



Investment Policy

Investments



TITLE: Investments

ADOPTED BY: COUNCIL

RESPONSIBILITY: CHIEF EXECUTIVE OFFICER

NEXT REVIEW DATE: 02 / 05 / 2020

Version	Reviewed By	Adoption Date	Next Review	History
1	Chief Executive Officer	25/06/2013	25/05/2017	Final
2	Human Resources Administrator		02/05/2022	Draft

POLICY VERSION AND REVISION INFORMATION

Policy Authorised by:	CHIEF EXECUTIVE OFFICER
Policy Maintained by:	ADMINISTRATION MANAGER
Review date:	02/05/2022
Original Issue:	25/06/2013
Current Version:	Version 2

1. DESCRIPTION

- 1.1 The Investment Policy ('Policy') relates to Katherine Town Council ('Council') and establishes the guidelines that Katherine Town Council adopts in investing funds not required to meet immediate liquidity needs.

2. COMMENCEMENT OF POLICY

- 2.1 This Policy will commence from 24th September 2019. It replaces all other policies, if any, relating Procurement, Tenders and Quotes (whether written or not).
- 2.2 Council reserves the right to change this policy at any time.

3. OBJECTIVES

- 3.1 To invest Council's funds with consideration of risk and at the most favourable rate of interest available at the time for that investment type, while ensuring that Council's liquidity requirements are being met. While exercising the power to invest, consideration is to be given to value for money inclusive of the preservation of capital, liquidity, the return on investment and, the investment institution's demonstration of local contribution through community benefits (grants etc).
- 3.2 Ensure that funds are invested in accordance with legislative requirements
- 3.3 Identify the range of approved and prohibited investments
- 3.4 Set boundaries for exposure to the risks associated with investments
- 3.5 Ensure capital protection for Council funds
- 3.6 Ensure that Council maintains adequate control of its investments
- 3.7 Ensure that the investment portfolio is structured to provide sufficient liquidity to meet all reasonably anticipated cash flow requirements
- 3.8 Establish a framework for monitoring investments

4. PRINCIPLES

4.1 Investment Evaluation Criteria

The following criteria and weighting will be applied in considering the best value for money investment institution:

Rating description	Rating weighting	Interest rate weighting	Local benefit realised in previous financial year weighting	Total decision making weighting
Prime	100%	% of best rate of interest offered	100% if local community benefits (grants). 50% if no local	Average % of all weightings
High grade	90%			
Upper medium grade	45%			

Lower medium grade	25%		community benefit (grants)	
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5. Legislative Requirements

5.1 Local Government Act

Section 121(1) of the *Local Government Act* states that “a council may invest money not immediately required for the purposes of the Council.” Section 121(3) states that “an investment must be consistent with guidelines in force at the time the investment is made”.

5.2 Local Government (Accounting) Regulations

Regulation 18(2) prescribes the disclosure requirements for investment in the Financial Reports to Council. Additional disclosure requirements are also provided under the Australian Accounting Standards.

5.3 Australian Accounting Standards

Councils are to account for financial instruments as required by the relevant Australian Accounting Standards.

6. Other Requirements

6.1 Prudent Person Standard

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

6.2 Ethics and Conflicts of Interest

Staff shall refrain from personal activities that would conflict with the proper execution and management of Council’s investment portfolio. This policy requires staff to disclose any conflict of interest to the CEO.

6.3 Approved Investments

Without approval by resolution of Council, investments are limited to interest bearing deposits issued by an authorised deposit taking institution (ADI) only.

6.4 Prohibited Investments

This investment 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, forwards contracts and swaps of any kind.

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

7. Risk Management Guidelines

Investments are to comply with key criteria relating to:

- a) Credit Risk: limit overall credit exposure of the portfolio
- b) Counterparty Credit Risk: limit exposure to individual counterparties/institutions
- c) Maturity Risk: limits based upon maturity of investments
- d) Protection of Principal: investments entered into should be structured to minimise the risk of loss of principal
- e) Grant Funding Conditions: conditions related to grant funding available to invest must be complied with.

7.1 Investment Limits

7.1.1 Term to Maturity

Council's investments should be able to be liquidated in a timely manner with minimal loss or penalty. The term to maturity of any investment may range from "at call" to one year. The maximum term for any investment should not exceed one (1) year without specific Council approval.

7.1.2 Liquidity Requirements

The term of investments must also take into account Council's liquidity requirements and the portfolio must be structured so that there are always sufficient funds available to meet weekly cash requirements.

7.1.3 Credit Ratings

Credit ratings are a guide or standard for an investor, which indicate the ability of a debt issuer or debt issue to meet the obligations of repayment of interest and principal. Credit rating agencies such as Moody's, Standard and Poor's (S&P) and Fitch Rating make these independent assessments based on a certain set of market and non-market information.

Ratings in no way guarantee the investment or protect Council against investment losses. The prescribed ratings should not be misinterpreted as an implicit guarantee of investments or entities that have such ratings. Even given this challenge, ratings provide the best independent information available.

The following table provides a comparison of the rating equivalents between the different rating agencies:

Moody's		Standard & Poor's		Fitch		Rating Description	
Long Term	Short Term	Long Term	Short Term	Long Term	Short Term		
Aaa	Prime 1	AAA	A1+	AAA	F1+	Prime	
Aa1		AA+	A-1+	AA+	F1+	High grade	
Aa2		AA	A-1+	AA	F1+		
Aa3		AA-	A-1+	AA-	F1+		
A1		Prime 2	A+	A-1	A+	F1 OR F1+	Upper medium grade
A2			A	A-1	A	F1	
A3	A-		A-2	A-	F2 OR F1		
Baa1	Prime 3		BBB+	A-2	BBB+	F2 OR F1	Lower medium grade
Baa2			BBB	A-2	BBB	F3 OR F2	
Baa3		BBB-	A-3	BBB-	F3 OR F2		
Ba1 to B3	Not Prime	BB+ to B-	B	BB+ to B-	B	Speculative	
Caa1 to C		CCC+ to D	C to D	CCC+ to D	C to D	High risk	

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, noting no investments are to be made with a speculative or high risk description.

Rating Description	Long Term Rating (S&P or equivalent)	Short Term Rating (S&P or equivalent)	Maximum Percentage of Total Investments
Prime	AAA	A-1+	100%
High grade	AA+ to AA-	A-1+	90%
Upper medium grade	A+ to A-	A-1	45%
Lower medium grade	BBB+ to BBB-	A-2 to A-3	25%
Speculative /	BB+ to B-	B	0%
High risk	CCC+ to D	C to D	0%

If the credit rating of any institution or investment is downgraded and, as a result, the investment no longer falls within the policy guidelines it will be divested as soon as practicable.

8. Administration of Policy

8.1 Investment Register

Council must keep an up to date Investment Register supported by appropriate documentary evidence for each investment held and, the value for money assessment.

For audit purposes, certificates must be obtained from the financial institutions confirming the investments held on the Council's behalf as at 30 June each year and reconciled to the Investment Register.

8.2 Reporting

A monthly report must be provided to Council containing the following:

- List of investments by financial institution
- Total cash and investments held
- Percentage exposure to individual financial institutions
- Adherence to the investment limits set in this policy

9. CONSEQUENCES FOR BREACHING THE POLICY

- 4.1 Any breach of the Policy for employees may result in disciplinary action, including, but not limited to, issue of a warning, demotion, suspension or termination of employment and Elected Members disciplinary action in accordance with the *Local Government Act*.

10. DISCREPANCIES

Any claims for expenses deemed non-allowable by this policy and procedures will be forwarded to the Chief Executive Officer for review. The Chief Executive Officer will determine whether the expense is eligible for reimbursement and will advise the employee or Elected Member of their decision.

VARIATIONS

Katherine Town Council reserves the right to vary, replace or terminate this Policy from time to time.

ASSOCIATED DOCUMENTS

- *Local Government Act*