

Report of Governance to the Ordinary Meeting of Council held on Monday 21 November 2016

GO2 – Investment of Funds as at 30 September 2016

GO2

Investment of Funds as at 30 September 2016

112

TRIM 1022-4

EXECUTIVE SUMMARY

- This report provides details of Council's invested funds as at 30 September 2016.
- It is recommended that the information and certification in relation to the investment of Council funds as at 30 September 2016 be noted.

REPORT

At its last meeting, the Reserve Bank maintained the cash rate at 1.50%. In relation to the domestic market, the Board of the Reserve Bank commented that:

"In Australia, the economy is continuing to grow at a moderate rate. The large decline in mining investment is being offset by growth in other areas, including residential construction, public demand and exports. Household consumption has been growing at a reasonable pace, but appears to have slowed a little recently. Measures of household and business sentiment remain above average.

Labour market indicators have been somewhat mixed. The unemployment rate has fallen further, although there is considerable variation in employment growth across the country. Part-time employment has been growing strongly, while growth in full-time employment has been subdued. The forward-looking indicators point to continued expansion in employment in the near term.

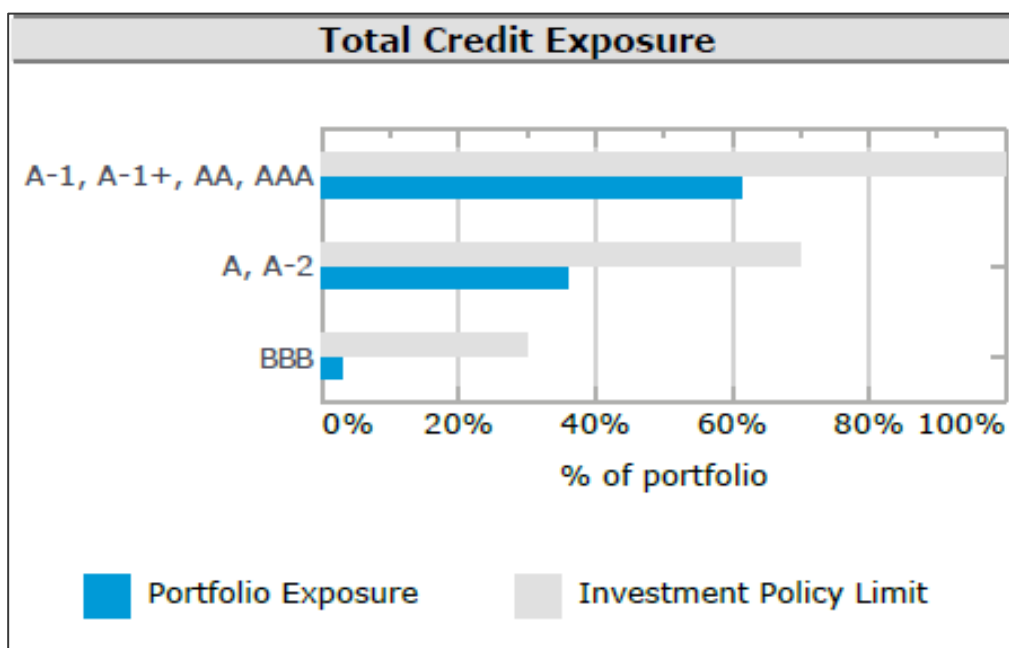
Inflation remains quite low. Given very subdued growth in labour costs and very low cost pressures elsewhere in the world, this is expected to remain the case for some time.

Low interest rates have been supporting domestic demand and the lower exchange rate since 2013 has been helping the traded sector. Financial institutions are in a position to lend for worthwhile purposes. These factors are all assisting the economy to make the necessary economic adjustments, though an appreciating exchange rate could complicate this.

GO2 – Investment of Funds as at 30 September 2016

Supervisory measures have strengthened lending standards in the housing market. Separately, a number of lenders are also taking a more cautious attitude to lending in certain segments. Growth in lending for housing has slowed over the past year. Turnover in the housing market has declined. The rate of increase in housing prices is lower than it was a year ago, although some markets have strengthened recently. Considerable supply of apartments is scheduled to come on stream over the next couple of years, particularly in the eastern capital cities. Growth in rents is the slowest for some decades."

As shown in the following chart, the credit rating on Council's portfolio as at 30 September 2016 is within Council's investment policy limits.



The percentage of Council's investment portfolio invested with each institution as at 30 September 2016 also complies with the limits specified in Council's investment policy, as detailed in the following table.

Governance

GO2 – Investment of Funds as at 30 September 2016

	% used vs Investment Policy Limit	
Bendigo and Adelaide Bank (A-2, A-)	75%	✓
Members Equity Bank (A-2, BBB+)	61%	✓
National Australia Bank (A-1+, AA-)	56%	✓
Westpac Group (A-1+, AA-)	42%	✓
Bank of Queensland (A-2, A-)	28%	✓
Commonwealth Bank of Australia (A-1+, AA-)	19%	✓
Suncorp Bank (A-1, A+)	11%	✓
Macquarie Group (A-1, A)	11%	✓
Credit Union Australia (A-2, BBB+)	9%	✓
AMP Bank (A-1, A+)	7%	✓
Emerald Reverse Mortgage (B Tranche) (AA)	5%	✓
ANZ Group (A-1+, AA-)	5%	✓
Emerald Reverse Mortgage (A Tranche) (AAA)	3%	✓

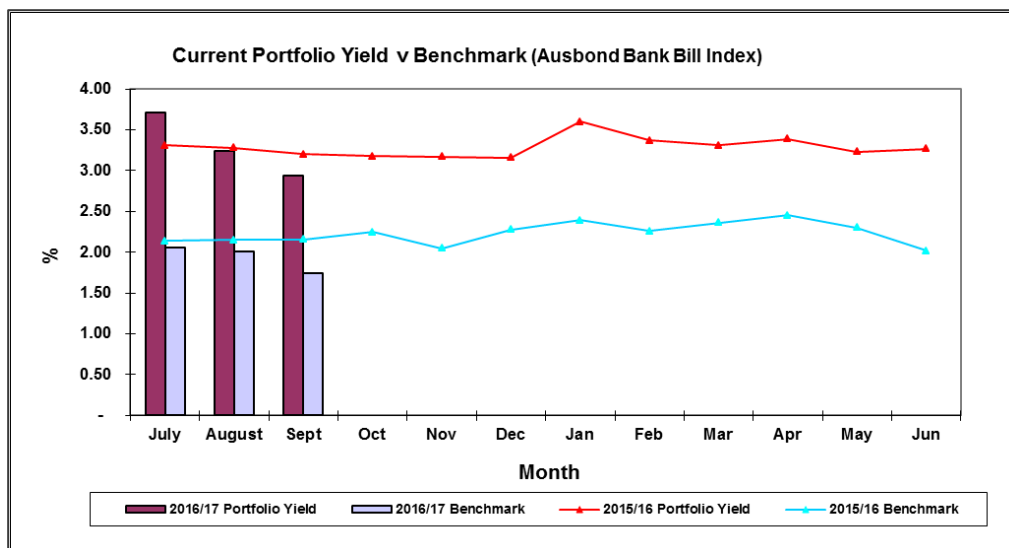
Governance

The vast majority of Council's investment portfolio (96%) is invested in deposits / securities with Australian Authorised Deposit taking Institutions (ADI's). Council has been taking advantage of term deposit "specials" from various institutions without overexposing the portfolio to any one institution.

The marked to market valuations on some of the direct investment products in Council's portfolio remain at less than the face value of the investment. The marked to market value of these investments is expected to be equal to or greater than the face value by the time they reach their maturity date. Early exit from these products would realise losses.

GO2 – Investment of Funds as at 30 September 2016

The following chart compares Council’s portfolio yield with the benchmark AusBond Bank Bill Index rate in each month for 2015/16 and 2016/17.



As shown in the chart above, Council’s portfolio yield has continually exceeded the benchmark AusBond 3 month Bank Bill Index due to the prudent investment of Council’s portfolio. For September 2016, Council’s portfolio yielded 3.10% and returned 2.94% for the month compared to the benchmark’s 1.74% pa return.

The following chart summarises Council's portfolio performance for the previous 12 months.

Historical Performance Summary			
	Portfolio	AusBond BB Index	Outperformance
Sep 2016	2.94%	1.74%	1.20%
Last 3 Months	3.17%	1.94%	1.23%
Last 6 Months	3.29%	2.10%	1.18%
Financial Year to Date	3.17%	1.94%	1.23%
Last 12 months	2.98%	2.19%	0.79%

Under Reg 212 of the Local Government (General) Regulation 2005, Council’s Responsible Accounting Officer must provide Council each month with a written report setting out details of all money that Council has invested under section 625 of the Act.

GO2 – Investment of Funds as at 30 September 2016

Details of Council’s investment portfolio as at 30 September 2016 are provided in attachment 1.

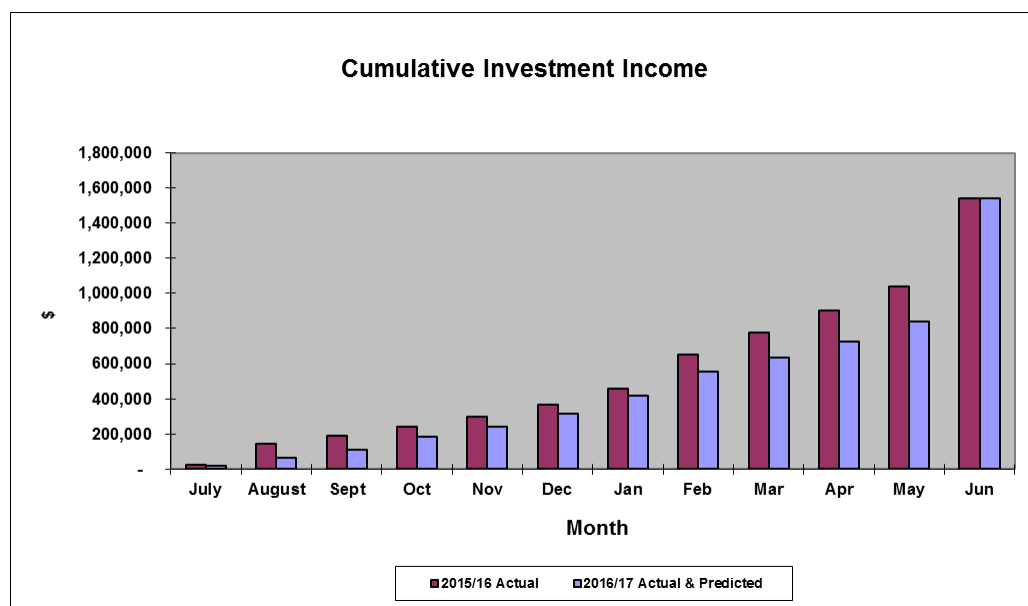
CONSULTATION

Independent advice regarding the investment of Council funds was provided by Prudential Investment Services Corp.

FINANCIAL IMPLICATIONS

Interest earned is allocated to restricted cash and income in accordance with Council’s adopted budget, policy and legislative requirements.

The following chart compares the projected interest for 2016/17 with the prior year’s interest income.



Council’s investment income for 2016/17 is expected to be similar to the investment income received in 2015/16. However, as the RBA has decreased interest rates, the expected investment income will be reviewed and revised as more information becomes available.

The prudent investment of funds is necessary to ensure Council’s long term financial sustainability.

Governance

Report of Governance to the Ordinary Meeting of Council held on Monday
21 November 2016

GO2 – Investment of Funds as at 30 September 2016

CERTIFICATION

I hereby certify that Council's investments have been made in accordance with Sec 625 of the Local Government Act 1993, clause 212 of the Local Government (General Regulations) 2005 and Council's Investment Policy.

Ashley Christie
Manager Financial Services
WOLLONDILLY SHIRE COUNCIL

ATTACHMENTS:

1. Investments as at 30 September 2016 including reconciliation of invested funds.

RECOMMENDATION

That the information and certification in relation to the investment of Council funds as at 30 September 2016 be noted.

WOLLONDILLY SHIRE COUNCIL

Report of Governance to the Ordinary Meeting of Council held on Monday 21 November 2016

GO2 – Investment of Funds as at 30 September 2016

ATTACHMENT 1 – 1022-4 – 21 NOVEMBER 2016

INVESTMENTS AS AT 30 September 2016							
Reporting Period:		1-Sep-16		to		30-Sep-16	
Investment Institution	Rating	Face Value 30-Sep-16	Value at 30-Sep-16	Percentage Holding	Interest/ Capital Growth		Maturity
			(1)		%p.a.	received	
CASH & CASH PLUS FUNDS							
National Australia Bank							
<i>General Account Balance (for information only. Not included in Total Cash Plus Investments)</i>							
		253,957					
11 AM At call	A-1+	3,825,000	3,825,000	7.15%	1.55	6,815	At Call
Bank of Queensland (Matured)	A-2					0	01-Sep-16
National Australia Bank (Matured)	A-1+					1,015	14-Sep-16
National Australia Bank	A-1+	1,000,000	1,021,893	1.87%	3.05	2,507	12-Oct-16
Commonwealth Bank of Australia	A-1+	1,000,000	1,025,367	1.87%	2.93	2,408	19-Oct-16
Bank of Queensland	A-1+	1,000,000	1,020,138	1.87%	3.05	2,507	02-Nov-16
Bendigo & Adelaide Bank	A-2	500,000	512,688	0.93%	2.85	1,171	09-Nov-16
National Australia Bank	A-1+	1,000,000	1,022,541	1.87%	3.07	2,523	07-Dec-16
National Australia Bank	A-1+	1,000,000	1,014,430	1.87%	3.08	2,532	14-Dec-16
National Australia Bank	A-1+	1,000,000	1,017,411	1.87%	3.07	2,523	10-Jan-17
Suncorp Bank	A-1	1,000,000	1,009,025	1.87%	3.05	2,507	18-Jan-17
National Australia Bank	A-1+	1,000,000	1,013,334	1.87%	3.10	2,548	25-Jan-17
ME Bank	A-2	2,000,000	2,040,277	3.74%	3.05	5,014	01-Feb-17
ME Bank	A-2	1,000,000	1,019,195	1.87%	3.10	2,548	16-Feb-17
ME Bank	A-2	1,000,000	1,018,378	1.87%	3.12	2,564	28-Feb-17
ME Bank	A-2	1,000,000	1,018,293	1.87%	3.12	2,564	01-Mar-17
National Australia Bank	A-1+	750,000	756,018	1.40%	2.90	1,788	19-Apr-17
Bendigo & Adelaide Bank	A-2	2,000,000	2,021,984	3.74%	3.12	4,849	17-May-17
Bank of Queensland	A-1+	1,000,000	1,003,299	1.87%	2.80	2,301	24-May-17
Bendigo & Adelaide Bank	A-2	1,000,000	1,009,860	1.87%	2.95	2,425	31-May-17
National Australia Bank	A-1+	1,000,000	1,004,526	1.87%	2.85	2,301	05-Jun-16
Bank of Queensland	A-1+	1,000,000	1,002,367	1.87%	2.70	2,219	14-Jun-17
National Australia Bank	A-1+	1,000,000	1,006,793	1.87%	2.85	2,342	05-Jul-17
National Australia Bank	A-1+	1,000,000	1,004,526	1.87%	2.80	2,301	02-Aug-17
Bendigo & Adelaide Bank	A-2	1,000,000	1,002,425	1.87%	2.95	2,425	29-Aug-17
Westpac Group	AA-	1,000,000	1,002,466	1.87%	3.00	2,466	13-Sep-17
Westpac Group	AA-	500,000	501,521	0.93%	3.00	1,233	27-Sep-17
Westpac Group	AA-	1,000,000	1,002,384	1.87%	3.10	1,619	23-Aug-18
Westpac Group	AA-	1,000,000	1,001,397	1.87%	3.00	1,397	04-Oct-17
Westpac Group	AA-	1,000,000	1,003,312	1.87%	3.10	3,312	23-Aug-18
Bendigo & Adelaide Bank	A-2	1,000,000	1,003,008	1.87%	3.05	2,507	27-Aug-18
Westpac Group	AA-	1,000,000	1,002,548	1.87%	3.10	2,548	12-Sep-18
Westpac Group	AA-	1,000,000	1,004,647	1.87%	3.20	2,630	09-Aug-19
						0	
TOTAL CASH PLUS INVESTMENTS		34,575,000	34,911,049	64.62%		82,411	
Investment Institution	Rating	Face Value 30-Sep-16	Value at 30-Sep-16	% Holding	Interest		Maturity
			(1)		%p.a.	accrued	
INVESTMENT SECURITIES							
Corporate Bond							
National Australia Bank	AA-	1,000,000	1,021,710	1.87%	6.00	4,891	15-Feb-17
Zero Coupon Bond							
Commonwealth Bank of Australia	AA-	2,000,000	1,939,120	3.74%	7.17	8,484	22-Jan-18
Floating Rate Notes							
Members Equity Bank Pty Ltd	BBB+	500,000	501,779	0.93%	2.98	1,225	28-Nov-16
Westpac Banking Corporation	AA-	500,000	504,374	0.93%	3.38	1,387	20-Feb-17
Macquarie Bank	A	1,000,000	1,002,758	1.87%	4.63	3,867	09-Mar-17
CUA Snr FRN	BBB+	500,000	506,355	0.93%	3.55	1,461	01-Apr-19
Westpac Banking Corporation	AA-	1,000,000	1,010,949	1.87%	2.77	2,278	10-May-19
AMP Snr FRN	A+	750,000	752,485	1.40%	2.83	1,810	11-Jun-19
Members Equity Bank Pty Ltd	BBB+	1,000,000	1,007,056	1.87%	3.40	2,795	18-Jul-19
Bendigo Bank Senior FRN	A-	1,000,000	998,305	1.87%	2.66	2,317	17-Sep-19
ANZ Snr FRN	AA-	1,000,000	1,005,130	1.87%	2.61	2,141	11-Nov-19
Westpac Banking Corporation	AA-	1,000,000	1,006,777	1.87%	2.80	2,297	22-Jan-20
Macquarie Bank	A	1,000,000	1,002,939	1.87%	2.82	2,348	03-Mar-20
CBA Snr FRN	AA-	1,000,000	1,006,636	1.87%	2.85	2,342	17-Jul-20
Bendigo Bank Senior FRN	A-	1,000,000	1,004,890	1.87%	2.85	2,338	18-Aug-20
Suncorp Senior FRN	A+	1,000,000	1,013,730	1.87%	3.18	2,610	20-Oct-20
CBA Snr FRN	AA-	500,000	508,070	0.93%	3.10	1,274	18-Jan-21
Bendigo Bank Senior FRN	A-	500,000	508,930	0.93%	3.39	1,391	20-Apr-21
Westpac Banking Corporation	AA-	1,000,000	1,010,309	1.87%	2.89	2,405	03-Jun-21
Mortgage Backed Securities							
Emerald Reverse Mortgage Series 2007-1 Class B	AA	1,000,000	604,853	1.87%	2.46	2,022	21-Jul-27
Emerald Reverse Mortgage Series 2006-1 Class A	AAA	679,163	538,157	1.27%	2.18	1,214	22-Aug-22
		18,929,163	18,455,310	35.38%		52,898	
TOTAL CASH & INVESTMENT SECURITIES		53,504,163	53,366,359	100.00%	2.94	135,309	
Benchmark (90 day UBS Warburg AUD Bank Bill Index)					1.74		
Maximum Permitted Institution Holding = 45%							
(1) Current market Value							

Governance

Report of Governance to the Ordinary Meeting of Council held on Monday 21 November 2016

GO2 – Investment of Funds as at 30 September 2016

ATTACHMENT 1 – 1022-4 – 21 NOVEMBER 2016

Summary of Investment Holdings by Investment Type as at 30 September 2016

	Face Value (\$)	Current Value (\$)	Current Yield (%)
Bonds	3,000,000.00	2,960,829.83	6.78
Cash	3,825,000.00	3,825,000.00	1.55
Floating Rate Note	14,250,000.00	14,351,470.64	3.07
Mortgage Backed Security	1,679,162.57	1,143,009.86	2.34
Term Deposit	30,750,000.00	31,086,049.05	3.00
	53,504,162.57	53,366,359.38	3.10