

**GO2 – Investment of Funds as at 31 January 2016**

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TRIM 1022-3

**EXECUTIVE SUMMARY**

- This report provides details of Council's invested funds as at 31 January 2016.
- It is recommended that the information and certification in relation to the investment of Council funds as at 31 January 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 even as the contraction in spending in mining investment continued. Surveys of business conditions moved to above average levels, employment growth picked up and the unemployment rate declined in the second half of the year, even though measured GDP growth was below average. The pace of lending to businesses also picked up.*

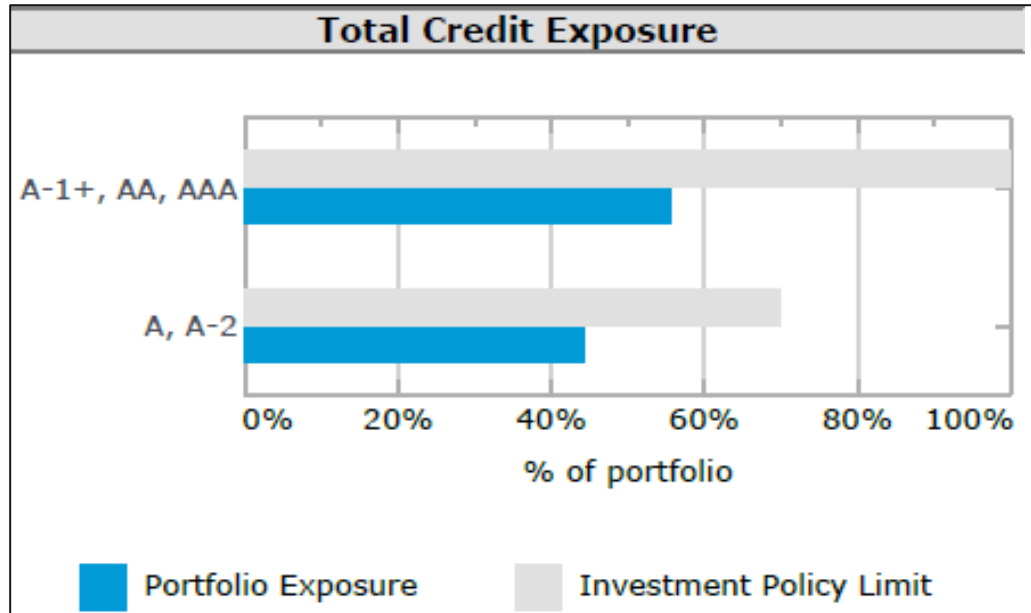
*Inflation continues to be quite low, with the CPI rising by 1.7 per cent over 2015. This was partly caused by declining prices for oil and some utilities, but underlying measures of inflation are also low at about 2 per cent. With growth in labour costs continuing to be quite subdued as well, and inflation restrained elsewhere in the world, consumer price 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 regulatory 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 over recent months and has remained mostly subdued in other cities. The exchange rate has continued its adjustment 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.

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

**GO2 – Investment of Funds as at 31 January 2016**



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

Governance

**GO2 – Investment of Funds as at 31 January 2016**

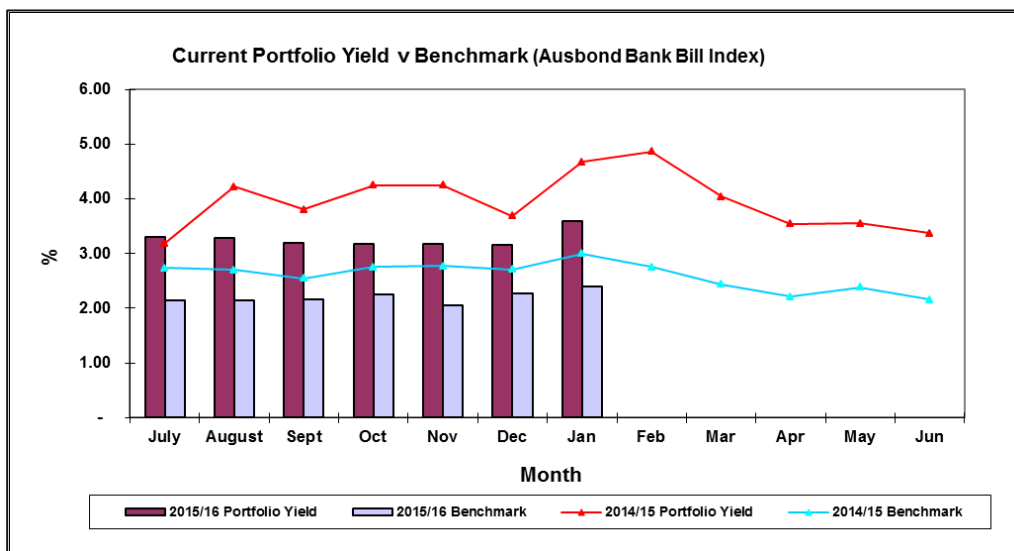
<b>% used vs Investment Policy Limit</b>		
	<b>% used vs Investment Policy Limit</b>	
National Australia Bank (A-1+, AA-)	75%	✓
Bendigo and Adelaide Bank (A-2, A-)	66%	✓
Bank of Queensland (A-2, A-)	61%	✓
Members Equity Bank (A-2, BBB+)	36%	✓
Macquarie Group (A-1, A)	20%	✓
Credit Union Australia (A-2, BBB+)	20%	✓
Commonwealth Bank of Australia (A-1+, AA-)	20%	✓
Westpac Group (A-1+, AA-)	16%	✓
Suncorp Bank (A-1, A+)	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 January 2016, Council’s portfolio yielded 3.39% compared to the benchmark’s 2.39% 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 January 2016 are provided in attachment 1.

**CONSULTATION**

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

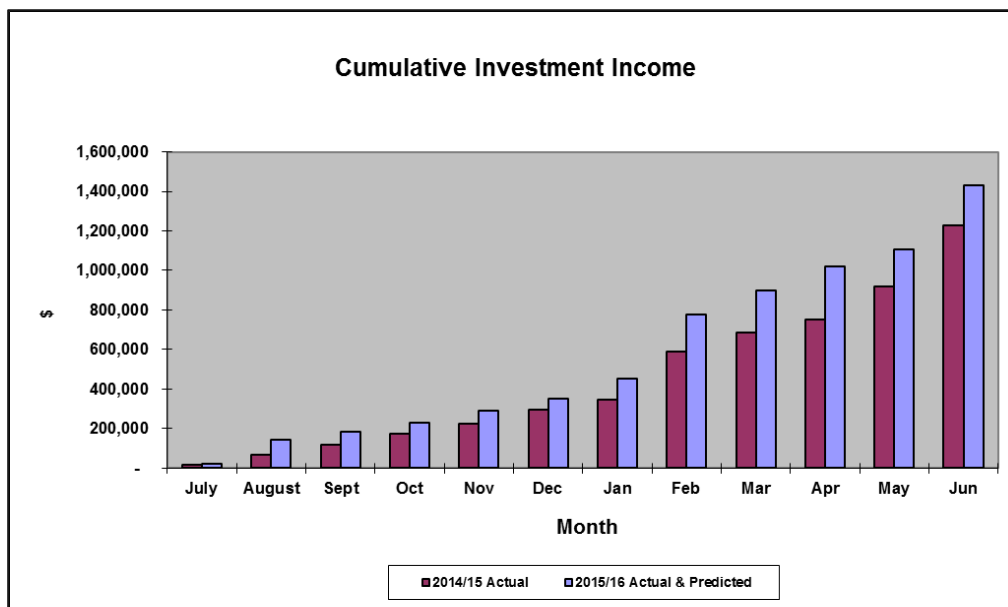
**FINANCIAL IMPLICATIONS**

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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**GO2 – Investment of Funds as at 31 January 2016**



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:**

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

**RECOMMENDATION**

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

Governance

WOLLONDILLY SHIRE COUNCIL

Report of Governance to the Ordinary Meeting of Council held on Monday 21 March 2016

**GO2 – Investment of Funds as at 31 January 2016**

**ATTACHMENT 1 – 1022-3 – 21 MARCH 2016**

INVESTMENTS AS AT 31 January 2016							
Reporting Period:		1-Jan-16	to	31-Jan-16			
Investment Institution	Rating	Face Value 31-Jan-16	Current Value 31-Jan-16	Percentage Holding	Interest		Maturity
					%p.a.	received / accrued	
<b>CASH ASSETS</b>							
<b>National Australia Bank</b>							
<i>General Account Balance (for information only. Not included in Total Cash Plus Investments)</i>							
<b>11AM At call</b>							
NAB	AA	3,325,000	3,325,000	6.78%	2.05	9,205	At Call
<b>Tem Deposits</b>							
Bank of Queensland (Matured)	A-2					493	07-Jan-16
Rural Bank (Matured)	A-2					1,184	13-Jan-16
Bank of Queensland (Matured)	A-2					1,562	20-Jan-16
Bank of Queensland	A-2	3,000,000	3,120,805	6.12%	4.05	10,319	03-Feb-16
National Australia Bank	A-1+	1,000,000	1,031,740	2.04%	3.20	2,718	03-Feb-16
ME Bank	A-2	1,000,000	1,030,621	2.04%	3.20	2,718	18-Feb-16
National Australia Bank	A-1+	500,000	514,991	1.02%	3.15	1,338	25-Feb-16
Rural Bank	A-2	1,000,000	1,027,623	2.04%	3.00	2,548	01-Mar-16
Credit Union Australia (CUA) (Matured)	BBB+	2,000,000	2,056,334	4.08%	3.10	5,266	08-Mar-16
National Australia Bank	A-1+	1,000,000	1,014,154	2.04%	2.90	2,463	23-Mar-16
National Australia Bank	A-1+	2,000,000	2,026,038	4.08%	2.93	4,841	13-Apr-16
National Australia Bank	A-1+	2,000,000	2,043,250	4.08%	2.93	4,977	27-Apr-16
Westpac Banking Corporation- Local Govt	AA-	1,000,000	1,038,711	2.04%	4.55	3,864	16-May-16
Westpac Banking Corporation- Local Govt	AA-	1,000,000	1,038,642	2.04%	4.55	3,864	17-May-16
Bank of Queensland	A-2	1,000,000	1,019,520	2.04%	2.90	2,463	01-Jun-16
National Australia Bank	A-1+	1,000,000	1,020,463	2.04%	2.95	2,505	15-Jun-16
National Australia Bank	A-1+	750,000	759,234	1.53%	2.91	1,854	22-Jun-16
Bank of Queensland	A-2	1,000,000	1,017,391	2.04%	2.90	2,463	04-Jul-16
National Australia Bank	A-1+	1,000,000	1,019,184	2.04%	2.97	2,522	06-Jul-16
Bendigo & Adelaide Bank	A-2	1,000,000	1,016,311	2.04%	2.90	2,463	13-Jul-16
ME Bank	A-2	1,000,000	1,006,535	2.04%	3.07	2,607	27-Jul-16
Bank of Queensland	A-2	1,000,000	1,011,058	2.04%	2.75	2,336	03-Aug-16
ME Bank	A-2	1,000,000	1,005,932	2.04%	3.10	2,633	10-Aug-16
National Australia Bank	A-1+	1,000,000	1,014,101	2.04%	2.85	2,421	14-Sep-16
National Australia Bank	A-1+	1,000,000	1,007,343	2.04%	3.05	1,588	12-Oct-16
Commonwealth Bank of Australia	A-1+	1,000,000	1,010,955	2.04%	2.93	2,488	19-Oct-16
National Australia Bank	A-1+	1,000,000	1,010,008	2.04%	3.07	2,103	07-Dec-16
Bendigo & Adelaide Bank	A-2	500,000	501,767	1.02%	2.85	1,210	29-Aug-17
Bendigo & Adelaide Bank	A-2	1,000,000	1,005,516	2.04%	2.95	2,505	29-Aug-17
Bendigo & Adelaide Bank	A-2	1,000,000	1,002,977	2.04%	3.05	2,590	27-Aug-18
<b>TOTAL CASH ASSETS</b>		<b>34,075,000</b>	<b>34,696,203</b>	<b>69.50%</b>		<b>94,111</b>	
<b>INVESTMENT SECURITIES</b>							
<b>OTHER INVESTMENTS</b>							
<b>Corporate Bond</b>							
National Australia Bank	AA-	1,000,000	1,062,132	2.04%	6.00	5,110	15-Feb-17
<b>Zero Coupon Bond</b>							
Commonwealth Bank of Australia	AA-	2,000,000	1,868,900	4.08%	7.17	0	22-Jan-18
<b>Floating Rate Notes</b>							
Members Equity Bank Pty Ltd	BBB+	500,000	504,803	1.02%	3.52	1,495	28-Nov-16
Westpac Banking Corporation	AA-	500,000	510,225	1.02%	3.90	1,654	20-Feb-17
Macquarie Bank	A	1,000,000	1,007,683	2.04%	5.20	4,416	09-Mar-17
AMP Snr FRN	A+	750,000	754,438	1.53%	3.45	2,194	11-Jun-19
Bendigo Bank Senior FRN	A-	1,000,000	996,064	2.04%	3.28	2,786	17-Sep-19
ANZ Snr FRN	AA-	1,000,000	1,004,735	2.04%	3.06	2,599	11-Nov-19
Westpac Banking Corporation	AA-	1,000,000	997,117	2.04%	3.17	2,628	22-Jan-20
Macquarie Bank	A	1,000,000	999,909	2.04%	3.40	2,888	03-Mar-20
CBA Snr FRN	AA-	1,000,000	995,454	2.04%	3.19	2,637	17-Jul-20
Bendigo Bank Senior FRN	A-	1,000,000	1,006,823	2.04%	3.34	2,833	18-Aug-20
Suncorp Senior FRN	A+	1,000,000	1,000,840	2.04%	3.53	2,925	20-Oct-20
CBA Snr FRN	AA-	500,000	500,660	1.02%	3.44	660	18-Jan-21
<b>Mortgage Backed Securities</b>							
Emerald Reverse Mortgage Series 2007-1 Class B	AA	1,000,000	600,850	2.04%	2.82	2,335	21-Jul-27
Emerald Reverse Mortgage Series 2006-1 Class A	AAA	700,707	557,187	1.43%	2.70	1,607	22-Aug-22
<b>Total-Other Investments</b>		<b>14,950,707</b>	<b>14,367,819</b>	<b>30.50%</b>		<b>37,160</b>	
<b>TOTAL CASH &amp; INVESTMENT SECURITIES</b>		<b>\$49,025,707</b>	<b>\$49,064,022</b>	<b>100%</b>	<b>3.39</b>	<b>\$131,271</b>	
<b>Benchmark (90 day Ausbond Bank Bill Index)</b>					<b>2.39</b>		

Governance

**GO2 – Investment of Funds as at 31 January 2016**

**ATTACHMENT 1 – 1022-3 – 21 MARCH 2016**

**Summary of Investment Holdings by Investment Type as at 31 Jan 2016**

<b>Investment Holdings</b>			
	<b>Face Value (\$)</b>	<b>Current Value (\$)</b>	<b>Current Yield (%)</b>
Bonds	3,000,000.00	2,931,032.31	6.7795
Cash	3,325,000.00	3,325,000.00	2.0500
Floating Rate Note	10,250,000.00	10,278,749.82	3.5287
Mortgage Backed Securities	1,700,706.99	1,158,036.70	2.7706
Term Deposit	30,750,000.00	31,371,203.09	3.1848
	<b>49,025,706.99</b>	<b>49,064,021.92</b>	<b>3.3853</b>

<b>Application of Invested Funds- 31 January 2016</b>		
<b>Fund Type</b>	<b>Description</b>	<b>Value \$</b>
Externally Restricted Funds	Developer Contributions	14,106,987
	Domestic Waste Management	8,288,566
	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	11,603,907
		<b>49,025,707</b>