

GO2 – Investment of Funds as at 31 March 2016

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Investment of Funds as at 31 March 2016

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TRIM 1022-3

EXECUTIVE SUMMARY

- This report provides details of Council's invested funds as at 31 March 2016.
- It is recommended that the information and certification in relation to the investment of Council funds as at 31 March 2016 be noted.

REPORT

At its last meeting, the Reserve Bank left the cash rate at 2.00%. In relation to the domestic market, the Board of the Reserve Bank commented that:

"In Australia, the available information suggests that the economy is continuing to rebalance following the mining investment boom. Consistent with developments in the labour market, overall GDP growth picked up over 2015, despite the contraction in mining investment. The pace of lending to businesses has also picked up.

Inflation is quite low. Recent information has confirmed that growth in labour costs remains quite subdued. Given this, and with inflation also restrained elsewhere in the world, inflation in Australia is likely to remain low over the next year or two.

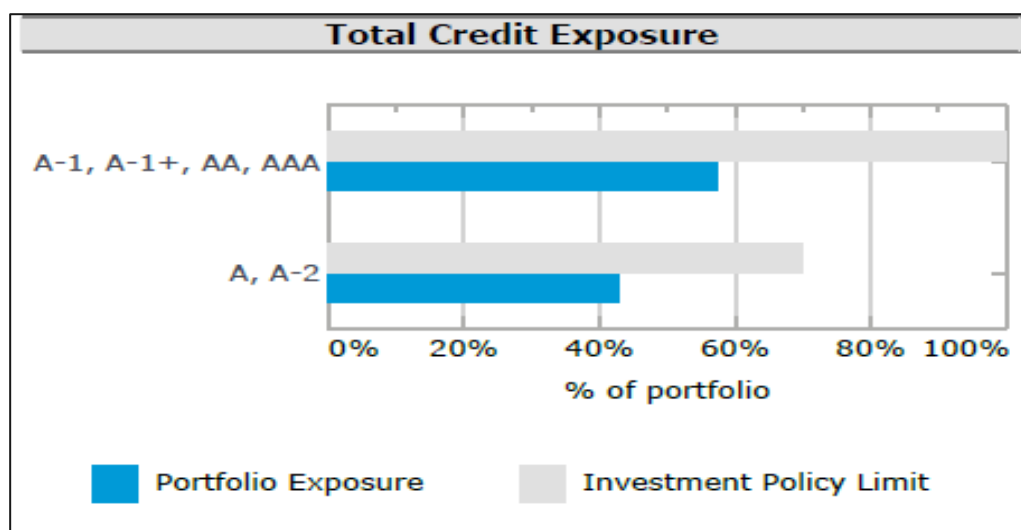
Given these conditions, it is appropriate for monetary policy to be accommodative. Low interest rates are supporting demand, while supervisory measures are working to emphasise prudent lending standards and so to contain risks in the housing market. Credit growth to households continues at a moderate pace, albeit with a changed composition between investors and owner-occupiers. The pace of growth in dwelling prices has moderated in Melbourne and Sydney and has remained mostly subdued in other cities.

The Australian dollar has appreciated somewhat recently. In part, this reflects some increase in commodity prices, but monetary developments elsewhere in the world have also played a role. Under present circumstances, an appreciating exchange rate could complicate the adjustment under way in the economy."

Council will continue to monitor and review the portfolio while liaising with our investment advisors, to ensure that returns are maximised and risk exposure is minimised.

As shown in the following chart, the credit rating on Council's portfolio as at 31 March 2016 is within Council's investment policy limits.

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The percentage of Council's investment portfolio invested with each institution as at 31 March 2016 also complies with the limits specified in Council's investment policy, as detailed in the following table.

% used vs Investment Policy Limit	
	% used vs Investment Policy Limit
Members Equity Bank (A-2, BBB+)	76% ✓
National Australia Bank (A-1+, AA-)	70% ✓
Bendigo and Adelaide Bank (A-2, A-)	55% ✓
Bank of Queensland (A-2, A-)	55% ✓
Westpac Group (A-1+, AA-)	20% ✓
Commonwealth Bank of Australia (A-1+, AA-)	20% ✓
Macquarie Group (A-1, A)	12% ✓
Suncorp Bank (A-1, A+)	10% ✓
AMP Bank (A-1, A+)	8% ✓
Emerald Reverse Mortgage (B Tranche) (AA)	6% ✓
ANZ Group (A-1+, AA-)	6% ✓
Emerald Reverse Mortgage (A Tranche) (AAA)	3% ✓

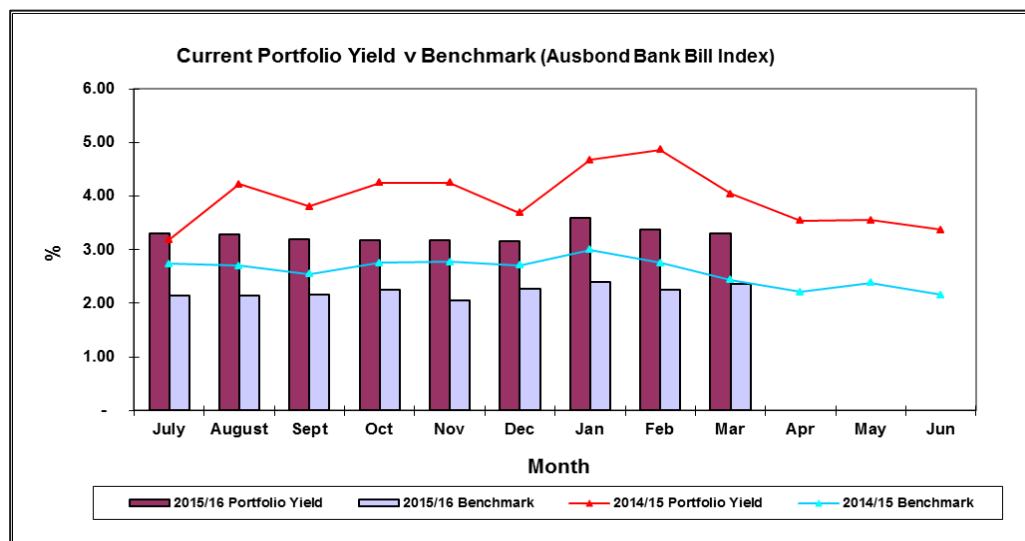
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The vast majority of Council’s investment portfolio (96%) is invested in deposits / securities with Australian Authorised Deposit taking Institutions (ADI’s). Council has been taking advantage of term deposit “specials” from various institutions without 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.

The following chart compares Council’s portfolio yield with the benchmark AusBond Bank Bill Index rate in each month for 2014/15 and 2015/16.



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 March 2016, Council’s portfolio yielded 3.33% compared to the benchmark’s 2.36% pa return.

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.

Details of Council’s investment portfolio as at 31 March 2016 are provided in attachment 1.

CONSULTATION

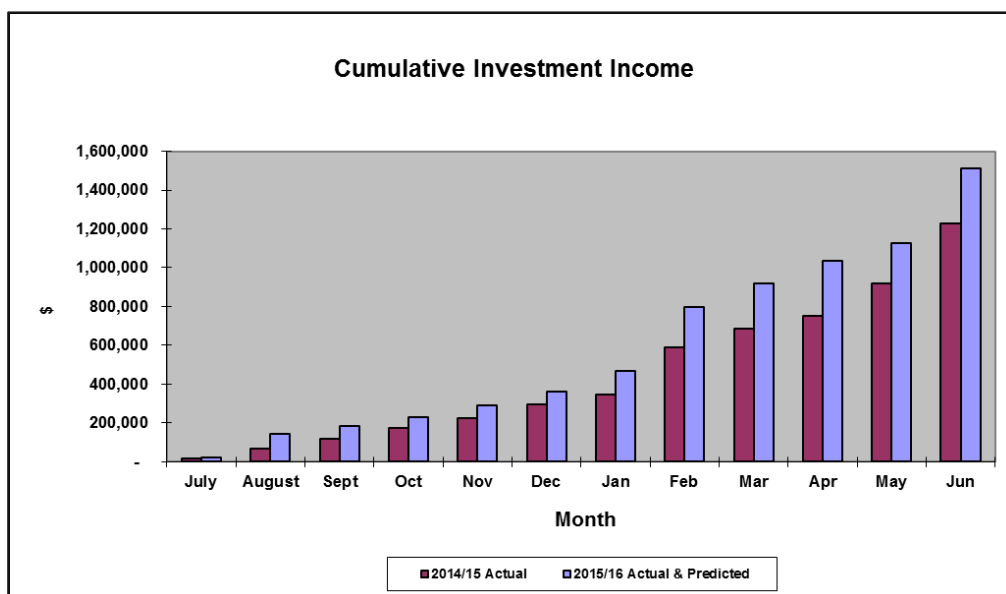
Independent advice regarding the investment of Council funds was provided by Prudential Investment Services Corp.

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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 actual and predicted interest for 2015/16 with the prior year’s interest income.



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Council’s investment income for 2015/16 is expected to be higher than the income received for 2014/15. While interest rates on investments remain low Council’s current portfolio base is higher than expected as some major projects projected for 2015/16 have not yet commenced.

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

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:

- Investments as at 31 March 2016 including reconciliation of invested funds.

Report of Governance to the Ordinary Meeting of Council held on Monday 16 May 2016

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RECOMMENDATION

That the information and certification in relation to the investment of Council funds as at 31 March 2016 be noted.

WOLLONDILLY SHIRE COUNCIL

Report of Governance to the Ordinary Meeting of Council held on Monday 16 May 2016

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ATTACHMENT 1 – 1022-3 – 16 MAY 2016

INVESTMENTS AS AT 31 March 2016							
Reporting Period:		1-Mar-16	to	31-Mar-16			
Investment Institution	Rating	Face Value 31-Mar-16	Current Value 31-Mar-16	Percentage Holding	Interest		
					%p.a.	Received / Accrued	Maturity
CASH INVESTMENTS							
National Australia Bank							
<i>General Account Balance (for information only. Not included in Total Cash Plus Investments)</i>		579,382					
11AM At call	AA	2,975,000	2,975,000	5.99%	3.00	8,467	At Call
Term Deposits							
Rural Bank (Matured)	A-2					0	01-Mar-16
Credit Union Australia (CUA) (Matured)	BBB+					1,189	08-Mar-16
National Australia Bank (Matured)	A-1+					1,748	23-Mar-16
National Australia Bank	A-1+	2,000,000	2,033,639	4.03%	2.93	4,841	13-Apr-16
National Australia Bank	A-1+	2,000,000	2,051,125	4.03%	2.93	4,977	27-Apr-16
Westpac Banking Corporation- Local Govt	AA-	1,000,000	1,042,775	2.01%	4.55	3,864	16-May-16
Westpac Banking Corporation- Local Govt	AA-	1,000,000	1,042,708	2.01%	4.55	3,864	17-May-16
Bank of Queensland	A-2	1,000,000	1,023,963	2.01%	2.90	2,463	01-Jun-16
National Australia Bank	A-1+	1,000,000	1,024,550	2.01%	2.95	2,505	15-Jun-16
National Australia Bank	A-1+	750,000	762,295	1.51%	2.91	1,854	22-Jun-16
Bank of Queensland	A-2	1,000,000	1,021,760	2.01%	2.90	2,463	04-Jul-16
National Australia Bank	A-1+	1,000,000	1,023,336	2.01%	2.97	2,522	06-Jul-16
Bendigo & Adelaide Bank	A-2	1,000,000	1,020,658	2.01%	2.90	2,463	13-Jul-16
ME Bank	A-2	1,000,000	1,010,813	2.01%	3.07	2,607	27-Jul-16
Bank of Queensland	A-2	1,000,000	1,015,439	2.01%	2.75	2,336	03-Aug-16
National Australia Bank	A-1+	1,000,000	1,006,910	2.01%	3.00	2,548	03-Aug-16
ME Bank	A-2	1,000,000	1,010,503	2.01%	3.10	2,633	10-Aug-16
Bank of Queensland	A-2	500,000	502,021	1.01%	3.10	1,316	25-Aug-16
Bank of Queensland	A-2	1,000,000	1,002,633	2.01%	3.10	2,633	01-Sep-16
National Australia Bank	A-1+	1,000,000	1,017,130	2.01%	2.85	2,421	14-Sep-16
National Australia Bank	A-1+	1,000,000	1,009,848	2.01%	3.05	2,590	12-Oct-16
Commonwealth Bank of Australia	A-1+	1,000,000	1,013,415	2.01%	2.93	2,488	19-Oct-16
Bank of Queensland	A-1+	1,000,000	1,005,142	2.01%	3.05	2,590	02-Nov-16
Bendigo & Adelaide Bank	A-2	500,000	504,970	1.01%	2.85	1,210	09-Nov-16
National Australia Bank	A-1+	1,000,000	1,012,088	2.01%	3.07	2,607	07-Dec-16
National Australia Bank	A-1+	1,000,000	1,002,019	2.01%	3.07	2,019	10-Jan-17
ME Bank	A-2	2,000,000	2,006,589	4.03%	3.05	5,181	01-Feb-17
ME Bank	A-2	1,000,000	1,002,243	2.01%	3.10	2,633	16-Feb-17
ME Bank	A-2	1,000,000	1,001,290	2.01%	3.12	2,650	28-Feb-17
ME Bank	A-2	1,000,000	1,002,650	2.01%	3.12	2,650	01-Mar-17
Bendigo & Adelaide Bank	A-2	1,000,000	1,011,500	2.01%	2.95	2,505	29-Aug-17
Bendigo & Adelaide Bank	A-2	1,000,000	1,008,082	2.01%	3.05	2,590	27-Aug-18
TOTAL CASH INVESTMENTS		33,725,000	34,167,094	67.90%		91,431	
INVESTMENT SECURITIES							
Corporate Bond							
National Australia Bank	AA-	1,000,000	1,036,082	2.01%	6.00	5,110	15-Feb-17
Zero Coupon Bond							
Commonwealth Bank of Australia	AA-	2,000,000	1,877,340	4.03%	7.17	8,484	22-Jan-18
Floating Rate Notes							
Members Equity Bank Pty Ltd	BBB+	500,000	502,967	1.01%	3.54	1,503	28-Nov-16
Westpac Banking Corporation	AA-	500,000	507,563	1.01%	3.93	1,668	20-Feb-17
Macquarie Bank	A	1,000,000	1,003,329	2.01%	5.22	4,429	09-Mar-17
Westpac Banking Corporation	AA-	1,000,000	1,001,934	2.01%	3.24	1,864	10-May-19
AMP Snr FRN	A+	750,000	751,053	1.51%	3.43	2,188	11-Jun-19
Bendigo Bank Senior FRN	A-	1,000,000	991,046	2.01%	3.25	2,774	17-Sep-19
ANZ Snr FRN	AA-	1,000,000	1,000,218	2.01%	3.13	2,658	11-Nov-19
Westpac Banking Corporation	AA-	1,000,000	1,003,560	2.01%	3.17	2,688	22-Jan-20
Macquarie Bank	A	1,000,000	995,099	2.01%	3.41	2,896	03-Mar-20
CBA Snr FRN	AA-	1,000,000	1,001,287	2.01%	3.19	2,709	17-Jul-20
Bendigo Bank Senior FRN	A-	1,000,000	993,910	2.01%	3.39	2,876	18-Aug-20
Suncorp Senior FRN	A+	1,000,000	1,006,660	2.01%	3.53	2,997	20-Oct-20
CBA Snr FRN	AA-	500,000	505,027	1.01%	3.44	1,461	18-Jan-21
Mortgage Backed Securities							
Emerald Reverse Mortgage Series 2007-1 Class B	AA	1,000,000	605,485	2.01%	2.82	2,395	21-Jul-27
Emerald Reverse Mortgage Series 2006-1 Class A	AAA	691,627	548,400	1.39%	2.73	1,602	22-Aug-22
		15,941,627	15,330,961	32.10%		50,302	
TOTAL CASH & INVESTMENT SECURITIES		\$49,666,627	\$49,498,055	100.00%	3.33	\$141,732	
Benchmark (90 day Ausbond Bank Bill Index)					2.36		

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ATTACHMENT 1 – 1022-3 – 16 MAY 2016

Summary of Investment Holdings by Investment Type as at 31 Mar 2016

	Face Value (\$)	Current Value (\$)	Current Yield (%)
Bonds	3,000,000.00	2,913,422.42	6.7795
Cash	2,975,000.00	2,975,000.00	2.0500
Floating Rate Note	11,250,000.00	11,263,653.03	3.5153
Mortgage Backed Securities	1,691,626.67	1,153,885.58	2.7819
Term Deposit	30,750,000.00	31,192,093.92	3.0867
	49,666,626.67	49,498,054.94	3.3344

Application of Invested Funds- 31 March 2016		
Fund Type	Description	Value \$
Externally Restricted Funds	Developer Contributions	14,630,707
	Domestic Waste Management	4,781,680
	Unexpended Grants held in Restricted Cash	781,252
	Unexpended Loan Funds	21,372
Internally Restricted Funds	Funds held in Restricted Cash for future projects and operations	14,223,623
	Funds allocated to meet current budgeted expenditure	15,227,993
		49,666,627