



FINANCE – INVESTMENT POLICY

Type:	Council Policy		
Owner:	Director Corporate Services		
Responsible Officer:	Manager Finance		
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Legislation Reference:	Part 10.2 of the <i>Local Government Act 2019</i>		

1 PURPOSE

Katherine Town Council must implement the principles of sound financial management. These include managing financial risks, pursuing spending and policies that are consistent with a reasonable degree of stability, ensuring decisions are made with future generations in mind and openly disclosing financial information through publishing annual financial statements.

Council can generate income through prudent investment of funds, while ensuring sufficient liquidity for Council's day to day operational commitments and limiting unnecessary exposure to risk.

The purpose of this policy is to outline how Council's investments will be managed, the principles that Council will apply in relation to balancing investment risk and return, identification of approved and prohibited investments and reporting requirements.

2 SCOPE

The policy applies to all Elected Members and Council employees with responsibility for making decisions on investing Council funds.

This Policy applies to all investments undertaken by Council.

3 DEFINITIONS

ADI (Authorised Deposit-taking Institutions) means institutions authorised by the Australian Prudential Regulation Authority (APRA) as a financial institution operating in Australia.

Counterparty refers to the other individual or institution to an agreement or contract.

Interest rate risk means the risk that potential movements in interest rates could result in increased uncertainty of investment returns and is managed by taking into account future cash flow requirements and diversification of investment maturities. To quantify the extent of diversification a report detailing the maturity profile of funds invested is monitored regularly.

Prime means the classification of borrowers, rates, or holdings in the lending market that are considered to be of high quality.

Subordinated bank debt means unsecured borrowing by a financial institution. If the issuing bank were liquidated, its subordinated debt would be paid only after its other debt obligations (including deposit obligations) are paid in full but before any payment to its stockholders.

4 DETAILS

Council will invest its 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 will be given to value for money including the preservation of capital, liquidity, the return on investment and the investment institution's demonstration of local contribution through community benefits. Council will:

- 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, and
- establish a framework for monitoring investments.

Prudent Person Standard

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

Ethics and Conflicts of Interest

Employees responsible for Council's investment portfolio will refrain from personal activities that would conflict with the proper execution and management of Council's investment portfolio.

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
- standalone securities issued that have underlying futures, options, forwards contracts and swaps of any kind
- the use of leveraging (borrowing to invest)
- investment denominated in foreign currency or cryptocurrencies.
- currency trading (foreign exchange gains/losses)
- shares of any kind, and
- subordinated bank debt (all bank debt must be prime).

APPROVED INVESTMENTS

Investments are limited to interest bearing deposits issued by an authorised deposit taking institution (ADI) only, unless a resolution is made by Council.

Mandatory Conditions for Investments

All investments must be in the name of Katherine Town Council. If using the services of an Investment Advisor or Broker, Council must ensure that ownership is retained.

All investments must be denominated in Australian dollars.

All investments must be placed with an authorised deposit taking institution (ADI) and through a licensed financial services institution with a current Australian Financial Services Licence issued by the Australian Securities and Investment Commission (ASIC).

Except for investments which are guaranteed by the Commonwealth Government or the Northern Territory Government, the amount invested with any one financial institution will not exceed 40% of the entire investment portfolio.

Investment Maturity Terms

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.

Held to Maturity Investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Council's intention to hold these investments to maturity. They are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

Liquidity

The term of investments must consider Council's liquidity requirements and the portfolio must be structured so that there are always sufficient funds available to meet cash flow requirements. Liquidity risk is minimised by only utilising investment products that are liquid.

INVESTMENT PORTFOLIO

Preservation of capital is the principal objective of the investment portfolio and investments are to be made in a manner that seeks to ensure the security and safeguarding of the investment portfolio. This includes managing credit and interest rate risk within accepted thresholds and parameters.

Investments are to comply with key criteria to:

- protect the principal
- limit overall credit exposure of the portfolio
- limit exposure to counterparty credit risk
- limit risks based upon maturity of investments
- limit the amounts invested in a particular product (concentration risk), with a particular financial institution or government authority to reduce credit, liquidity and market risks
- ensure conditions related to grant funding available to invest are complied with, and
- ensure funds are invested in accordance with legislative requirements.

Credit ratings

Credit ratings play an important role when making investment decisions. Credit ratings are a guide or standard for an investor to indicate the ability of a debt issuer or debt issue to meet the obligations of repayment of interest and principal – a poor credit rating is a risky investment. Global 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 do not guarantee the investment or protect Council against investment losses and 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:

Major Rating Agencies Rating Guide for Long and Short Term Debt										
Moody's		S&P		Fitch		Risk Characteristic				
Long Term	Short Term	Long Term	Short Term	Long Term	Short Term					
Aaa	P-1	AAA	A-1+	AAA	F1+	Prime				
Aa1		AA+		AA+		High Grade				
Aa2		AA		AA						
Aa3		AA-		AA-						
A1	P-2	A+	A-1	A+	F1	Upper Medium Grade				
A2		A		A						
A3		A-		A-						
Baa1	P-3	BBB+	A-2	BBB+	F2	Lower Medium Grade				
Baa2		BBB		BBB						
Baa3	Not Prime	BBB-	A-3	BBB-	F3	Substantial Risks				
Ba1		BB+		B			BB+	B	Extremely Speculative	
Ba2		BB					BB			Non-investment grade speculative
Ba3		BB-					BB-			
B1		B+					B+			Highly Speculative
B2		B					B			
B3		B-					B-			
Caa1	Not Prime	CCC+	C		CCC	C	In default with little prospect for recovery			
Caa2		CCC								
Caa3		CCC-								
Ca		CC								
C	Not Prime	C	/	DDD	/	In default				
/		D		DD						
/		/		D						

Credit rating agencies assign a value to the credit risk of different securities such as bonds and loans. For example, AAA is seen as the industry standard as the highest rating, and AAA, AA, A and BBB are widely seen as investment-quality securities. Ratings of BB or below are speculative grades which denote a higher credit risk or risk of default in the underlying security, but this often comes with a potentially higher return on an initial investment.

All investment proposals with financial institutions must be consistent with the following:

Moody's	S&P	Fitch	Maximum Percentage of Total Investments
P-1 Aaa	A-1 AAA	F-1+ AAA	100%
P-1 Aa+	A-1+ and A-1	F1+	90%
P-2	A2	F2	45%
P-3	A3	F3	25%
Not Prime	B, C and D	B,C and D	Prohibited

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.

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 community benefit (grants)	Average % of all weightings
High grade	90%			
Upper medium grade	45%			
Lower medium grade	25%			

Investment Advisor

If Council appoints an investment advisor, they must hold an Australian Financial Securities Licence issued by the Australian Securities and Investment Commission (ASIC) and their appointment as advisor must be approved by resolution of Council.

The advisor approved by Council resolution 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.

The advisor must be representative of a recognised reputable firm of investment advisors.

REVIEW AND REPORTING

The performance and value of the investment portfolio and conformity with this policy is reviewed internally on a quarterly basis and provided to the Audit and Risk Management Committee annually.

Council will maintain 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.

A monthly report will be provided to Council containing the following information:

- list of investments by financial institution
- total cash and investments held
- percentage exposure to individual financial institutions, and
- adherence to the investment limits set in this policy.

5 ASSOCIATED POLICIES/DOCUMENTS

Financial Management Practice Handbook

Employee Code of Conduct

Conflicts of Interest Policy – Employees and CEO

6 REFERENCES AND RELATED LEGISLATION

Local Government Act 2019

Australian Securities and Investments Commission (ASIC)

Australian Prudential Regulation Authority (APRA)

Revision History

Version	Approval date	Details of change	Responsible officer
1	2013	Created	CEO
2	Sept 2019	Revised	CEO
33	14/04/2023	Revision for compliance with new <i>Local Government Act 2019</i>	Director, Corporate Services