TAMALA PARK REGIONAL COUNCIL

POLICY MANUAL

Investment Policy
(June 2020)

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1. POLICY

1.1 Objectives

- To undertake authorised investment of surplus funds after assessing credit risk and diversification limits.
- To maximise earnings from authorised investments and ensure the security of Tamala Park Regional Council (TPRC) funds.
- To preserve TPRC capital funds.
- To ensure provision of sufficient liquidity to meet TPRC cash flow requirements as and when they fall due without incurring significant costs due to unanticipated sales of investments.
- To target a minimum market average return based upon accepted investment indicators reflecting the Council's risk tolerance.

1.2 Authority for Investment

All investments are to be made in accordance with:

- *Local Government Act 1995* Section 6.14.
- *Local Government (Financial Management) Regulations 1996* – r. 19-19C, 28 & 49
- *Trustees Act 1962* and particularly Part 3 Investments

And in consideration of:

- Local Government Operational Guidelines No 19 – Investment Policy
- Australian Accounting Standards

1.3 Delegation of Authority

Authority to invest surplus funds within the limits of this Investment Policy is delegated by Council to the Chief Executive Officer in accordance with the *Local Government Act 1995*. The Chief Executive Officer or delegated representative(s) have authority to invest surplus funds.

1.4 Prudent Person Standard

The TPRC investment portfolio will be managed with the care, diligence and skill that a prudent person would exercise. Officers are to manage TPRC's investments to safeguard the portfolio in accordance with the spirit of this investment policy, and not for speculative purposes.

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1.5 Authorised Investments

Investments will adhere with Local Government (Financial Management) Regulations 1996 – r. 19C, namely:

- Australian denominated deposits with:
  - Authorised Deposit Taking Institutions (ADIs: banks, building societies and credit unions regulated by the Australian Prudential Regulation Authority); and
  - the Western Australian Treasury Corporation

  for a maximum term of three years.

- Australian denominated bonds guaranteed by the Australian Commonwealth, State or Territory Government for a maximum term of three years.

1.6 Risk Management

When exercising the power of investment, the following are to be given consideration:

- The purpose of the investment and the needs and circumstances;
- The desirability of diversifying investments;
- The nature of and risk associated with existing investments;
- The need to maintain the real value of the capital and income;
- The risk of capital or income loss or depreciation;
- The potential for capital appreciation;
- The likely income return and the timing of income return;
- The length of the term of the proposed investment;
- The liquidity and the marketability of the proposed investment during, and on the determination of, the term of the proposed investment;
- The aggregate value of the investment;
- The effect of the proposed investment in relation to the tax liability (if any);
- The likelihood of inflation affecting the value of the proposed investment;
- The costs (including commissions, fees, charges and duties payable) of making the proposed investment; and
- The results of a review of existing investments.

Risk Management Framework

Investments will comply with the following three-part risk management framework:

(a) Portfolio Credit Limit: limit overall credit exposure of the portfolio;
(b) Institution Investment Limit: limit exposure to individual institutions;
(c) Term of Maturity Limit: limits based upon maturity of securities.

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(a) Portfolio Credit Limit

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

Standard & Poor's Credit Rating *	**Investment Maximum %** per Credit Rating Category
AAA & AA	100%
A	60%
BBB	30%

* or Moody's equivalent

(b) Institution Investment Limit

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

Standard & Poor's Credit Rating *	**Investment Maximum %** per Institution
AAA & AA	45%
A	30%
BBB	25%

* or Moody's equivalent

If any of the securities held are downgraded such that they no longer fall within Council's investment policy guidelines, they will be divested as soon as is practicable, taking into consideration break fees and market conditions.

(c) Term to Maturity Limit

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

Overall Portfolio Term to Maturity		
Portfolio % ≤1 year	Min 80%	Max 100%
Portfolio % >1 year ≤ 3 year	Min 0%	Max 20%

Quotations on Investments

Not less than three (3) quotations shall be obtained from authorised institutions whenever an investment is proposed. The investment chosen will best fit the policy objectives and risk management guidelines as outlined in this document.

Performance Benchmarks

Investment	Performance Benchmark
Overnight Cash to 30 Days	Cash Rate
Investments Term greater than 30 days	Bloomberg AusBond Bank Bill Index

2. OPERATIONAL PROVISIONS

Reporting

A report will be provided to each bi-monthly ordinary Council meeting, detailing the investment portfolio in terms of performance and counterpart percentage exposure of total portfolio, maturity date and changes in market value.

Variation to Policy

The Chief Executive Officer is authorized to approve variations to this policy following consultation with the Chair if the investment is to Council's advantage and/or due to revised legislation.

All changes to this policy are to be reported to the meeting of the Council following the change and in the event that a meeting of the Council is not scheduled within 14 days then an interim report is to be made to both the Chair of the Council and to the Chair of the Audit Committee of the Council.

Preference

Priority is to be given to institutions that are Australian institutions with business offices located in Western Australia.

Income maximisation and risk level management is to feature prominently in the determination of fund's placement with preferred institutions.

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; and
- Stand-alone securities issued that have underlying futures, options, forward contracts and swaps of any kind.

This Policy prohibits the use of leveraging, (borrowing to invest) of an investment, however, this prohibition may be varied, subject to the criteria listed under the heading 'TPRC investments in TPRC development', except in the special circumstances where investment is made in infrastructure or capital developments within the TPRC area.

Monthly Reconciliation and Advice

It is a requirement that funds placed with approved institutions or withdrawal of such funds made are to be reconciled monthly and matched with Council records.

Details of maturity and rollover investments are to be recorded as expended on new investments (as the case requires) in the Investment Register.

Register

An Investment Register shall be maintained containing the following particulars with respect to each investment:

1. Date of investment;
2. Institution in which money is being invested;
3. The investment amount;
4. Type of investment;
5. Date of maturity;
6. Investment interest rate;
7. Interest payment terms;
8. Officer initialising the investment;
9. The particulars and location of any security held by Trustees on behalf of the TPRC;
10. The location and any security for an investment held directly by the TPRC;
11. The Investment Register is to be completed prior to the close of business on the day on which the investment is made;
12. The Investment Register and Ledger are to be reconciled at least monthly.

Initiating Investment

1. All EFTs initiating investments are to be approved by the Chief Executive Officer.
2. Investments made with a new institution must be endorsed by the Chief Executive Officer.
3. A maturing investment payment from one investment may not be used to directly initiate one investment of another class or with another borrower.

TPRC Investments in TPRC Development

Notwithstanding anything contained in this Policy, the Council may, subject to receiving investment advice:

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Invest funds in property development within the TPRC Development Project where the application of funds:

- Is consistent with the TPRC purpose and development objectives;
- Will produce economic, social and environmental outcomes consistent with the TPRC development objectives;
- Has potential for increasing (the unsold) value of land in the TPRC area other than the land in respect of which the direct investment is made;
- Has a defined payback period for invested principal;
- Produces an internal rate of return at least equivalent to the AusBond Bank Bill Index for the period of investment;
- Has an ongoing revenue return following repayment of principle; and
- Is independently assessed for financial viability and security by a competent investment adviser.

This Investment Policy is authorised by the Chief Executive Officer on18 June 2020.

Signature:

Name: JOHN ANTHONY ARIAS

Date: 18 June 2020

Appendix: Standard & Poor's Credit Rating Definitions

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
C	Currently highly vulnerable to non-payment and ultimate recovery is expected to be lower than higher rated obligations
D	In default or in breach of an imputed promise

Source: http://www.standardandpoors.com