

GO2 – Investment of Funds as at 28 February 2017

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TRIM 1022-4

EXECUTIVE SUMMARY

- This report provides details of Council's invested funds as at 28 February 2017.
- It is recommended that the information and certification in relation to the investment of Council funds as at 28 February 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:

"In Australia, the economy is continuing its transition following the end of the mining investment boom. GDP was weaker than expected in the September quarter, largely reflecting temporary factors. A return to reasonable growth is expected in the December quarter.

The Bank's central scenario remains for economic growth to be around 3 per cent over the next couple of years. Growth will be boosted by further increases in resource exports and by the period of declining mining investment coming to an end. Consumption growth is expected to pick up from recent outcomes, but to remain moderate. Some further pick-up in non-mining business investment is also expected.

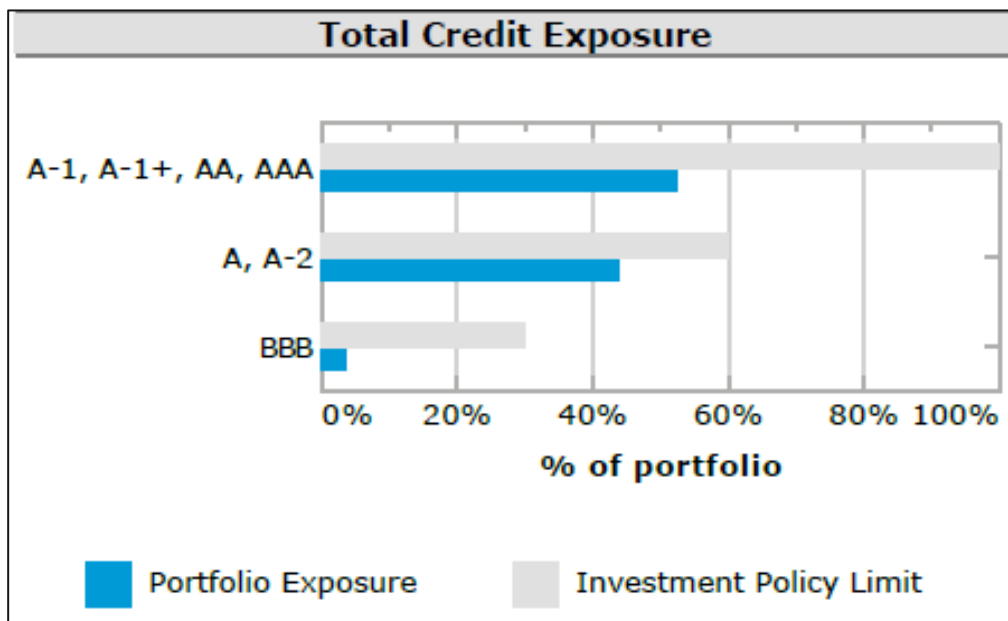
The outlook continues to be supported by the low level of interest rates. Financial institutions remain in a position to lend. The depreciation of the exchange rate since 2013 has also assisted the economy in its transition following the mining investment boom. An appreciating exchange rate would complicate this adjustment.

Labour market indicators continue to be mixed and there is considerable variation in employment outcomes across the country. The unemployment rate has moved a little higher recently, but growth in full-time employment turned positive late in 2016. The forward-looking indicators point to continued expansion in employment over the period ahead.

Inflation remains quite low. The December quarter outcome was as expected, with both headline and underlying inflation of around 1½ per cent. The Bank's inflation forecasts are largely unchanged. The continuing subdued growth in labour costs means that inflation is expected to remain low for some time. Headline inflation is expected to pick up over the course of 2017 to be above 2 per cent, with the rise in underlying inflation expected to be a bit more gradual."

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As shown in the following chart, the credit rating on Council’s portfolio as at 28 February 2017 is within Council’s investment policy limits.



The percentage of Council's investment portfolio invested with each institution as at 28 February 2017 also complies with the limits specified in Council's investment policy, as detailed in the following table.

Governance

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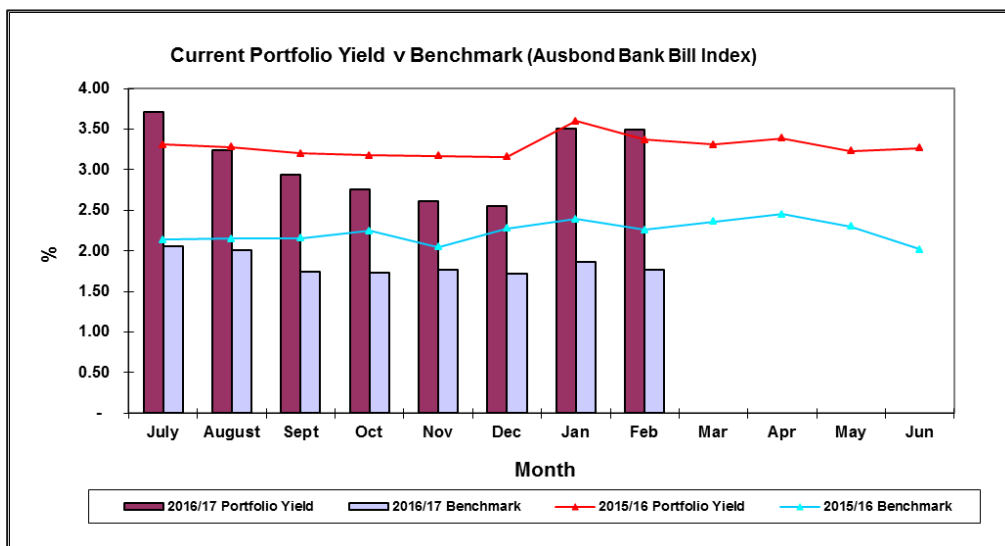
% used vs Investment Policy Limit		
	% used vs Investment Policy Limit	
Bendigo and Adelaide Bank (A-2, A-)	78%	✓
Bank of Queensland (A-2, A-)	74%	✓
National Australia Bank (A-1+, AA-)	44%	✓
Westpac Group (A-1+, AA-)	39%	✓
Members Equity Bank (A-2, BBB+)	32%	✓
Credit Union Australia (A-2, BBB+)	23%	✓
Commonwealth Bank of Australia (A-1+, AA-)	14%	✓
Suncorp Bank (A-1, A+)	11%	✓
Macquarie Group (A-1, A)	11%	✓
Greater Building Society (A-2, BBB+)	9%	✓
AMP Bank (A-1, A+)	7%	✓
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 February 2017, Council’s portfolio yielded 3.12% and returned 3.49% for the month compared to the benchmark’s 1.77% pa return.

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

Historical Performance Summary			
	Portfolio	AusBond BB Index	Outperformance
Feb 2017	3.49%	1.77%	1.72%
Last 3 Months	3.17%	1.79%	1.39%
Last 6 Months	2.97%	1.77%	1.20%
Financial Year to Date	3.05%	1.83%	1.21%
Last 12 months	3.16%	1.98%	1.17%

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 28 February 2017 are provided in attachment 1.

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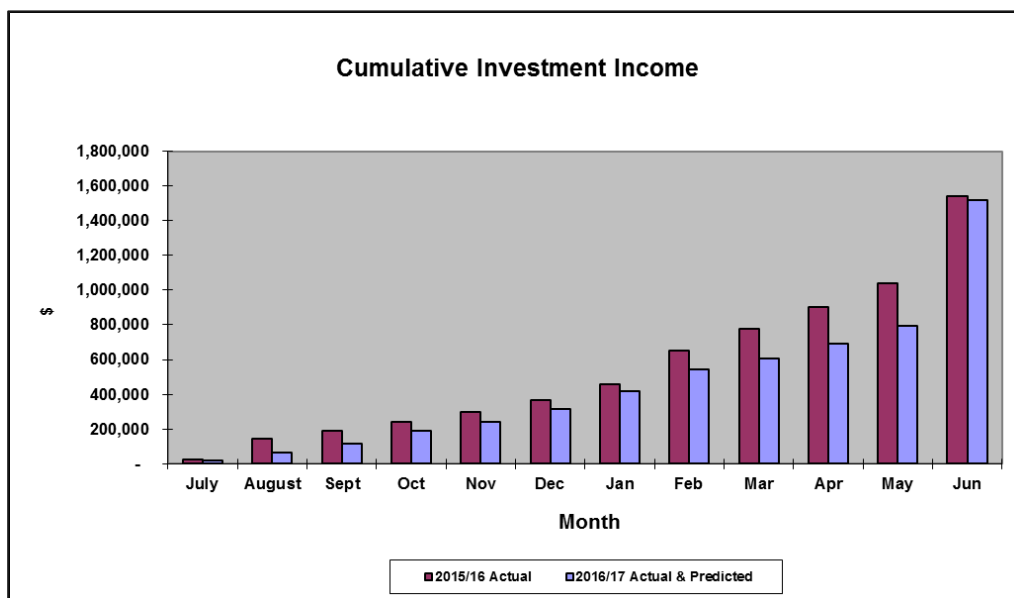
CONSULTATION

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

Governance

Report of Governance to the Ordinary Meeting of Council held on Tuesday 18 April 2017

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ATTACHMENTS INCLUDED IN A SEPARATE BOOKLET

1. Investments as at 28 February 2017.

RECOMMENDATION

That the information and certification in relation to the investment of Council funds as at 28 February 2017 be noted.