

GO2 – Investment of Funds as at 29 February 2016

GO2

Investment of Funds as at 29 February 2016

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TRIM 1022-3

EXECUTIVE SUMMARY

- This report provides details of Council's invested funds as at 29 February 2016.
- It is recommended that the information and certification in relation to the investment of Council funds as at 29 February 2016 be noted.

REPORT

At its last meeting, the Reserve Bank left the cash rate at 2.00%. In relation to the domestic market, the Board of the Reserve Bank commented that:

"In Australia, the available information suggests that the expansion in the non-mining parts of the economy strengthened during 2015 despite the contraction in spending in mining investment. This was reflected in improved labour market conditions. The pace of lending to businesses also picked up.

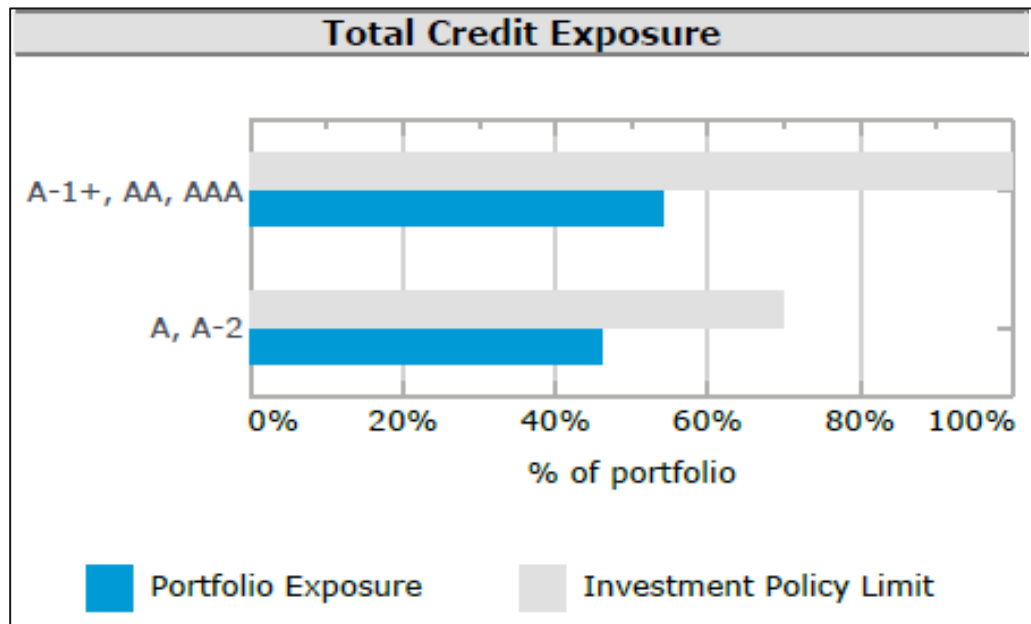
Inflation is quite low. With growth in labour costs continuing to be quite subdued as well, and inflation restrained elsewhere in the world, inflation is likely to remain low over the next year or two.

Given these conditions, it is appropriate for monetary policy to be accommodative. Low interest rates are supporting demand, while supervisory measures are working to emphasise prudent lending standards and so to contain risks in the housing market. Credit growth to households continues at a moderate pace, albeit with a changed composition between investors and owner-occupiers. The pace of growth in dwelling prices has moderated in Melbourne and Sydney and has remained mostly subdued in other cities. The exchange rate has been adjusting to the evolving economic outlook."

Council will continue to monitor and review the portfolio while liaising with our investment advisors, to ensure that returns are maximised and risk exposure is minimised.

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As shown in the following chart, the credit rating on Council's portfolio as at 29 February 2016 is within Council's investment policy limits.



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The percentage of Council's investment portfolio invested with each institution as at 29 February 2016 also complies with the limits specified in Council's investment policy, as detailed in the following table.

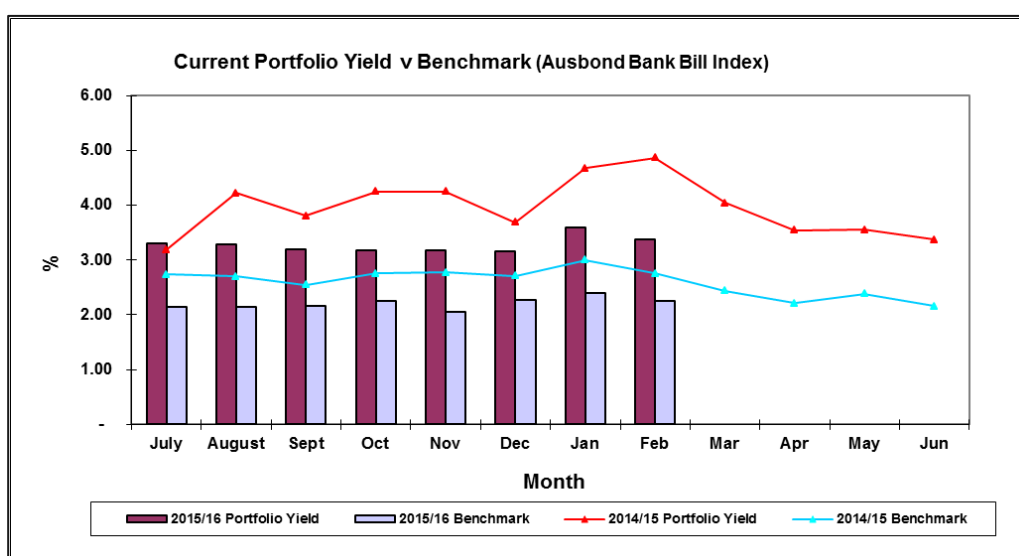
	% used vs Investment Policy Limit	
National Australia Bank (A-1+, AA-)	73%	✓
Members Equity Bank (A-2, BBB+)	64%	✓
Bendigo and Adelaide Bank (A-2, A-)	64%	✓
Bank of Queensland (A-2, A-)	44%	✓
Commonwealth Bank of Australia (A-1+, AA-)	20%	✓
Macquarie Group (A-1, A)	20%	✓
Credit Union Australia (A-2, BBB+)	20%	✓
Westpac Group (A-1+, AA-)	15%	✓
Suncorp Bank (A-1, A+)	10%	✓
AMP Bank (A-1, A+)	7%	✓
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.

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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 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 February 2016, Council's portfolio yielded 3.30% compared to the benchmark's 2.26% 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 29 February 2016 are provided in Attachment 1.

CONSULTATION

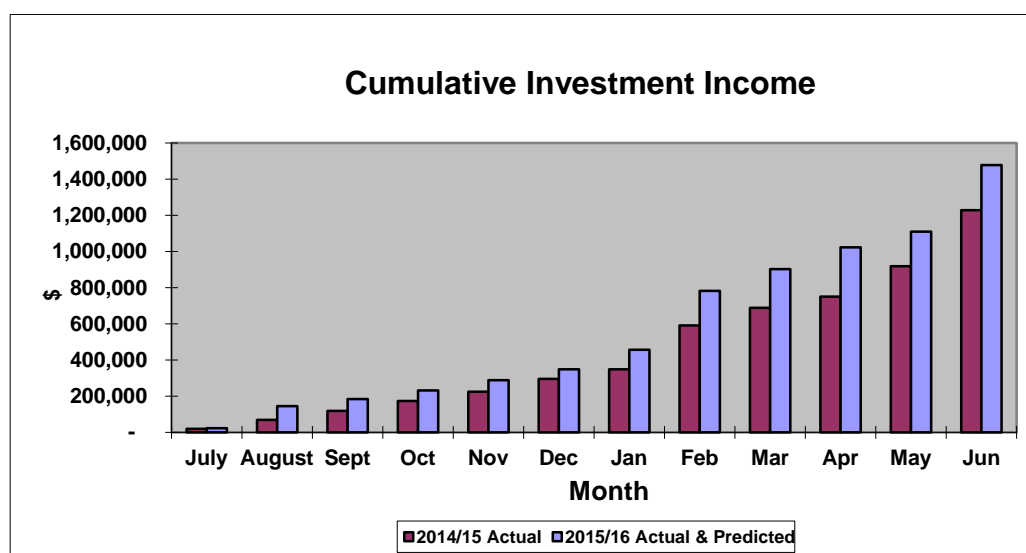
Independent advice regarding the investment of Council funds was provided by Prudential Investment Services Corp.

FINANCIAL IMPLICATIONS

Interest earned is allocated to restricted cash and income in accordance with Council's adopted budget, policy and legislative requirements.

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The following chart compares the actual and predicted interest for 2015/16 with the prior year's interest income.



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 projected for 2015/16 have not yet commenced.

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:

1. Investments as at 29 February 2016 including reconciliation of invested funds.

RECOMMENDATION

That the information and certification in relation to the investment of Council funds as at 29 February 2016 be noted.

WOLLONDILLY SHIRE COUNCIL

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

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ATTACHMENT 1 – 1022-3 – 18 APRIL 2016

INVESTMENTS AS AT 29 February 2016							
Reporting Period:		1-Feb-16		to		29-Feb-16	
Investment Institution	Rating	Face Value	Current Value	Percentage	Interest		Maturity
		29-Feb-16	29-Feb-16	Holding	%p.a.	received / accrued	
CASH ASSETS							
National Australia Bank							
General Account Balance (for information only. Not included in Total Cash Plus Investments)		960,033					
11AM At call							
NAB	AA	3,875,000	3,875,000	7.66%	2.05	7,132	At Call
Tem Deposits							
Bank of Queensland (Matured)	A-2					666	03-Feb-16
National Australia Bank (Matured)	A-1+					175	03-Feb-16
ME Bank (Matured)	A-2					1,490	18-Feb-16
National Australia Bank (Matured)	A-1+					1,079	25-Feb-16
Rural Bank	A-2	1,000,000	1,029,839	1.98%	3.00	2,384	01-Mar-16
Credit Union Australia (CUA)	BBB+	2,000,000	2,060,730	3.96%	3.10	4,926	08-Mar-16
National Australia Bank	A-1+	1,000,000	1,015,993	1.98%	2.90	2,304	23-Mar-16
National Australia Bank	A-1+	2,000,000	2,029,852	3.96%	2.93	4,529	13-Apr-16
National Australia Bank	A-1+	2,000,000	2,047,108	3.96%	2.93	4,656	27-Apr-16
Westpac Banking Corporation- Local Govt	AA-	1,000,000	1,040,690	1.98%	4.55	3,615	16-May-16
Westpac Banking Corporation- Local Govt	AA-	1,000,000	1,040,622	1.98%	4.55	3,615	17-May-16
Bank of Queensland	A-2	1,000,000	1,021,477	1.98%	2.90	2,304	01-Jun-16
National Australia Bank	A-1+	1,000,000	1,022,466	1.98%	2.95	2,344	15-Jun-16
National Australia Bank	A-1+	750,000	760,739	1.48%	2.91	1,734	22-Jun-16
Bank of Queensland	A-2	1,000,000	1,019,258	1.98%	2.90	2,304	04-Jul-16
National Australia Bank	A-1+	1,000,000	1,021,234	1.98%	2.97	2,360	06-Jul-16
Bendigo & Adelaide Bank	A-2	1,000,000	1,018,151	1.98%	2.90	2,304	13-Jul-16
ME Bank	A-2	1,000,000	1,008,321	1.98%	3.07	2,439	27-Jul-16
Bank of Queensland	A-2	1,000,000	1,012,930	1.98%	2.75	2,185	03-Aug-16
National Australia Bank	A-1+	1,000,000	1,004,850	1.98%	3.00	2,219	03-Aug-16
ME Bank	A-2	1,000,000	1,008,002	1.98%	3.10	2,463	10-Aug-16
Bank of Queensland	A-2	500,000	500,773	0.99%	3.10	212	25-Aug-16
National Australia Bank	A-1+	1,000,000	1,015,549	1.98%	2.85	2,264	14-Sep-16
National Australia Bank	A-1+	1,000,000	1,008,772	1.98%	3.05	2,423	12-Oct-16
Commonwealth Bank of Australia	A-1+	1,000,000	1,012,386	1.98%	2.93	2,328	19-Oct-16
Bank of Queensland	A-1+	1,000,000	1,002,009	1.98%	3.05	2,256	02-Nov-16
Bendigo & Adelaide Bank	A-2	500,000	503,402	0.99%	2.85	1,132	09-Nov-16
National Australia Bank	A-1+	1,000,000	1,011,420	1.98%	3.07	2,439	07-Dec-16
ME Bank	A-2	2,000,000	2,000,650	3.96%	3.05	4,512	01-Feb-17
ME Bank	A-2	1,000,000	999,303	1.98%	3.10	1,019	16-Feb-17
ME Bank	A-2	1,000,000	997,707	1.98%	3.12	85	28-Feb-17
Bendigo & Adelaide Bank	A-2	1,000,000	1,009,228	1.98%	2.95	2,344	29-Aug-17
Bendigo & Adelaide Bank	A-2	1,000,000	1,006,060	1.98%	3.05	2,423	27-Aug-18
TOTAL CASH ASSETS		35,625,000	36,104,521	70.45%		82,666	
Investment Institution	Rating	Face Value	Current Value	Percentage	Interest		Maturity
		29-Feb-16	29-Feb-16	Holding	%p.a.	received / accrued	
INVESTMENT SECURITIES							
Corporate Bond							
National Australia Bank	AA-	1,000,000	1,034,193	1.98%	6.00	4,780	15-Feb-17
Zero Coupon Bond							
Commonwealth Bank of Australia	AA-	2,000,000	1,875,800	3.96%	7.17	7,937	22-Jan-18
Floating Rate Notes							
Members Equity Bank Pty Ltd	BBB+	500,000	501,518	0.99%	3.54	1,399	28-Nov-16
Westpac Banking Corporation	AA-	500,000	506,135	0.99%	3.93	1,551	20-Feb-17
Macquarie Bank	A	1,000,000	1,011,825	1.98%	5.20	4,132	09-Mar-17
AMP Snr FRN	A+	750,000	755,494	1.48%	3.45	2,053	11-Jun-19
Bendigo Bank Senior FRN	A-	1,000,000	996,150	1.98%	3.28	2,606	17-Sep-19
ANZ Snr FRN	AA-	1,000,000	994,339	1.98%	3.13	2,468	11-Nov-19
Westpac Banking Corporation	AA-	1,000,000	996,072	1.98%	3.17	2,515	22-Jan-20
Macquarie Bank	A	1,000,000	998,300	1.98%	3.40	2,701	03-Mar-20
CBA Snr FRN	AA-	1,000,000	994,038	1.98%	3.19	2,535	17-Jul-20
Bendigo Bank Senior FRN	A-	1,000,000	990,843	1.98%	3.39	2,666	18-Aug-20
Suncorp Senior FRN	A+	1,000,000	1,000,243	1.98%	3.53	2,803	20-Oct-20
CBA Snr FRN	AA-	500,000	500,681	0.99%	3.44	1,367	18-Jan-21
Mortgage Backed Securities							
Emerald Reverse Mortgage Series 2007-1 Class B	AA	1,000,000	603,090	1.98%	2.82	2,241	21-Jul-27
Emerald Reverse Mortgage Series 2006-1 Class A	AAA	691,627	546,798	1.37%	2.73	1,502	22-Aug-22
TOTAL INVESTMENT SECURITIES		14,941,627	14,305,521	29.55%		45,253	
TOTAL CASH & INVESTMENT SECURITIES		\$50,566,627	\$50,410,042	100%	3.30	\$127,919	
Benchmark (90 day Ausbond Bank Bill Index)					2.26		
Maximum Permitted Institution Holding = 45%							

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

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Summary of Investment Holdings by Investment Type as at 29 Feb 2016

	Face Value (\$)	Current Value (\$)	Current Yield (%)
Bonds	3,000,000.00	2,909,992.53	6.7795
Cash	3,875,000.00	3,875,000.00	2.0500
Floating Rate Note	10,250,000.00	10,245,639.62	3.5431
Mortgage Backed Securities	1,691,626.67	1,149,888.82	2.7819
Term Deposit	31,750,000.00	32,229,520.53	3.0780
	50,566,626.67	50,410,041.50	3.3032

Application of Invested Funds- 29 February 2016		
Fund Type	Description	Value \$
Externally Restricted Funds	Developer Contributions	14,150,238
	Domestic Waste Management	9,743,017
	Unexpended Grants held in Restricted Cash	781,252
	Unexpended Loan Funds	21,372
Internally Restricted Funds	Sinking Fund	
	Funds held in Restricted Cash for future projects and operations	14,223,623
	Funds allocated to meet current budgeted expenditure	11,647,125
		50,566,627