

**GO2 – Investment of Funds as at 30 April 2017**

GO2

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TRIM 1022-4

**EXECUTIVE SUMMARY**

- This report provides details of Council's invested funds as at 30 April 2017.
- It is recommended that the information and certification in relation to the investment of Council funds as at 30 April 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 little changed. Growth is expected to increase gradually over the next couple of years to a little above 3 per cent. The economy is continuing its transition following the end of the mining investment boom, with the drag from the decline in mining investment coming to an end and exports of resources picking up. Growth in consumption is expected to remain moderate and broadly in line with incomes. Non-mining investment remains low as a share of GDP and a stronger pick-up would be welcome.*

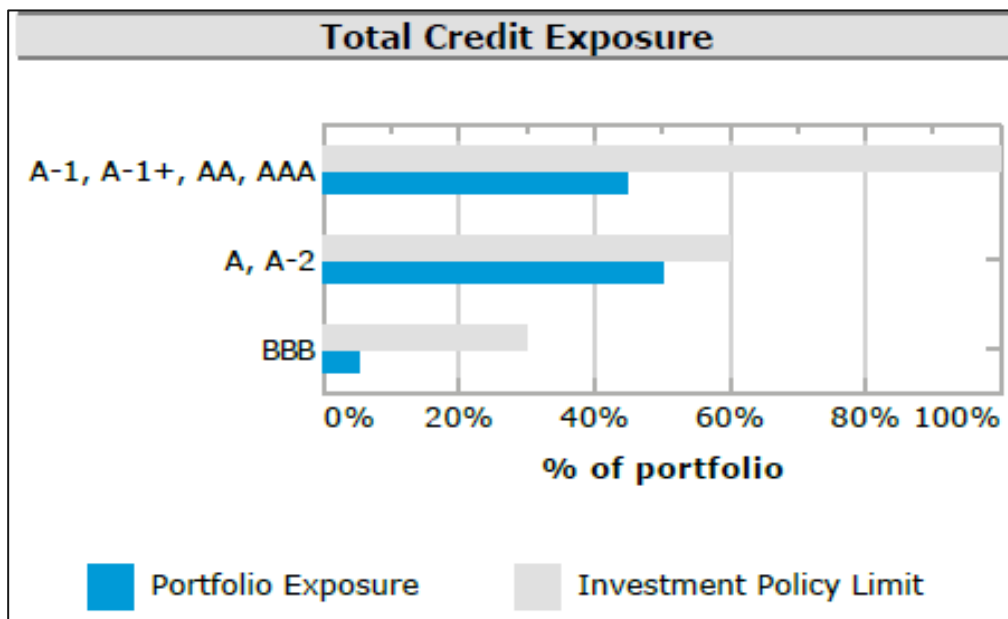
*Indicators of the labour market remain mixed. The unemployment rate has moved a little higher over recent months, but employment growth has been a little stronger. The various forward-looking indicators still point to continued growth in employment over the period ahead. The unemployment rate is expected to decline gradually over time. Wage growth remains slow and this is likely to remain the case for a while yet.*

*The outlook continues to be supported by the low level of interest rates. Lenders have announced increases in mortgage rates, particularly those paid by investors and on interest-only loans. The depreciation of the exchange rate since 2013 has also assisted the economy in its transition following the mining investment boom. An appreciating exchange rate would complicate this adjustment.*

*Inflation picked up to above 2 per cent in the March quarter in line with the Bank's expectations. In underlying terms, inflation is running at around 1¾ per cent, a little higher than last year. A gradual further increase in underlying inflation is expected as the economy strengthens."*

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As shown in the following chart, the credit rating on Council’s portfolio as at 30 April 2017 is within Council’s investment policy limits.



The percentage of Council's investment portfolio invested with each institution as at 30 April 2017 also complies with the limits specified in Council's investment policy, as detailed in the following table.

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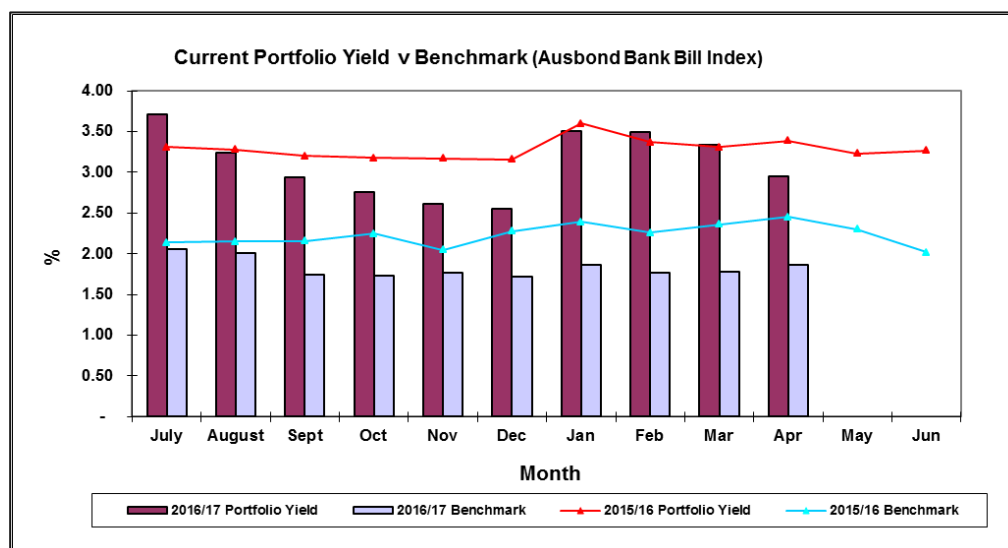
<b>% used vs Investment Policy Limit</b>		
	<b>% used vs Investment Policy Limit</b>	
Bendigo and Adelaide Bank (A-2, A-)	88%	✓
Bank of Queensland (A-2, A-)	74%	✓
Members Equity Bank (A-2, BBB+)	49%	✓
Westpac Group (A-1+, AA-)	39%	✓
Credit Union Australia (A-2, BBB+)	30%	✓
Commonwealth Bank of Australia (A-1+, AA-)	23%	✓
National Australia Bank (A-1+, AA-)	22%	✓
AMP Bank (A-1, A+)	12%	✓
Suncorp Bank (A-1, A+)	11%	✓
Macquarie Group (A-1, A)	9%	✓
Greater Building Society (A-2, BBB+)	9%	✓
Emerald Reverse Mortgage (B Tranche) (AA)	5%	✓
ANZ Group (A-1+, AA-)	5%	✓
Emerald Reverse Mortgage (A Tranche) (AAA)	3%	✓

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.

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The following chart compares Council's portfolio yield with the benchmark AusBond Bank Bill Index rate in each month for 2015/16 and 2016/17.



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 2017, Council's portfolio yielded 2.95% and returned 2.43% for the month compared to the benchmark's 1.87% pa return.

The following chart summarises Council's portfolio performance for the previous 12 months.

<b>Historical Performance Summary</b>			
	<b>Portfolio</b>	<b>AusBond BB Index</b>	<b>Outperformance</b>
<b>Apr 2017</b>	2.43%	1.87%	0.57%
<b>Last 3 Months</b>	3.08%	1.81%	1.27%
<b>Last 6 Months</b>	2.99%	1.80%	1.19%
<b>Financial Year to Date</b>	3.02%	1.83%	1.19%
<b>Last 12 months</b>	2.98%	1.89%	1.09%

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 2017 are provided in Attachment 1.

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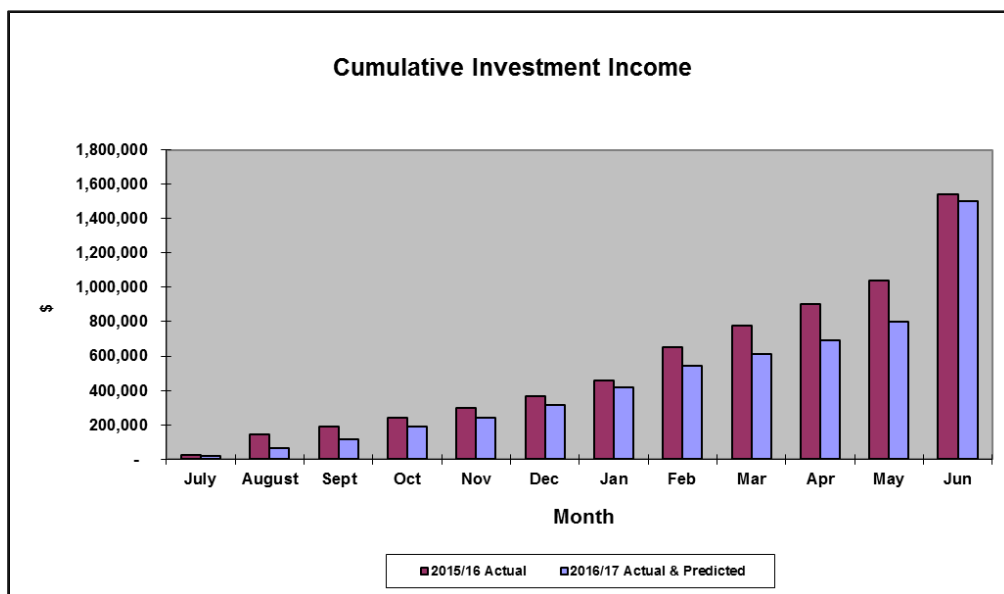
**CONSULTATION**

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 projected interest for 2016/17 with the prior year’s interest income.



Council’s investment income for 2016/17 is expected to be similar to the investment income received in 2015/16. However, as the RBA has continued to keep interest rates low, the expected investment income will be reviewed and revised as more information becomes available.

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

Governance

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**ATTACHMENT INCLUDED IN A SEPARATE BOOKLET**

1. Investments as at 30 April 2017

**RECOMMENDATION**

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