

GO2 – Investment of Funds as at 31 March 2017

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TRIM 1022-4

EXECUTIVE SUMMARY

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

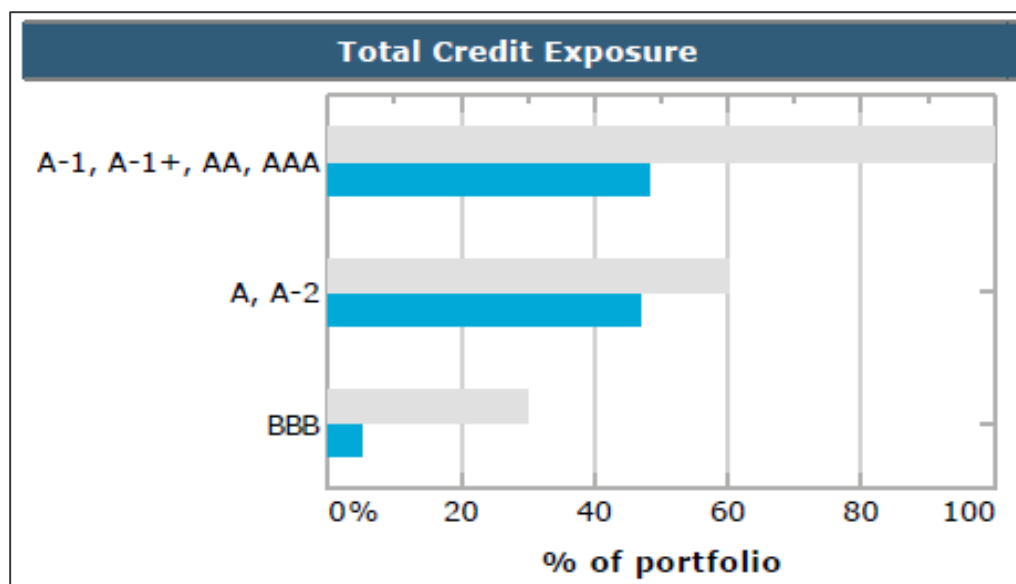
"The Australian economy is continuing its transition following the end of the mining investment boom. Recent data are consistent with ongoing moderate growth. Most measures of business confidence are at, or above, average and non-mining business investment has risen over the past year. At the same time, some indicators of conditions in the labour market have softened recently. In particular, the unemployment rate has moved a little higher and employment growth is modest. The various forward-looking indicators still point to continued growth in employment over the period ahead. Wage growth remains slow.

The outlook continues to be supported by the low level of interest rates. Lenders have recently announced increases in mortgage rates, particularly those paid by investors. Financial institutions remain in a good position to lend. 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 remains quite low. Headline inflation is expected to pick up over the course of 2017 to be above 2 per cent. The rise in underlying inflation is expected to be a bit more gradual with growth in labour costs remaining subdued."

As shown in the following chart, the credit rating on Council's portfolio as at 31 March 2017 is within Council's investment policy limits.

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The percentage of Council's investment portfolio invested with each institution as at 31 March 2017 also complies with the limits specified in Council's investment policy, as detailed in the following table.

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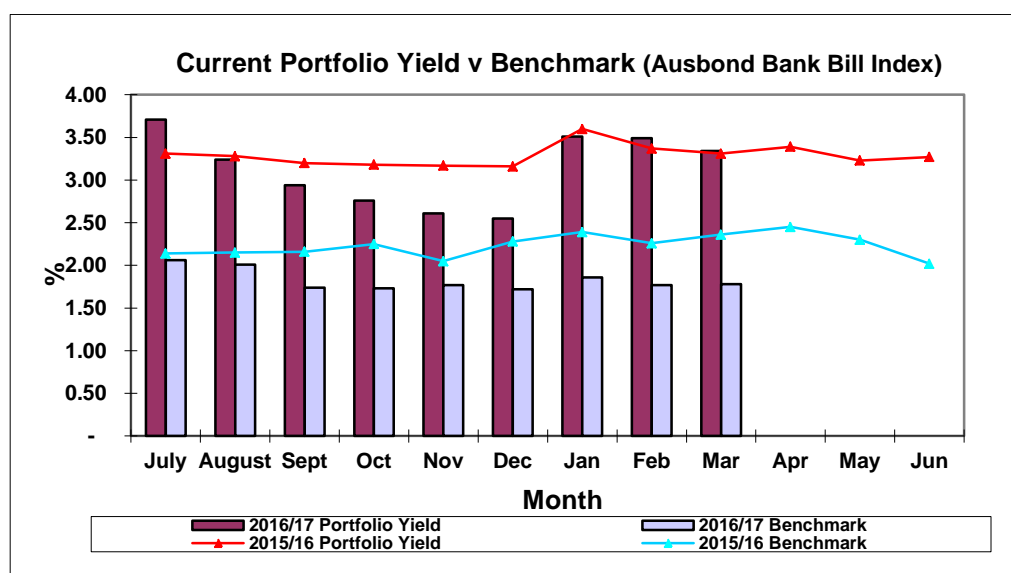
	% used vs Investment Policy Limit	
Bendigo and Adelaide Bank (A-2, A-)	85%	✓
Bank of Queensland (A-2, A-)	81%	✓
Westpac Group (A-1+, AA-)	38%	✓
National Australia Bank (A-1+, AA-)	33%	✓
Members Equity Bank (A-2, BBB+)	31%	✓
Credit Union Australia (A-2, BBB+)	29%	✓
Commonwealth Bank of Australia (A-1+, AA-)	22%	✓
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.

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 March 2017, Council's portfolio yielded 2.98% and returned 3.34% for the month compared to the benchmark's 1.78% pa return.

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

Historical Performance Summary			
	Portfolio	AusBond BB Index	Outperformance
Mar 2017	3.34%	1.78%	1.56%
Last 3 Months	3.44%	1.81%	1.64%
Last 6 Months	3.04%	1.77%	1.26%
Financial Year to Date	3.08%	1.83%	1.25%
Last 12 months	3.16%	1.94%	1.22%

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 March 2017 are provided in Attachment 1.

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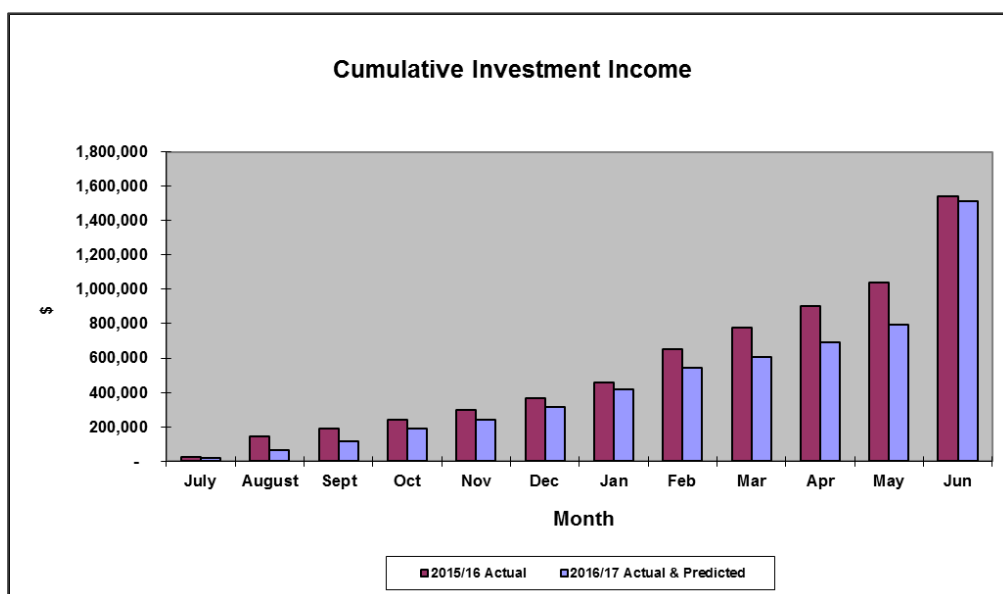
CONSULTATION

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

Report of Governance to the Ordinary Meeting of Council held on Monday 15 May 2017

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ATTACHMENT INCLUDED IN A SEPARATE BOOKLET

1. Investments as at 31 March 2017.

RECOMMENDATION

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