

GO1 – Investment of Funds as at 31 July 2017

GOVERNANCE

GO1 Investment of Funds as at 31 July 2017

112

TRIM 1022-5

EXECUTIVE SUMMARY

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

"The Bank's forecasts for the Australian economy are largely unchanged. Over the next couple of years, the central forecast is for the economy to grow at an annual rate of around 3 per cent. The transition to lower levels of mining investment following the mining investment boom is almost complete, with some large LNG projects now close to completion. Business conditions have improved and capacity utilisation has increased. Some pick-up in non-mining business investment is expected. The current high level of residential construction is forecast to be maintained for some time, before gradually easing. One source of uncertainty for the domestic economy is the outlook for consumption. Retail sales have picked up recently, but slow growth in real wages and high levels of household debt are likely to constrain growth in spending.

Employment growth has been stronger over recent months, and has increased in all states. The various forward-looking indicators point to continued growth in employment over the period ahead. The unemployment rate is expected to decline a little over the next couple of years. Against this, however, wage growth remains low and this is likely to continue for a while yet.

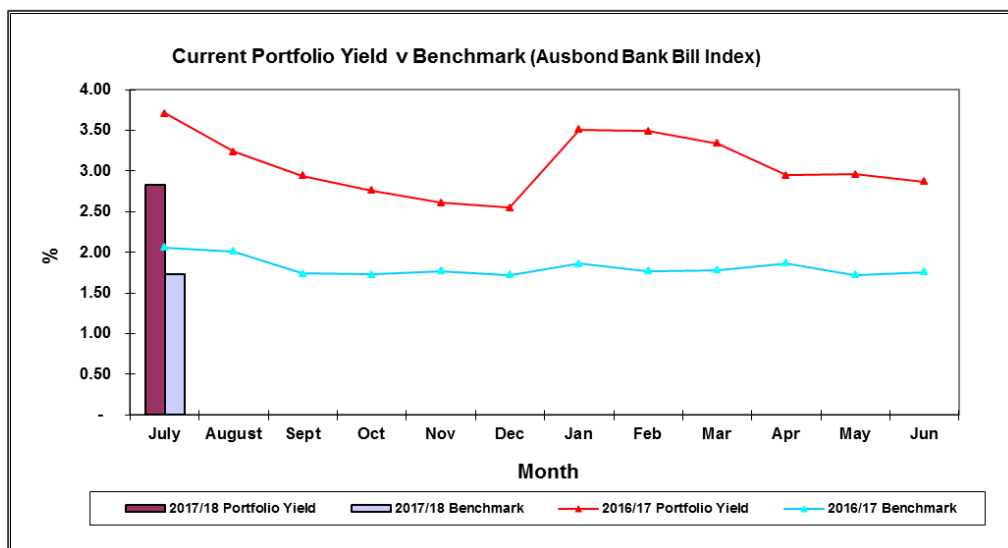
The recent inflation data were broadly as the Bank expected. Both CPI inflation and measures of underlying inflation are running at a little under 2 percent. Inflation is expected to pick up gradually as the economy strengthens. Higher prices for electricity and tobacco are expected to boost CPI inflation. A factor working in the other direction is increased competition from new entrants in the retail industry.

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The Australian dollar has appreciated recently, partly reflecting a lower US dollar. The higher exchange rate is expected to contribute to subdued price pressures in the economy. It is also weighing on the outlook for output and employment. An appreciating exchange rate would be expected to result in a slower pick-up in economic activity and inflation than currently forecast.”

The 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. 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. For July 2017, Council’s portfolio yielded 2.83% and returned 3.16% for the month compared to the benchmark’s 1.73% 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.

Governance

Report of Governance to the Ordinary Meeting of Council held on Monday
18 September 2017

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Details of Council's investment portfolio as at 31 July 2017 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 RBA 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 A SEPARATE BOOKLET

1. Investment Summary Report as at 31 July 2017

RECOMMENDATION

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