUSLY**

The doors of the meeting were closed at 5.06pm and members of the public departed the Council Chambers.

Mr Atkinson entered the meeting at 5.07pm.

**18.1 INVESTMENT COMMITTEE UPDATE – MAY 2012**

**REFERENCE: COMMITTEES-13973**

The Committee considered the Confidential Item circulated with the Agenda under separate cover.

Mr Atkinson left the meeting at 5.31pm.

