

EC7 – Investment of Funds as at 31 October 2017

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112

TRIM 1022-5

EXECUTIVE SUMMARY

- This report provides details of Council's invested funds as at 31 October 2017
- It is recommended that the information and certification in relation to the investment of Council funds as at 31 October 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 Bank's forecasts for growth in the Australian economy are largely unchanged. The central forecast is for GDP growth to pick up and to average around 3 per cent over the next few years. Business conditions are positive and capacity utilisation has increased. The outlook for non-mining business investment has improved, with the forward-looking indicators being more positive than they have been for some time. Increased public infrastructure investment is also supporting the economy. One continuing source of uncertainty is the outlook for household consumption. Household incomes are growing slowly and debt levels are high.

The labour market has continued to strengthen. Employment has been rising in all states and has been accompanied by a rise in labour force participation. The various forward-looking indicators continue to point to solid growth in employment over the period ahead. The unemployment rate is expected to decline gradually from its current level of 5½ per cent. Wage growth remains low. This is likely to continue for a while yet, although the stronger conditions in the labour market should see some lift in wage growth over time.

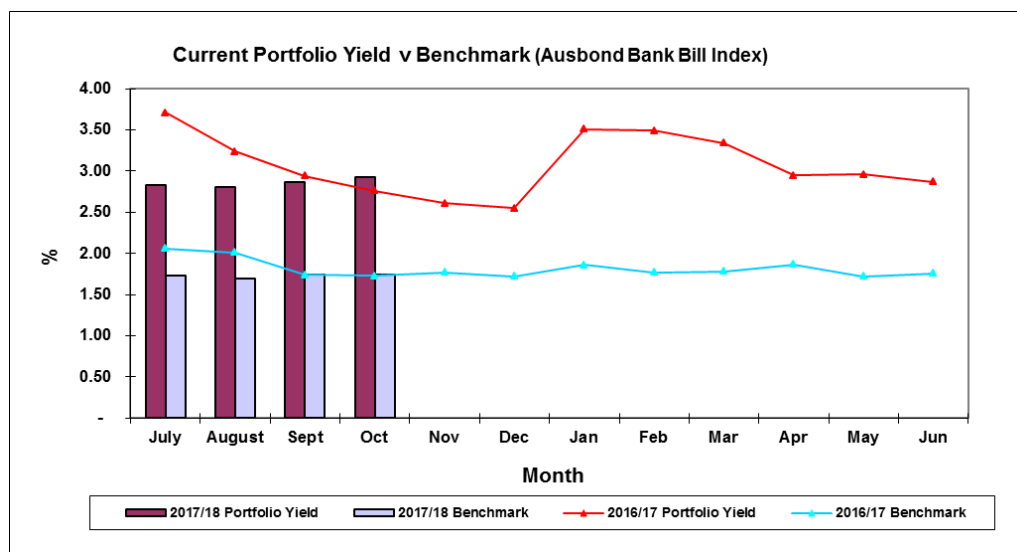
Inflation remains low, with both CPI and underlying inflation running a little below 2 per cent. In underlying terms, inflation is likely to remain low for some time, reflecting the slow growth in labour costs and increased competitive pressures, especially in retailing. CPI inflation is being boosted by higher prices for tobacco and electricity. The Bank's central forecast remains for inflation to pick up gradually as the economy strengthens.

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The low level of interest rates is continuing to support the Australian economy. Taking account of the available information, the Board judged that holding the stance of monetary policy unchanged at this meeting would be consistent with sustainable growth in the economy and achieving the inflation target over time.”

The 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. Note that 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 2016/17 and 2017/18.



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.

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.

Council

Efficient and Effective Council
Report to the Ordinary Meeting of Council held on Monday 11 December 2017

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Council's investment portfolio as at 31 October 2017 is summarised below.

By Product	Face Value (\$)	Current Value (\$)	Current Yield (%)
Bonds	2,000,000.00	1,989,240.00	7.1692
Cash	4,506,000.00	4,506,000.00	1.5500
Floating Rate Note	15,000,000.00	15,192,831.31	2.8307
Mortgage Backed Security	1,629,895.21	1,100,831.03	2.2075
Term Deposit	37,000,000.00	37,424,043.84	2.7441
	60,135,895.21	60,212,946.18	2.8088

Details of Council's investment portfolio as at 31 October 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 RBA has continued to keep interest rates low and the expected investment income will be reviewed and revised as more information becomes available.

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. Investment Summary Report as at 31 October 2017.

RECOMMENDATION

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