

Investment Policy

Council Policy



Policy Name	Investment Policy		
Type	Council Policy		
Owner	Elected Members		
Responsible Officer	Chief Executive Officer		
Decision Number	22763	Approval Date	26/09/2023
Records Number	D2023/015061	Next Review Date	26/09/2027

1 Purpose

This policy provides guidelines for how Alice Springs Town Council can invest funds not immediately required to meet liquidity needs, with the exception of trust funds, to ensure sufficient liquidity and achieve appropriate earnings to meet Council's business objectives over the short, medium and long term.

2 Definitions

For the purposes of this policy, the following definitions apply:

Term	Definition
Prudent Person Rule	This rule requires Council Officers to exercise the same care, diligence and skill that a prudent person would exercise in managing the affairs of other persons. Acting prudently applies to selecting investments and requires an individual to consider diversification, appropriateness of the product, risk and anticipated return, liquidity, independent financial advice and to have a clear understanding of the product. Under no circumstances, must an individual make an investment for speculative purposes.
Speculative purpose	A deal deliberately taking a higher risk in the hope of making an extraordinary gain.
Authorised Deposit-taking Institutions	Authorised Deposit-taking Institutions (ADIs) are corporations which are authorised under the Banking Act 1959. ADIs include banks, building societies, and credit unions.
Credit Rating	An assessment of the creditworthiness of an investment in general terms or with respect to a particular debt or financial obligation.

3 Policy Statement

Council's available funds are to be invested with consideration of risk and at the most favourable rate of interest available at the time, for that investment type, ensuring that Council's liquidity requirements are met.

While exercising the power to invest, consideration is to be given to the preservation of capital, liquidity and the return on investment.

3.1 Principles

The primary objectives of this policy are to provide guidelines so that:

- 3.1.1 Preservation of capital is the principal objective of the investment portfolio.
- 3.1.2 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 identified thresholds and parameters.
- 3.1.3 The investment portfolio must consider Council's long-term financial plan and liquidity requirements; it must ensure that there is sufficient liquidity to meet all reasonably anticipated cash flow requirements as and when they fall due, without incurring significant costs due to the unanticipated redemption of an investment.
- 3.1.4 The investment is expected to achieve a predetermined market average rate of return that considers Council's risk tolerance.
- 3.1.5 Council's investments are to be managed as in accordance with the Prudent Person Rule.
- 3.1.6 The investment portfolio is managed to safeguard the portfolio and not with a view for speculative purpose.
- 3.1.7 Investments must not be made unless they are in accordance with Council's policies and/or Council resolution.

3.2 Approved investments

Investments are limited to the NT Local Government legal and regulatory requirements including the Minister's Local Government Investment Guidelines. Acceptable instruments for investment are:

- 3.2.1 Local/State/Commonwealth Government Bonds, Debentures or Securities;
- 3.2.2 Interest bearing deposits with, or debentures or bonds issued by, an Authorised Deposit-taking Institution (ADI), as defined under the Banking Act 1959 (Commonwealth), but excluding debt obligations;
- 3.2.3 Managed funds with a minimum long-term Standard and Poor 'A' rating and short-term 'A2' rating; Bank accepted/endorsed bank bills; and
- 3.2.4 Property development and related investments (refer to section 3.3 below)

Any authorised investments for greater than 12 months are to be approved by Council resolution. All investments must be denominated in Australian Dollars.

3.3 Property development and related investments

The Minister's Local Government Investment Guidelines do not preclude Council from investing in property development or related investments, however such investments must be for the purpose of achieving an acceptable rate of return and not be for speculative purposes. Any such investment to be subject to the following:

- 3.3.1 Appropriate due diligence to be carried out through the appointment of an appropriately qualified and experienced independent external advisor, who must be appointed by Council resolution based on a recommendation from the CEO.

- 3.3.2 Independent external advisor to provide advice on an appropriate target rate of return for the investment, commensurate with an acceptable level of risk in dealing with public funds.
- 3.3.3 The Prudent Persons Rule to apply.
- 3.3.4 Council to consider any such investment through a formal report setting out due diligence undertaken and the advice from the independent external advisor.
- 3.3.5 The Minister's Local Government Investment Guidelines prohibits the use of borrowings and also the use of the investment portfolio for speculation.

Should Council be considering the purchase or development of property for a non-investment purpose, such as a community or a Council operational purpose, this Investment Policy is not applicable. In these circumstances the appropriate policies, plans and strategies would need to be referred to.

3.4 Prohibited investments

All investment carried out for speculative purposes is prohibited including:

- 3.4.1 Derivative based instruments;
- 3.4.2 Principal only investments or securities that provide potentially nil or negative cash flow;
- 3.4.3 Stand-alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind;
- 3.4.4 Share in an unlisted company, or contribute capital to an unlisted trust, unless the Minister in consultation with the Treasurer, approves the acquisition of such share;
- 3.4.5 The use of leveraging (borrow to invest) of an investment other than a property investment;
- 3.4.6 Complex financial instruments that are not in line with the conservative risk appetite of Council;
- 3.4.7 Investment denominated in foreign or cryptocurrencies; and
- 3.4.8 Any kind of investments with counterparties without a credit rating.

3.5 Risk Management

Alice Springs Town Council's risk profile in relation to investing surplus funds is to be relatively prudent, conservative and risk averse, and manage the market risk, credit risk and liquidity risk of the investment portfolio.

Council has little or no appetite for risks that foreseeably may:

- 3.5.1 Have a significant negative impact on Council's long-term financial sustainability or assets;
- 3.5.2 Compromise the safety and welfare of staff, contractors and/or members of the community;
- 3.5.3 Constitute major legal noncompliance, or result in significant successful litigation against Council;
- 3.5.4 Significantly disrupt delivery of essential services;

- 3.5.5 Cause significant and irreparable damage to the environment; and
- 3.5.6 Result in widespread and sustained damage to Council's reputation.

Council's ideal risk profile will be achieved by effectively managing within the investment portfolio:

- 3.5.7 the diversity of the investments
- 3.5.8 the creditworthiness of the investments.

Diversity is achieved by placing limits on the maximum exposure Council may have to individual:

- 3.5.9 funds or financial institutions
- 3.5.10 credit rating bands.

Creditworthiness of investments is primarily determined using the short-term credit and fund Industry Standard Credit Ratings of Standard & Poors (S&P) or Moody's and Fitch.

To cover for risk the following frameworks have been established and decisions to invest are to comply with those.

If any of Council's investments are downgraded so they no longer fall within the investment policy requirements, they will be divested as soon as practicable but in a manner that does not give rise to an unnecessary loss to Council.

Council must be aware and manage the market risk, credit risk and liquidity risk of the investment portfolio.

To cover for risk the following frameworks have been established and decisions to invest are to comply with these.

Investments must comply with key criteria as indicated below relating to:

- 3.5.11 Overall Credit Limits - limit overall credit exposure of the portfolio
- 3.5.12 Credit Framework - limit exposure to individual counterparty/institutions
- 3.5.13 Term to Maturity Framework - limits based upon maturity of securities
- 3.5.14 Investments entered into must be structured to minimise risk of loss of principal
- 3.5.15 Conditions relating to grant funding available to invest must be complied with

Trust funds are excluded from this policy as they must be kept in a separate bank account in accordance with s193 of the Local Government Act.

3.6 Credit Framework

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.

To control the credit quality of Council's investment portfolio, the following credit framework limits the percentage of the portfolio exposed to any particular credit rating category.

Credit rating category	Short term < = 12 months				Long term > 12 months			
Standard & Poor	A1	A2	A3	B	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-
Moody's	P1	P2	P3	NP	AAA to AA3	A1 to A3	Baa1 to Baa3	Ba1 to Ba3
Fitch	F1	F2	F3	B	AAA to AA-	A+ to A-	BBB+ to BBB	BBB+ to BBB
Maximum Limit – as % of total Investment Portfolio	100%	80%	50%	10%	100%	80%	30%	5%

If a counterparty has different ratings with different rating agencies the most recent rating shall be applied.

3.7 Term to Maturity Framework

The investment portfolio is to be invested within the following maturity constraints taking into account Council's cash flow requirements and the best interest rates available.

Maturity Band	Minimum Portfolio Exposure	Maximum Portfolio Exposure
< 1 year	50%	100%
> 1 year	0%	50%
> 3 years	0%	25%
> 5 years	0%	10%

All investments greater than 5 years must be issued by a government entity or carry a long-term rating of AA- or above from S&P (or an equivalent ratings agency) at the point of purchase or be issued by a Major Bank.

All investments rated BBB+ or below by S&P (or an equivalent ratings agency) must not have a maturity greater than 3 years at the point of purchase.

3.8 Benchmarking

The benchmark for an investment is determined by the current available interest rates from various Authorised Deposit-Taking Institution for the same investment period.

3.9 Ethics and conflicts of interest

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

3.10 Reporting

A monthly report must be provided to Council in support of the monthly statement of activity. The report must detail the investment portfolio in terms of performance against budget, allocation of the portfolio to various credit ratings and maturity date.

Documentary evidence must be held for each investment and details thereof maintained in an investment schedule/register.

4 Responsibilities

Implementation and actions rest with the Chief Executive Officer, and are subject to the Council's delegations and sub-delegations registers pursuant to the *Local Government Act 2019 (NT)*.

The Director Corporate Services is responsible for approving investments, after consultation with the Manager Finance and the Senior Finance Officer.

The Director Corporate Services is responsible for ensuring that this policy is understood and adhered to by all Council staff.

Manager Finance is responsible for providing a monthly report to Council in support of the monthly statement of activity.

5 Related Documents

- *Local Government Act 2019 (NT)*
- *Local Government (General) Regulations 2021 (NT) – Regulation 17*
- *Guidelines pursuant to the Act, and*
- *Australian Accounting Standards*
- *Minister's Local Government Investment Guidelines*

6 Version History

Version	Date	Action/Description of changes made	By
n/a	27/08/2018		
V1.0	24/01/2023	Updated as per Local Government Act, and general update	Director Corporate Services
V2.0	26/09/2023	Revised policy	Acting Director Corporate Services

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7 Communication and Training

Will this policy be communicated through internal communications?	Yes
Where will this policy be available?	Intranet and ASTC website
Will training needs arise from this policy? If yes, who will be responsible.	Manager Governance and Manager Finance