



KATHERINE TOWN COUNCIL

POLICIES & PROCEDURES

INVESTMENT POLICY

Summary

The Investment Policy establishes the guidelines that Katherine Town Council adopts in investing funds not required to meet immediate liquidity needs.

Objectives

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 preservation of capital, liquidity, and the return of investment.

Other Key Objectives

- Ensure that funds are invested in accordance with legislative requirements
- Identify the range of approved and prohibited investments
- Set boundaries for exposure to the risks associated with investments
- Ensure capital protection for Council funds
- Ensure that Council maintains adequate control of its investments
- Ensure that the investment portfolio is structured to provide sufficient liquidity to meet all reasonably anticipated cash flow requirements
- Establish a framework for monitoring investments

Legislative Requirements

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".

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.

Australian Accounting Standards

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

Other Requirements



KATHERINE TOWN COUNCIL

POLICIES & PROCEDURES

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.

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.

Approved Investments

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

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.

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.

Investment Limits

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.



KATHERINE TOWN COUNCIL

POLICIES & PROCEDURES

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.

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	
Long Term	Short Term	Long Term	Short Term	Long Term	Short Term
Aaa	Prime 1	AAA	A1	AAA	F1+
Aa1	Prime 1	AAA-	A1	AA+	F1+
Aa2	Prime 1	AA+	A1	AA	F1+
Aa3	Prime 1	AA	A1	AA-	F1+
A1	Prime 1	AA-	A1	A+	F1 OR F1+
A2	Prime 1 or 2	A+	A1	A	F1
A3	Prime 1 or 2	A	A2	A-	F2 OR F1
Baa1	Prime 2	A-	A2	BBB+	F2 OR F1
Baa2	Prime 2 or 3	BBB+	A2	BBB	F3 OR F2
Baa3	Prime 3	BBB	A2	BBB-	F3 OR F2
Ba1	Not Prime	BBB-	A3	BB+	B
Ba2	Not Prime	BB+	A3	BB	B
Ba3	Not Prime	BB	B	BB-	B
Caa1	Not Prime	BB-	B	B+	B
Caa2	Not Prime	B+	B	B	B
Caa3	Not Prime	B	B	B-	B
Ca	Not Prime	B-	B	CCC	C



KATHERINE TOWN COUNCIL

POLICIES & PROCEDURES

C	Not Prime	CCC+	B	CCC	C
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Risk Scale

Least Risky

Most Risky



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.

Long Term Rating (S&P or equivalent)	Short Term Rating (S&P or equivalent)	Maximum Percentage of Total Investments
AAA to AA-	A1+	100%
A+ to A-	A1+	45%
BBB+ to BBB-	A2	25%
BB+ to D	-	10%

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.

Diversification

To ensure diversification of the investment portfolio and reduce risk without affecting returns, the following limits on investing with individual financial institutions must be observed:

Financial Institution	Minimum Percentage of Total Investments	Maximum Percentage of Total Investments
Major Banks	15%	100%
Regional Banks	0%	45%
Credit Unions, Building Societies, Other ADI's	0%	25%

Administration of Policy

Investment Register

Council must keep an up to date Investment Register supported by appropriate documentary evidence for each investment held.

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.



KATHERINE TOWN COUNCIL

POLICIES & PROCEDURES

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

Evaluation and review

This policy will be reviewed annually or as required by changing market circumstances or changes in legislation.