

EC1 – Investment of Funds as at 31 January 2018

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TRIM 1022-5

EXECUTIVE SUMMARY

- This report provides details of Council's invested funds as at 31 January 2018.
- It is recommended that the information and certification in relation to the investment of Council funds as at 31 January 2018 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:

"The Bank's central forecast for the Australian economy is for GDP growth to pick up, to average a bit above 3 per cent over the next couple of years. The data over the summer have been consistent with this outlook. Business conditions are positive and the outlook for non-mining business investment has improved. Increased public infrastructure investment is also supporting the economy. One continuing source of uncertainty is the outlook for household consumption. Household incomes are growing slowly and debt levels are high.

Employment grew strongly over 2017 and the unemployment rate declined. Employment has been rising in all states and has been accompanied by a significant rise in labour force participation. The various forward-looking indicators continue to point to solid growth in employment over the period ahead, with a further gradual reduction in the unemployment rate expected. Notwithstanding the improving labour market, wage growth remains low. This is likely to continue for a while yet, although the stronger economy should see some lift in wage growth over time. There are reports that some employers are finding it more difficult to hire workers with the necessary skills.

Inflation is low, with both CPI and underlying inflation running a little below 2%. Inflation is likely to remain low for some time, reflecting low growth in labour costs and strong competition in retailing. A gradual pick-up in inflation is, however, expected as the economy strengthens. The central forecast is for CPI inflation to be a bit above 2% in 2018.

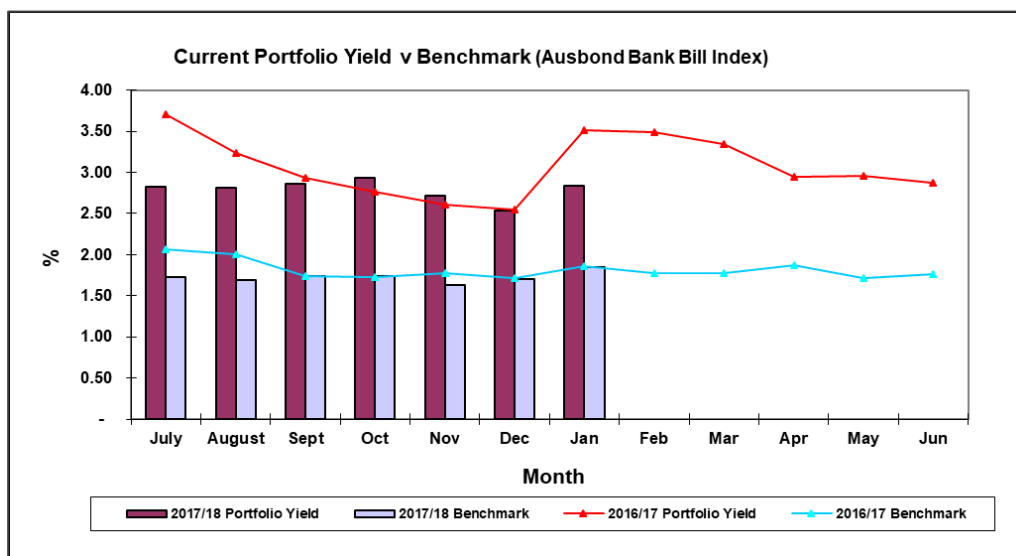
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The low level of interest rates is continuing to support the Australian economy. Further progress in reducing unemployment and having inflation return to target is expected, although this progress is likely to be gradual. Taking account of the available information, the Board judged that holding the stance of monetary policy unchanged at this meeting would be consistent with sustainable growth in the economy and achieving the inflation target over time.”

The majority of Council’s investment portfolio (97%) 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. Note that 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 2016/17 and 2017/18.



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.

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.

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Council’s investment portfolio as at 31 January 2018 is summarised below.

By Product	Face Value (\$)	Current Value (\$)	Current Yield (%)
Cash	2,661,000.00	2,661,000.00	1.5500
Floating Rate Note	15,700,000.00	15,901,641.83	2.8910
Mortgage Backed Security	1,623,769.42	1,096,090.38	2.2778
Term Deposit	38,000,000.00	38,457,239.28	2.7128
	57,984,769.42	58,115,971.49	2.6955

Details of Council’s investment portfolio as at 31 January 2018 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 Reserve Bank of Australia has continued to keep interest rates low and the expected investment income will be reviewed and revised as more information becomes available.

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
Chief Financial Officer
WOLLONDILLY SHIRE COUNCIL

ATTACHMENT INCLUDED IN SEPARATE BOOKLET

1. Investment Summary Report as at 31 January 2018

RECOMMENDATION

That the information and certification in relation to the investment of Council funds as at 31 January 2018 be noted.