

EC8 – Investment of Funds as at 30 November 2017 and 31 December 2017

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112 TRIM 1022-5

EXECUTIVE SUMMARY

- This report provides details of Council's invested funds as at 30 November 2017 and 31 December 2017.
- It is recommended that the information and certification in relation to the investment of Council funds as at 30 November 2017 and 31 December 2017 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:

“Recent data suggest that the Australian economy grew at around its trend rate over the year to the September quarter. The central forecast is for GDP growth to average around 3 per cent over the next few years. Business conditions are positive and capacity utilisation has increased. The outlook for non-mining business investment has improved further, with the forward-looking indicators being more positive than they have been for some time. 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 growth has been strong over 2017 and the unemployment rate has declined. Employment has been rising in all states and has been accompanied by a rise in labour force participation. The various forward-looking indicators continue to point to solid growth in employment over the period ahead. There are reports that some employers are finding it more difficult to hire workers with the necessary skills. However, wage growth remains low. This is likely to continue for a while yet, although the stronger conditions in the labour market should see some lift in wage growth over time.

Inflation remains low, with both CPI and underlying inflation running a little below 2 per cent. The Bank's central forecast remains for inflation to pick up gradually as the economy strengthens.

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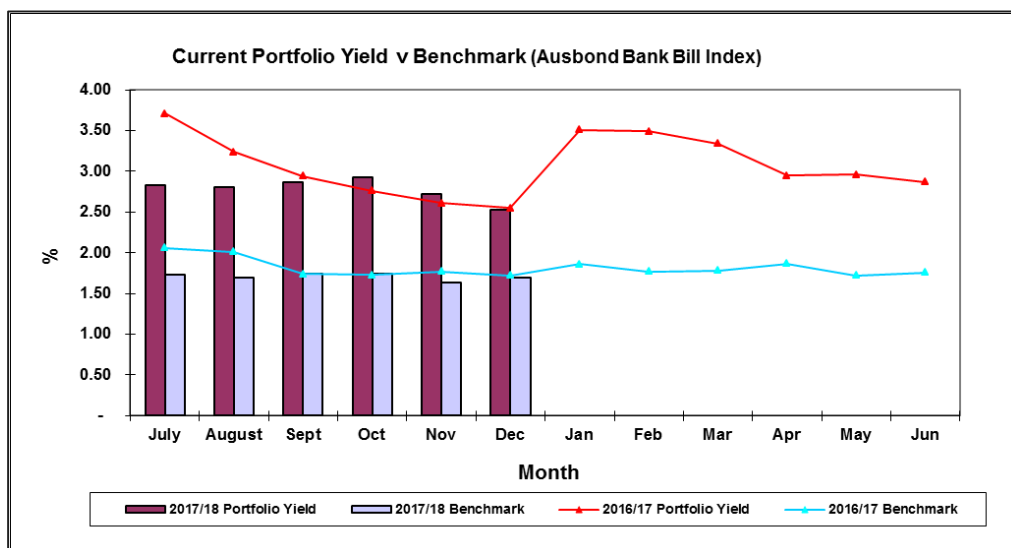
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The Australian dollar remains within the range that it has been in over the past two years. An appreciating exchange rate would be expected to result in a slower pick-up in economic activity and inflation than currently forecast.

The low level of interest rates is continuing to support the Australian economy. 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.

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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 30 November 2017 is summarised below.

By Product	Face Value (\$)	Current Value (\$)	Current Yield (%)
Bonds	2,000,000.00	1,993,600.00	7.1692
Cash	3,676,000.00	3,676,000.00	1.5500
Floating Rate Note	15,700,000.00	15,899,466.21	2.8433
Mortgage Backed Security	1,623,769.42	1,095,552.79	2.2193
Term Deposit	38,000,000.00	38,430,904.00	2.7317
	60,999,769.42	61,095,523.00	2.8211

Council's investment portfolio as at 31 December 2017 is summarised below:

By Product	Face Value (\$)	Current Value (\$)	Current Yield (%)
Bonds	2,000,000.00	1,997,560.00	7.1692
Cash	2,601,000.00	2,601,000.00	1.5500
Floating Rate Note	15,700,000.00	15,895,907.20	2.8567
Mortgage Backed Security	1,623,769.42	1,098,613.37	2.2193
Term Deposit	39,000,000.00	39,412,087.11	2.7150
	60,924,769.42	61,005,167.68	2.8348

Details of Council's investment portfolio as at 30 November 2017 are provided in Attachment 1. Details of Council's investment portfolio as at 31 December 2017 are provided in Attachment 2.

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.

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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 30 November 2017
2. Investment Summary Report as at 31 December 2017

RECOMMENDATION

That the information and certification in relation to the investment of Council funds as at 30 November 2017 and 31 December 2017 be noted.