

GO2 – Investment of Funds as at 31 May 2016

GO2 Investment of Funds as at 31 May 2016

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TRIM 1022-3

- This report provides details of Council's invested funds as at 31 May 2016.
- It is recommended that the information and certification in relation to the investment of Council funds as at 31 May 2016 be noted.

REPORT

At its last meeting, the Reserve Bank left the cash rate at 1.75%. In relation to the domestic market, the Board of the Reserve Bank commented that:

"In Australia, recent data suggest overall growth is continuing, despite a very large decline in business investment. Other areas of domestic demand, as well as exports, have been expanding at a pace at or above trend. Labour market indicators have been more mixed of late, but are consistent with continued expansion of employment in the near term.

Inflation has been quite low. Given very subdued growth in labour costs and very low cost pressures elsewhere in the world, this is expected to remain the case for some time.

Low interest rates have been supporting domestic demand and the lower exchange rate overall is helping the traded sector. Over the past year, growth in credit to businesses has picked up, even as that to households has moderated a little. These factors are all assisting the economy to make the necessary economic adjustments, though an appreciating exchange rate could complicate this.

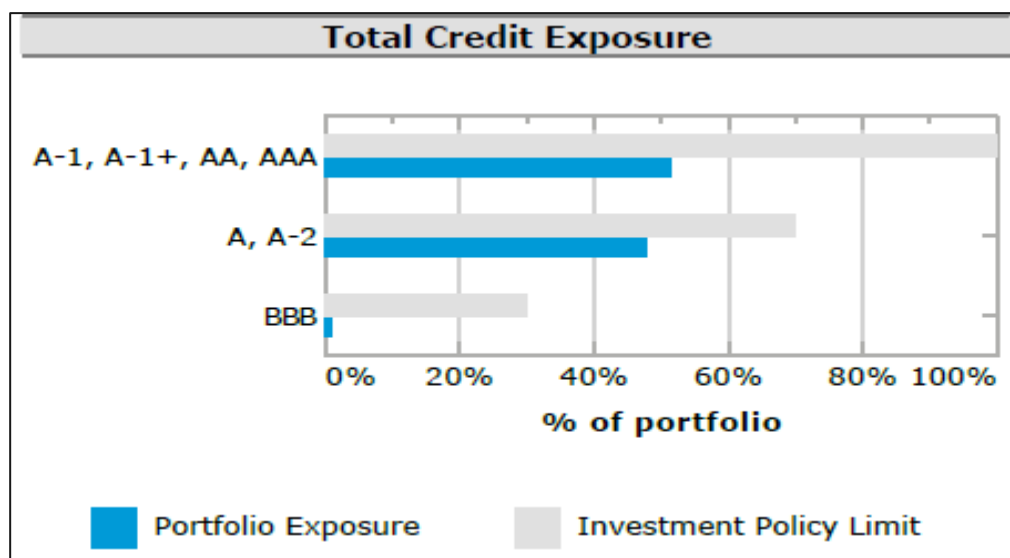
Indications are that the effects of supervisory measures have strengthened lending standards in the housing market. Separately, a number of lenders are also taking a more cautious attitude to lending in certain segments. Dwelling prices have begun to rise again recently. But considerable supply of apartments is scheduled to come on stream over the next couple of years, particularly in the eastern capital cities.

Taking account of the available information, and having eased monetary policy at its May meeting, the Board judged that holding the stance of policy unchanged at this meeting would be consistent with sustainable growth in the economy and inflation returning to target over time."

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Since the last RBA meeting, the British “Brexit” referendum has been held, resulting in Britain deciding to leave the European Union. The initial reaction of financial markets to this decision has caused some volatility in the global financial markets and whilst analysts believe that Australia’s domestic banks are well positioned to be able to weather the market volatility, Council will continue to monitor and review its investment portfolio while liaising with our investment advisors, to ensure that returns are maximised and risk exposure is minimised.

As shown in the following chart, the credit rating on Council’s portfolio as at 31 May 2016 is within Council’s investment policy limits.



The percentage of Council's investment portfolio invested with each institution as at 31 May 2016 also complies with the limits specified in Council's investment policy, as detailed in the following table.

Governance

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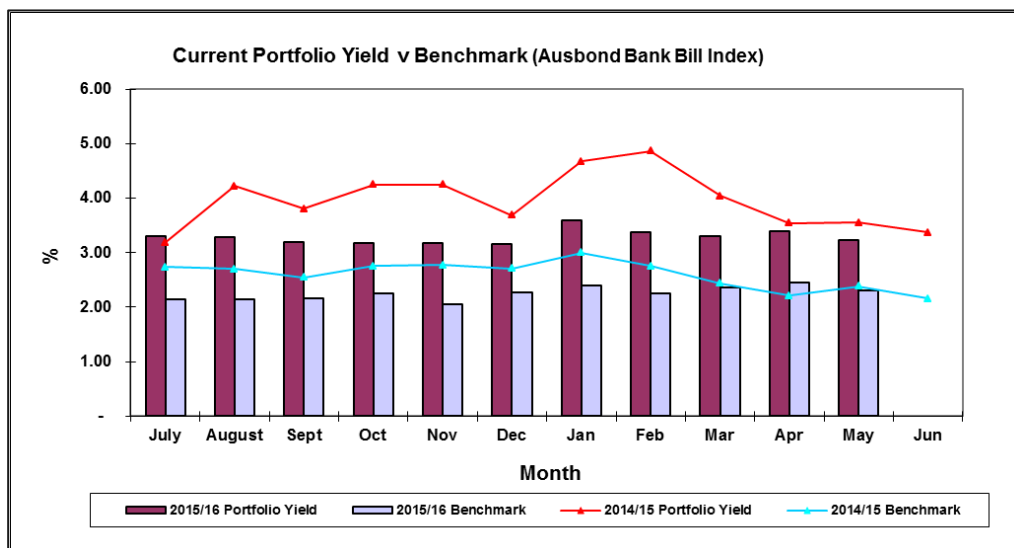
% used vs Investment Policy Limit		
	% used vs Investment Policy Limit	
Bendigo and Adelaide Bank (A-2, A-)	80%	✓
Members Equity Bank (A-2, BBB+)	75%	✓
National Australia Bank (A-1+, AA-)	67%	✓
Bank of Queensland (A-2, A-)	55%	✓
Commonwealth Bank of Australia (A-1+, AA-)	20%	✓
Macquarie Group (A-1, A)	11%	✓
Westpac Group (A-1+, AA-)	11%	✓
Suncorp Bank (A-1, A+)	10%	✓
Credit Union Australia (A-2, BBB+)	10%	✓
AMP Bank (A-1, A+)	8%	✓
Emerald Reverse Mortgage (B Tranche) (AA)	6%	✓
ANZ Group (A-1+, AA-)	6%	✓
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 2014/15 and 2015/16.



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 May 2016, Council’s portfolio yielded 3.23% compared to the benchmark’s 2.30% 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.

Details of Council’s investment portfolio as at 31 May 2016 are provided in Attachment 1.

CONSULTATION

Independent advice regarding the investment of Council funds was provided by Prudential Investment Services Corp.

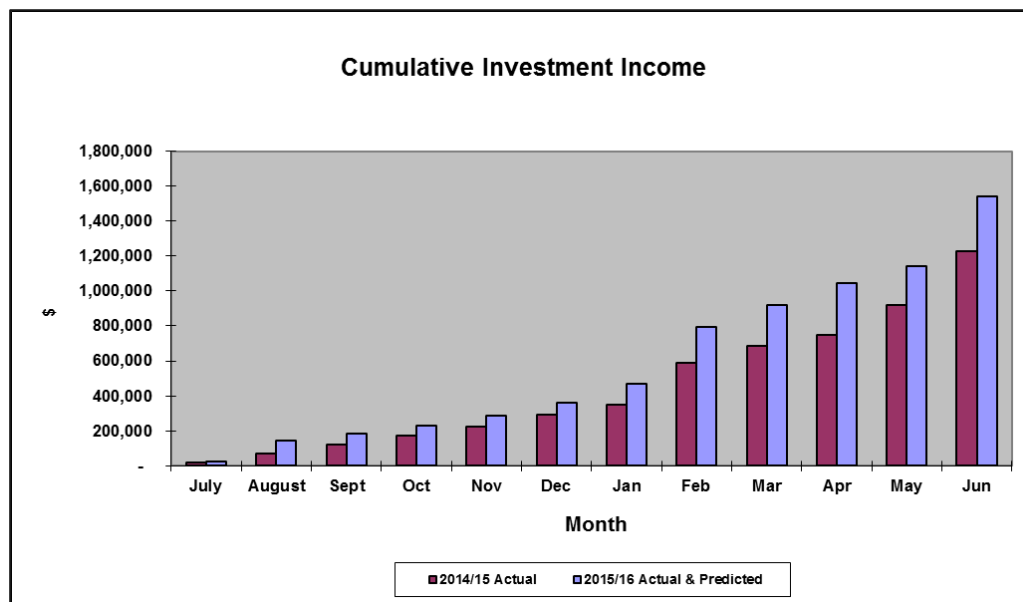
FINANCIAL IMPLICATIONS

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 and predicted interest for 2015/16 with the prior year’s interest income.

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Council’s investment income for 2015/16 is expected to be higher than the income received for 2014/15. While interest rates on investments remain low Council’s current portfolio base is higher than expected as some major projects proposed for 2015/16 have been deferred until 2016/17.

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

ATTACHMENTS:

- Investments as at 31 May 2016 including reconciliation of invested funds.

RECOMMENDATION

That the information and certification in relation to the investment of Council funds as at 31 May 2016 be noted.

Governance

WOLLONDILLY SHIRE COUNCIL

Report of Governance to the Ordinary Meeting of Council held on Monday 18 July 2016

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ATTACHMENT 1 – 1022-3 – 18 JULY 2016

INVESTMENTS AS AT 31 May 2016							
Reporting Period:		1-May-16		to		31-May-16	
Investment Institution	Rating	Face Value 31-May-16	Current Value 31-May-16	Percentage Holding	Interest		
					%p.a.	Received / Accrued	Maturity
CASH INVESTMENTS							
National Australia Bank							
<i>General Account Balance (for information only. Not included in Total Cash Plus Investments)</i>							
		695,472					
11 AM At call	AA	4,195,000	4,195,000	8.41%	1.80	6,677	At Call
Term Deposits							
Westpac Banking Corporation- Local Govt	AA-					1,621	16-May-16
Westpac Banking Corporation- Local Govt	AA-					1,870	17-May-16
Bank of Queensland	A-2	1,000,000	1,028,841	2.00%	2.90	2,463	01-Jun-16
National Australia Bank	A-1+	1,000,000	1,028,207	2.00%	2.95	2,505	15-Jun-16
National Australia Bank	A-1+	750,000	764,949	1.50%	2.91	1,854	22-Jun-16
Bank of Queensland	A-2	1,000,000	1,026,616	2.00%	2.90	2,463	04-Jul-16
National Australia Bank	A-1+	1,000,000	1,026,689	2.00%	2.97	2,522	06-Jul-16
Bendigo & Adelaide Bank	A-2	1,000,000	1,025,504	2.00%	2.90	2,463	13-Jul-16
ME Bank	A-2	1,000,000	1,015,308	2.00%	3.07	2,607	27-Jul-16
Bank of Queensland	A-2	1,000,000	1,020,493	2.00%	2.75	2,336	03-Aug-16
National Australia Bank	A-1+	1,000,000	1,009,781	2.00%	3.00	2,548	03-Aug-16
ME Bank	A-2	1,000,000	1,014,863	2.00%	3.10	2,633	10-Aug-16
Bank of Queensland	A-2	500,000	504,119	1.00%	3.10	1,316	25-Aug-16
Bank of Queensland	A-2	1,000,000	1,007,814	2.00%	3.10	2,633	01-Sep-16
National Australia Bank	A-1+	1,000,000	1,020,145	2.00%	2.85	2,421	14-Sep-16
National Australia Bank	A-1+	1,000,000	1,011,699	2.00%	3.05	2,590	12-Oct-16
Commonwealth Bank of Australia	A-1+	1,000,000	1,015,573	2.00%	2.93	2,488	19-Oct-16
Bank of Queensland	A-1+	1,000,000	1,009,944	2.00%	3.05	2,620	02-Nov-16
Bendigo & Adelaide Bank	A-2	500,000	507,925	1.00%	2.85	1,210	09-Nov-16
National Australia Bank	A-1+	1,000,000	1,012,280	2.00%	3.07	2,607	07-Dec-16
National Australia Bank	A-1+	1,000,000	1,004,135	2.00%	3.08	2,616	14-Dec-16
National Australia Bank	A-1+	1,000,000	1,007,149	2.00%	3.07	2,607	10-Jan-17
National Australia Bank	A-1+	1,000,000	1,002,973	2.00%	3.10	2,633	25-Jan-17
ME Bank	A-2	2,000,000	2,019,888	4.01%	3.05	5,181	01-Feb-17
ME Bank	A-2	1,000,000	1,008,833	2.00%	3.10	2,633	16-Feb-17
ME Bank	A-2	1,000,000	1,007,950	2.00%	3.12	2,650	28-Feb-17
ME Bank	A-2	1,000,000	1,007,864	2.00%	3.12	2,650	01-Mar-17
Bendigo & Adelaide Bank	A-2	2,000,000	2,002,263	4.01%	3.12	2,263	17-Mar-17
Bendigo & Adelaide Bank	A-2	1,000,000	1,022,145	2.00%	2.95	2,505	29-Aug-17
Bendigo & Adelaide Bank	A-2	1,000,000	1,023,397	2.00%	3.05	2,590	27-Aug-18
TOTAL CASH PLUS INVESTMENTS		32,945,000	33,352,347	66.05%		80,777	
Investment Institution	Rating	Face Value 31-May-16	Current Value 31-May-16	Percentage Holding	Interest		
					%p.a.	Received / Accrued	Maturity
INVESTMENT SECURITIES							
Corporate Bond							
National Australia Bank	AA-	1,000,000	1,043,257	2.00%	6.00	5,110	15-Feb-17
Zero Coupon Bond							
Commonwealth Bank of Australia	AA-	2,000,000	1,918,140	4.01%	7.17		22-Jan-18
Floating Rate Notes							
Members Equity Bank Pty Ltd	BBB+	500,000	501,299	1.00%	3.24	1,495	28-Nov-16
Westpac Banking Corporation	AA-	500,000	505,263	1.00%	3.64	1,620	20-Feb-17
Macquarie Bank	A	1,000,000	1,012,083	2.00%	5.22	4,433	09-Mar-17
CUA Snr FRN	BBB+	500,000	503,367	1.00%	3.88	1,648	01-Apr-19
Westpac Banking Corporation	AA-	1,000,000	1,002,445	2.00%	3.24	2,604	10-May-19
AMP Snr FRN	A+	750,000	756,972	1.50%	3.43	2,185	11-Jun-19
Bendigo Bank Senior FRN	A-	1,000,000	997,871	2.00%	3.25	2,762	17-Sep-19
ANZ Snr FRN	AA-	1,000,000	1,000,718	2.00%	2.87	2,506	11-Nov-19
Westpac Banking Corporation	AA-	1,000,000	1,003,176	2.00%	3.17	2,694	22-Jan-20
Macquarie Bank	A	1,000,000	1,004,538	2.00%	3.41	2,896	03-Mar-20
CBA Snr FRN	AA-	1,000,000	1,003,835	2.00%	3.19	2,709	17-Jul-20
Bendigo Bank Senior FRN	A-	1,000,000	994,536	2.00%	3.09	2,764	18-Aug-20
Suncorp Senior FRN	A+	1,000,000	1,008,246	2.00%	3.53	2,994	20-Oct-20
CBA Snr FRN	AA-	500,000	505,063	1.00%	3.44	1,461	18-Jan-21
Bendigo Bank Senior FRN	A-	500,000	502,334	1.00%	3.74	1,586	20-Apr-21
Mortgage Backed Securities							
Emerald Reverse Mortgage Series 2007-1 Class B	AA	1,000,000	603,173	2.00%	2.83	2,399	21-Jul-27
Emerald Reverse Mortgage Series 2006-1 Class A	AAA	683,599	540,456	1.37%	2.45	1,549	22-Aug-22
		16,933,599	16,406,773	33.95%	3.23	45,414	
TOTAL CASH & INVESTMENT SECURITIES		\$49,878,599	\$49,759,120	100.00%	2.30	\$126,191	

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Report of Governance to the Ordinary Meeting of Council held on Monday 18 July 2016

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Summary of Investment Holdings by Investment Type as at 31 May 2016

By Product	Face Value (\$)	Current Value (\$)	Current Yield (%)
Bonds	3,000,000.00	2,961,397.36	6.7795
Cash	4,195,000.00	4,195,000.00	1.8000
Floating Rate Note	12,250,000.00	12,301,747.04	3.4495
Mortgage Backed Security	1,683,599.36	1,143,628.91	2.6707
Term Deposit	28,750,000.00	29,157,346.87	3.0030
	49,878,599.36	49,759,120.18	3.2274

Application of Invested Funds- 31 May 2016

Fund Type	Description	Value \$
Externally Restricted Funds	Developer Contributions	15,796,778
	Domestic Waste Management	9,942,755
	Unexpended Grants held in Restricted Cash	990,334
	Unexpended Loan Funds	21,372
Internally Restricted Funds	Funds held in Restricted Cash for future projects and operations	11,815,102
	Funds allocated to meet current budgeted expenditure	11,312,258
		49,878,599