

GO2 – Investment of Funds as at 30 June 2017

GO2

Investment of Funds as at 30 June 2017

112

TRIM 1022-4

EXECUTIVE SUMMARY

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

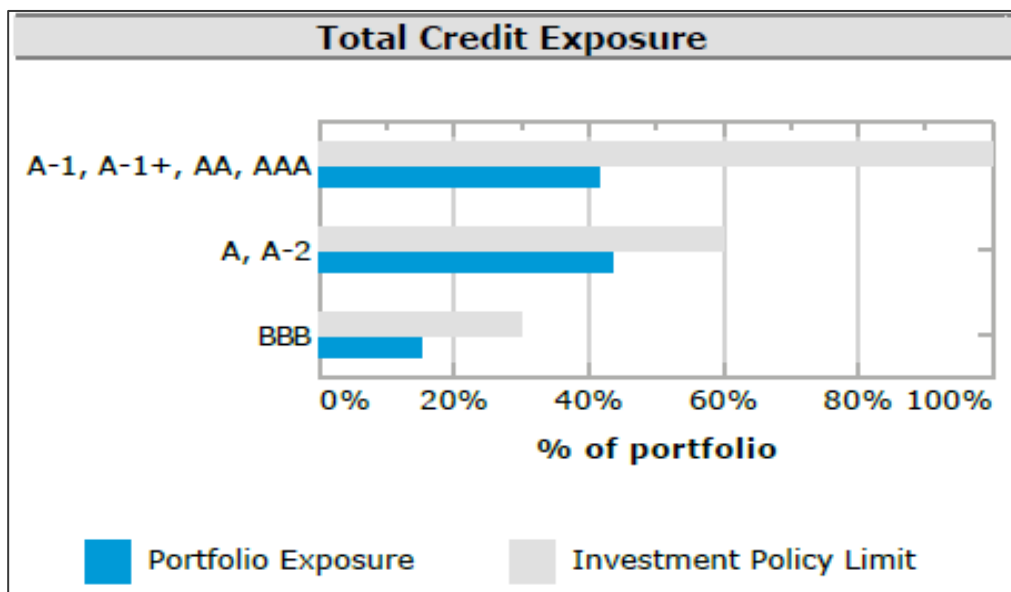
“The Australian economy is expected to strengthen gradually, with the transition to lower levels of mining investment following the mining investment boom almost complete. Business conditions have improved and capacity utilisation has increased. Business investment has picked up in those parts of the country not directly affected by the decline in mining investment. At the same time, consumption growth remains subdued, reflecting slow growth in real wages and high levels of household debt.

Indicators of the labour market remain mixed. Employment growth has been stronger over recent months. The various forward-looking indicators point to continued growth in employment over the period ahead. Wage growth remains low, however, and this is likely to continue for a while yet. Inflation is expected to increase gradually as the economy strengthens.

The outlook continues to be supported by the low level of interest rates. 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.”

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

GO2 – Investment of Funds as at 30 June 2017



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

Governance

GO2 – Investment of Funds as at 30 June 2017

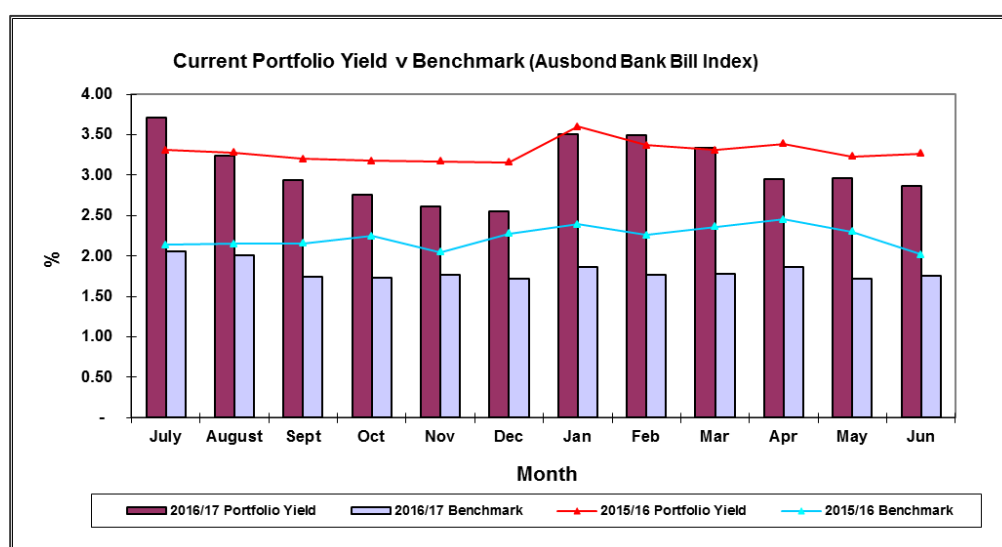
% used vs Investment Policy Limit		
	% used vs Investment Policy Limit	
Bendigo and Adelaide Bank (A-2, BBB+)	91%	✓
Members Equity Bank (A-2, BBB)	72%	✓
Bank of Queensland (A-2, BBB+)	61%	✓
Credit Union Australia (A-2, BBB)	37%	✓
Westpac Group (A-1+, AA-)	37%	✓
Commonwealth Bank of Australia (A-1+, AA-)	21%	✓
National Australia Bank (A-1+, AA-)	20%	✓
AMP Bank (A-1, A)	11%	✓
Suncorp Bank (A-1, A+)	10%	✓
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.

GO2 – Investment of Funds as at 30 June 2017

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 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 June 2017, Council’s portfolio yielded 2.93% and returned 2.87% for the month compared to the benchmark’s 1.76% pa return.

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

Historical Performance Summary			
	Portfolio	AusBond BB Index	Outperformance
Jun 2017	2.87%	1.76%	1.11%
Last 3 Months	2.78%	1.78%	0.99%
Last 6 Months	3.11%	1.79%	1.31%
Financial Year to Date	3.01%	1.82%	1.19%
Last 12 months	3.01%	1.82%	1.19%

Governance

GO2 – Investment of Funds as at 30 June 2017

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 June 2017 are provided in Attachment 1.

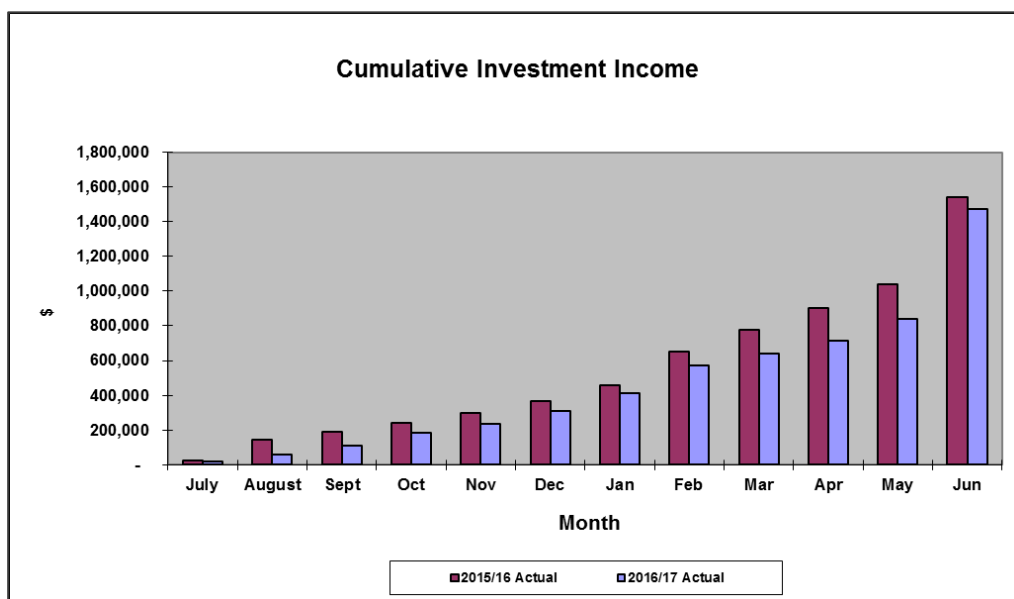
CONSULTATION

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 following chart compares the actual interest for 2016/17 with the prior year’s interest income.



Council’s investment income for 2016/17 was slightly less than the investment income received in 2015/16 as the RBA has continued to keep interest rates low.

The prudent investment of funds is necessary to ensure Council’s long term financial sustainability.

Governance

GO2 – Investment of Funds as at 30 June 2017

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. Investments as at 30 June 2017.

RECOMMENDATION

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