

EC2 – Investment of Funds as at 31 May 2018

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TRIM 1022-5

EXECUTIVE SUMMARY

- This report provides details of Council's invested funds as at 31 May 2018.
- That the information and certification in relation to the investment of Council funds as at 31 May 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 recent data on the Australian economy have been consistent with the Bank's central forecast for GDP growth to pick up, to average a bit above 3 per cent in 2018 and 2019. Business conditions are positive and non-mining business investment is increasing. Higher levels of public infrastructure investment are also supporting the economy. Stronger growth in exports is expected. One continuing source of uncertainty is the outlook for household consumption. Household income has been growing slowly and debt levels are high.

Employment has grown strongly over the past year, although growth has slowed over recent months. The strong growth in employment has been accompanied by a significant rise in labour force participation, particularly by women and older Australians. The unemployment rate has been little changed at around 5½ per cent for much of the past year. The various forward-looking indicators continue to point to solid growth in employment in the period ahead, with a gradual reduction in the unemployment rate expected. Wages growth remains low. This is likely to continue for a while yet, although the stronger economy should see some lift in wages growth over time. Consistent with this, the rate of wages growth appears to have troughed and there are reports that some employers are finding it more difficult to hire workers with the necessary skills.

Inflation is low and is likely to remain so 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 per cent in 2018.

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The Australian dollar remains within the range that it has been in over the past two years. An appreciating exchange rate would be expected to result in a slower pick-up in economic activity and inflation than currently forecast.

The housing markets in Sydney and Melbourne have slowed. Nationwide measures of housing prices are little changed over the past six months, with prices having recorded falls in some areas. Housing credit growth has slowed over the past year, especially to investors. APRA's supervisory measures and tighter credit standards have been helpful in containing the build-up of risk in household balance sheets, although the level of household debt remains high. While there may be some further tightening of lending standards, the average mortgage interest rate on outstanding loans is continuing to decline.

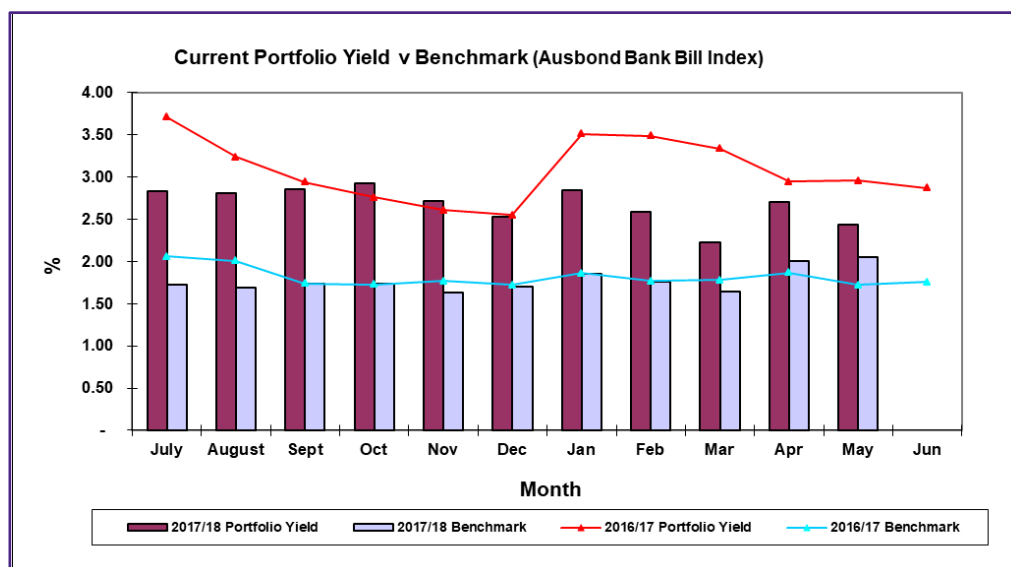
The low level of interest rates is continuing to support the Australian economy. Further progress in reducing unemployment and having inflation return to target is expected, although this progress is likely to be gradual. Taking account of the available information, the Board judged that holding the 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.

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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.

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

By Product	Face Value (\$)	Current Value (\$)	Current Yield (%)
Cash	5,046,000.00	5,046,000.00	1.5500
Floating Rate Note	16,200,000.00	16,370,020.13	3.1065
Mortgage Backed Security	1,596,815.94	1,074,707.53	2.5287
Term Deposit	35,000,000.00	35,440,802.82	2.7187
	57,842,815.94	57,931,530.48	2.7268

Details of Council’s investment portfolio as at 31 May 2018 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 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

ATTACHMENTS INCLUDED IN SEPARATE BOOKLET

1. Investment Summary Report as at 31 May 2018.

RECOMMENDATION

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