

**GO2 – Investment of Funds as at 30 April 2016**

GO2

**Investment of Funds as at 30 April 2016**

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TRIM 1022-3

**EXECUTIVE SUMMARY**

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

**REPORT**

At its last meeting, the Reserve Bank reduced the cash rate at 1.75%. 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. GDP growth picked up over 2015, particularly in the second half of the year, and the labour market improved. Indications are that growth is continuing in 2016, though probably at a more moderate pace. Labour market indicators have been more mixed of late.*

*Inflation has been quite low for some time and recent data were unexpectedly low. While the quarterly data contain some temporary factors, these results, together with ongoing very subdued growth in labour costs and very low cost pressures elsewhere in the world, point to a lower outlook for inflation than previously forecast.*

*Monetary policy has been accommodative for quite some time. Low interest rates have been supporting demand and the lower exchange rate overall has helped the traded sector. Credit growth to households continues at a moderate pace, while that to businesses has picked up over the past year or so. These factors are all assisting the economy to make the necessary economic adjustments, though an appreciating exchange rate could complicate this.*

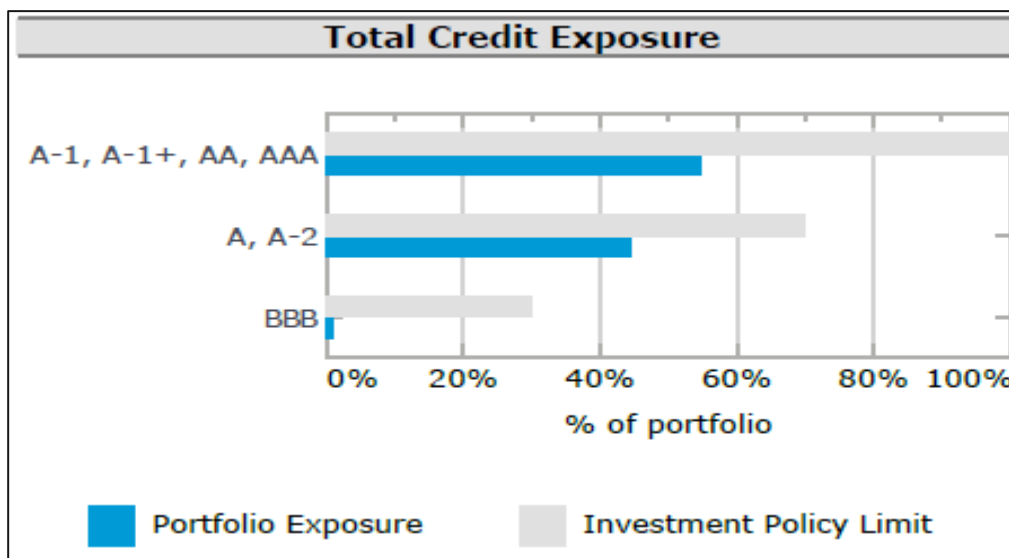
*In reaching today's decision, the Board took careful note of developments in the housing market, where indications are that the effects of supervisory measures are strengthening lending standards and that price pressures have tended to abate. At present, the potential risks of lower interest rates in this area are less than they were a year ago.*

**GO2 – Investment of Funds as at 30 April 2016**

*Taking all these considerations into account, the Board judged that prospects for sustainable growth in the economy, with inflation returning to target over time, would be improved by easing monetary policy at this meeting."*

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 30 April 2016 is within Council's investment policy limits.



The percentage of Council's investment portfolio invested with each institution as at 30 April 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 April 2016**

<b>% used vs Investment Policy Limit</b>		
	<b>% used vs Investment Policy Limit</b>	
Members Equity Bank (A-2, BBB+)	77%	✓
National Australia Bank (A-1+, AA-)	64%	✓
Bendigo and Adelaide Bank (A-2, A-)	61%	✓
Bank of Queensland (A-2, A-)	56%	✓
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%	✓
Credit Union Australia (A-2, BBB+)	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%	✓

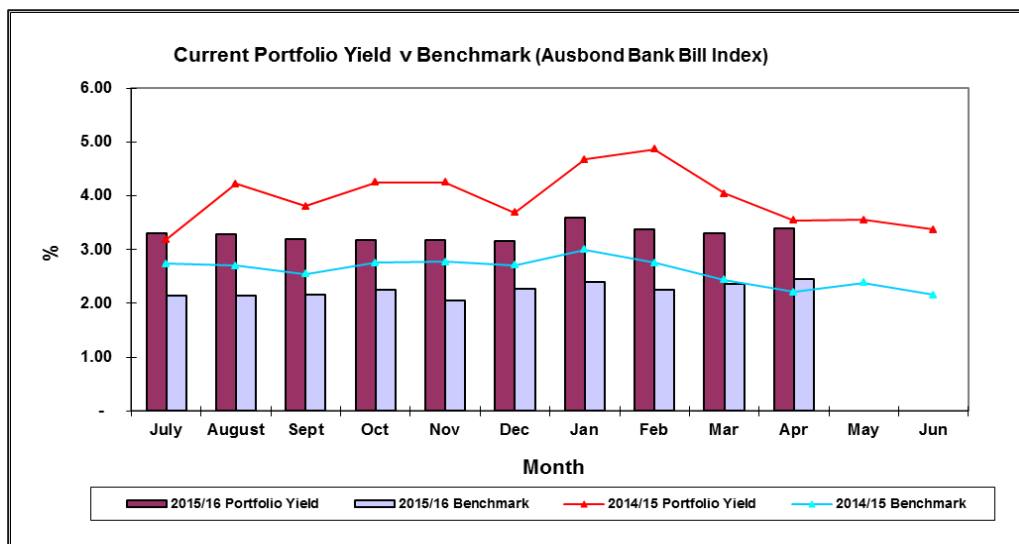
**Governance**

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.

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.

**GO2 – Investment of Funds as at 30 April 2016**



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 April 2016, Council’s portfolio yielded 3.36% compared to the benchmark’s 2.45% 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 30 April 2016 are provided in Attachment 1.

**CONSULTATION**

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

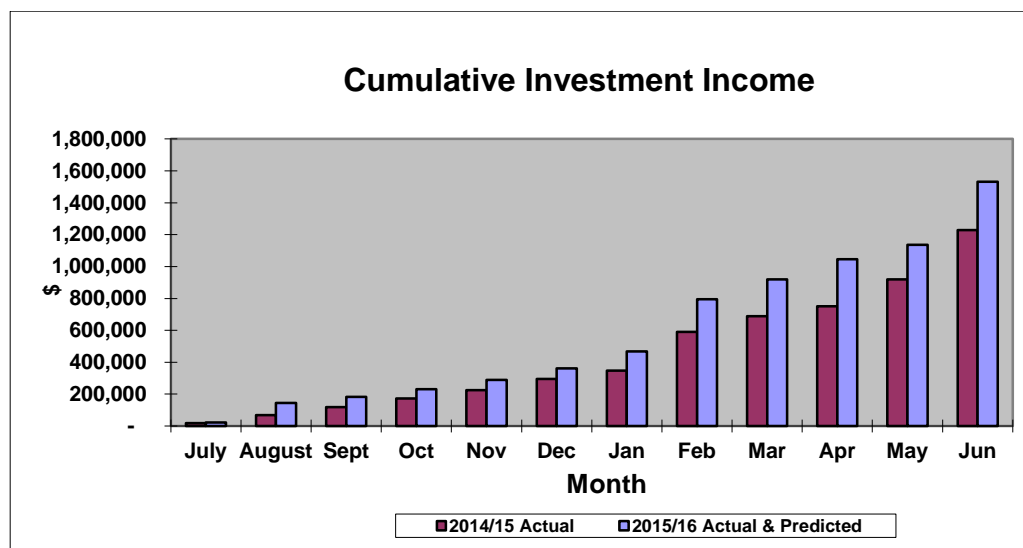
**FINANCIAL IMPLICATIONS**

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

Governance

**GO2 – Investment of Funds as at 30 April 2016**



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 proposed for 2015/16 have been deferred until 2016/17.

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:**

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

**RECOMMENDATION**

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

Governance

WOLLONDILLY SHIRE COUNCIL

Report of Governance to the Ordinary Meeting of Council held on Monday 20 June 2016

**GO2 – Investment of Funds as at 30 April 2016**

**ATTACHMENT 1 – 1022-3 – 20 JUNE 2016**

INVESTMENTS AS AT 30 April 2016							
Reporting Period:		1-Apr-16		to		30-Apr-16	
Investment Institution	Rating	Face Value 30-Apr-16	Current Value 30-Apr-16	Percentage Holding	Interest		
					%p.a.	Received / Accrued	Maturity
<b>CASH INVESTMENTS</b>							
<b>National Australia Bank</b>							
<i>General Account Balance (for information only. Not included in Total Cash Plus Investments)</i>							
		437,981					
<b>11 AM At call</b>	AA	3,295,000	3,295,000	6.73%	2.05	5,249	At Call
<b>Term Deposits</b>							
National Australia Bank (Matured)	A-1+			0.00%		1,874	13-Apr-16
National Australia Bank (Matured)	A-1+			0.00%		4,174	27-Apr-16
Westpac Banking Corporation- Local Govt	AA-	1,000,000	1,044,709	2.04%	4.55	3,740	16-May-16
Westpac Banking Corporation- Local Govt	AA-	1,000,000	1,044,652	2.04%	4.55	3,740	17-May-16
Bank of Queensland	A-2	1,000,000	1,026,507	2.04%	2.90	2,384	01-Jun-16
National Australia Bank	A-1+	1,000,000	1,026,683	2.04%	2.95	2,425	15-Jun-16
National Australia Bank	A-1+	750,000	763,913	1.53%	2.91	1,794	22-Jun-16
Bank of Queensland	A-2	1,000,000	1,024,496	2.04%	2.90	2,384	04-Jul-16
National Australia Bank	A-1+	1,000,000	1,025,600	2.04%	2.97	2,441	06-Jul-16
Bendigo & Adelaide Bank	A-2	1,000,000	1,023,445	2.04%	2.90	2,384	13-Jul-16
ME Bank	A-2	1,000,000	1,013,656	2.04%	3.07	2,523	27-Jul-16
Bank of Queensland	A-2	1,000,000	1,018,336	2.04%	2.75	2,260	03-Aug-16
National Australia Bank	A-1+	1,000,000	1,009,333	2.04%	3.00	2,466	03-Aug-16
ME Bank	A-2	1,000,000	1,013,428	2.04%	3.10	2,548	10-Aug-16
Bank of Queensland	A-2	500,000	503,518	1.02%	3.10	1,274	25-Aug-16
Bank of Queensland	A-2	1,000,000	1,005,181	2.04%	3.10	2,548	01-Sep-16
National Australia Bank	A-1+	1,000,000	1,019,840	2.04%	2.85	2,342	14-Sep-16
National Australia Bank	A-1+	1,000,000	1,012,482	2.04%	3.05	2,507	12-Oct-16
Commonwealth Bank of Australia	A-1+	1,000,000	1,015,976	2.04%	2.93	2,408	19-Oct-16
Bank of Queensland	A-1+	1,000,000	1,009,268	2.04%	3.05	2,507	02-Nov-16
Bendigo & Adelaide Bank	A-2	500,000	507,077	1.02%	2.85	1,171	09-Nov-16
National Australia Bank	A-1+	1,000,000	1,014,382	2.04%	3.07	2,523	07-Dec-16
National Australia Bank	A-1+	1,000,000	1,001,519	2.04%	3.08	1,519	14-Dec-16
National Australia Bank	A-1+	1,000,000	1,004,542	2.04%	3.07	2,523	10-Jan-17
National Australia Bank	A-1+	1,000,000	1,000,340	2.04%	3.10	340	25-Jan-17
ME Bank	A-2	2,000,000	2,016,605	4.08%	3.05	5,014	01-Feb-17
ME Bank	A-2	1,000,000	1,007,394	2.04%	3.10	2,548	16-Feb-17
ME Bank	A-2	1,000,000	1,006,555	2.04%	3.12	2,564	28-Feb-17
ME Bank	A-2	1,000,000	1,005,214	2.04%	3.12	2,564	01-Mar-17
Bendigo & Adelaide Bank	A-2	1,000,000	1,017,567	2.04%	2.95	2,425	29-Aug-17
Bendigo & Adelaide Bank	A-2	1,000,000	1,015,685	2.04%	3.05	2,507	27-Aug-18
<b>TOTAL CASH PLUS INVESTMENTS</b>		<b>32,045,000</b>	<b>32,492,903</b>	<b>65.42%</b>		<b>81,669</b>	
Investment Institution	Rating	Face Value 30-Apr-16	Current Value 30-Apr-16	Percentage Holding	Interest		
					%p.a.	Received / Accrued	Maturity
<b>INVESTMENT SECURITIES</b>							
<b>Corporate Bond</b>							
National Australia Bank	AA-	1,000,000	1,039,527	2.04%	6.00	4,945	15-Feb-17
<b>Zero Coupon Bond</b>							
Commonwealth Bank of Australia	AA-	2,000,000	1,908,580	4.08%	7.17	8,210	22-Jan-18
<b>Floating Rate Notes</b>							
Members Equity Bank Pty Ltd	BBB+	500,000	504,357	1.02%	3.54	1,455	28-Nov-16
Westpac Banking Corporation	AA-	500,000	508,767	1.02%	3.93	1,614	20-Feb-17
Macquarie Bank	A	1,000,000	1,007,730	2.04%	5.22	4,290	09-Mar-17
CUA Snr FRN	BBB+	500,000	501,710	1.02%	3.88	1,595	01-Apr-19
Westpac Banking Corporation	AA-	1,000,000	1,004,707	2.04%	3.24	2,663	10-May-19
AMP Snr FRN	A+	750,000	753,737	1.53%	3.43	2,114	11-Jun-19
Bendigo Bank Senior FRN	A-	1,000,000	993,729	2.04%	3.25	2,673	17-Sep-19
ANZ Snr FRN	AA-	1,000,000	1,003,890	2.04%	3.13	2,573	11-Nov-19
Westpac Banking Corporation	AA-	1,000,000	999,292	2.04%	3.17	2,603	22-Jan-20
Macquarie Bank	A	1,000,000	999,192	2.04%	3.41	2,803	03-Mar-20
CBA Snr FRN	AA-	1,000,000	997,886	2.04%	3.19	2,622	17-Jul-20
Bendigo Bank Senior FRN	A-	1,000,000	997,683	2.04%	3.39	2,784	18-Aug-20
Suncorp Senior FRN	A+	1,000,000	1,001,882	2.04%	3.53	2,899	20-Oct-20
CBA Snr FRN	AA-	500,000	503,813	1.02%	3.44	1,413	18-Jan-21
Bendigo Bank Senior FRN	A-	500,000	500,663	1.02%	3.74	563	20-Apr-21
<b>Mortgage Backed Securities</b>							
Emerald Reverse Mortgage Series 2007-1 Class B	AA	1,000,000	600,774	2.04%	2.83	2,319	21-Jul-27
Emerald Reverse Mortgage Series 2006-1 Class A	AAA	691,627	549,950	1.41%	2.73	1,550	22-Aug-22
		<b>16,941,627</b>	<b>16,377,869</b>	<b>34.58%</b>	<b>3.36</b>	<b>51,687</b>	
<b>TOTAL CASH &amp; INVESTMENT SECURITIES</b>		<b>\$48,986,627</b>	<b>\$48,870,772</b>	<b>100.00%</b>	<b>2.45</b>	<b>\$133,356</b>	

Governance

**GO2 – Investment of Funds as at 30 April 2016**

**ATTACHMENT 1 – 1022-3 – 20 JUNE 2016**

**Summary of Investment Holdings by Investment Type as at 30 April 2016**

	Face Value (\$)	Current Value (\$)	Current Yield (%)
Bonds	3,000,000.00	2,948,107.47	6.7795
Cash	3,295,000.00	3,295,000.00	2.0500
Floating Rate Note	12,250,000.00	12,279,037.08	3.5395
Mortgage Backed Securities	1,691,626.67	1,150,724.09	2.7848
Term Deposit	28,750,000.00	29,197,903.03	3.1143
	<b>48,986,626.67</b>	<b>48,870,771.67</b>	<b>3.3621</b>

Application of Invested Funds- 30 April 2016		
Fund Type	Description	Value \$
Externally Restricted Funds	Developer Contributions	15,809,107
	Domestic Waste Management	9,621,080
	Unexpended Grants held in Restricted Cash	990,334
	Unexpended Loan Funds	21,372
Internally Restricted Funds	Funds held in Restricted Cash for future projects and operations	12,124,123
	Funds allocated to meet current budgeted expenditure	10,420,611
		<b>48,986,627</b>