

**GO2 – Investment of Funds as at 31 January 2017**

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TRIM 1022-4

**EXECUTIVE SUMMARY**

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

**REPORT**

At its December meeting, the Reserve Bank maintained the cash rate at 1.50%. There was no meeting in January 2017. In December, in relation to the domestic market, the Board of the Reserve Bank commented that:

*"In Australia, the economy is growing at a moderate rate. The large decline in mining investment is being offset by growth in other areas, including residential construction, public demand and exports. Household consumption has been growing at a reasonable pace, but appears to have slowed a little recently. Measures of household and business sentiment remain above average.*

*Labour market indicators continue to be somewhat mixed. The unemployment rate has declined this year, although there is considerable variation in employment growth across the country. Part-time employment has been growing strongly, but employment growth overall has slowed. The forward-looking indicators point to continued expansion in employment in the near term.*

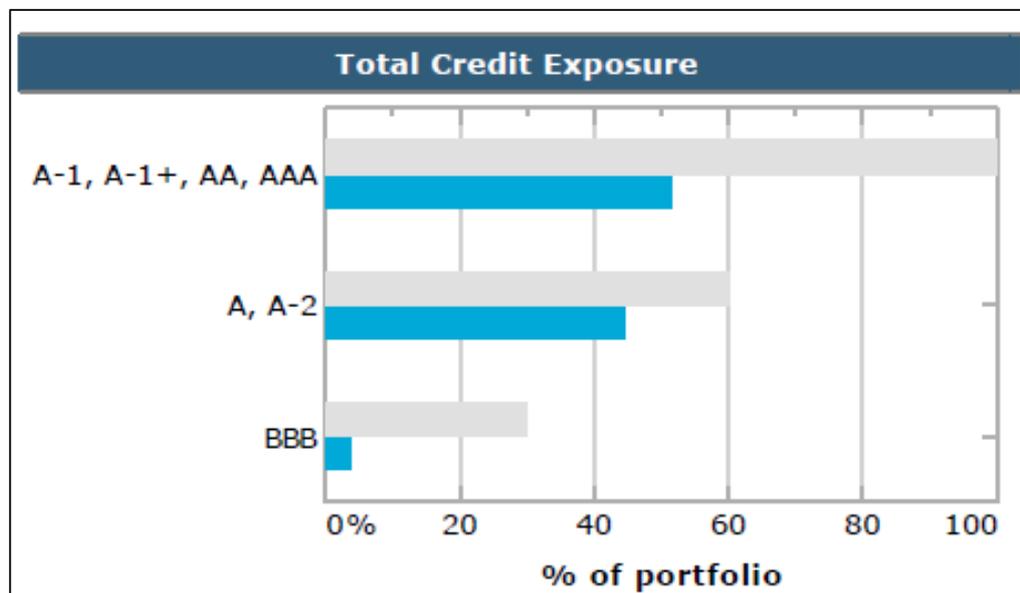
*Inflation remains quite low. The September quarter inflation data were broadly as expected, with underlying inflation continuing to run at around 1½ per cent. Subdued growth in labour costs and very low cost pressures elsewhere in the world mean that inflation is expected to remain low for some time.*

*Low interest rates have been supporting domestic demand and the lower exchange rate since 2013 has been helping the traded sector. Financial institutions are in a position to lend for worthwhile purposes. These factors are assisting the economy to make the necessary adjustments, though an appreciating exchange rate could complicate this.*

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*The Bank's forecasts for output growth and inflation are little changed from those of three months ago. Over the next year, the economy is forecast to grow at close to its potential rate, before gradually strengthening. Inflation is expected to pick up gradually over the next two years."*

As shown in the following chart, the credit rating on Council's portfolio as at 31 January 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 January 2017 also complies with the limits specified in Council's investment policy, as detailed in the following table.

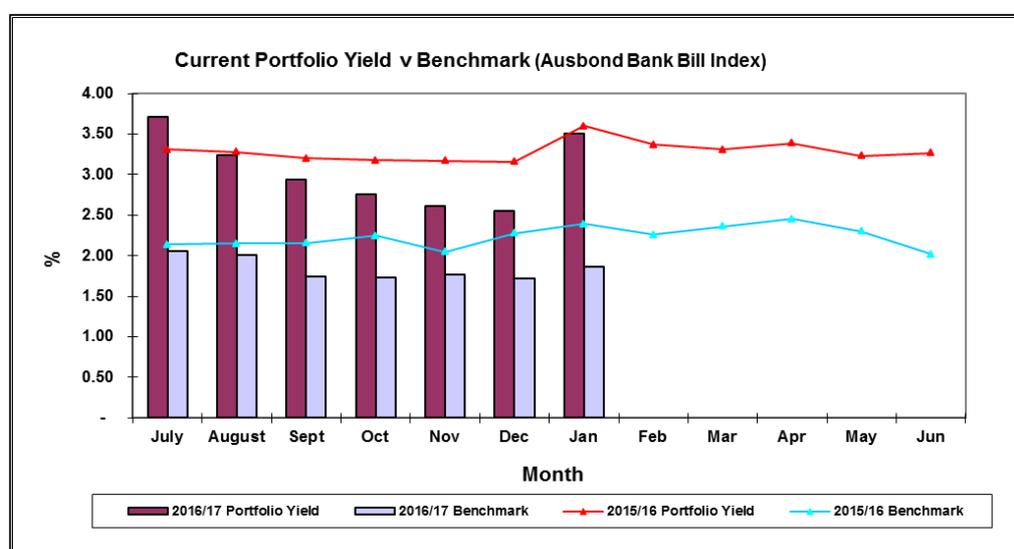
<b>% used vs Investment Policy Limit</b>		
	<b>% used vs Investment Policy Limit</b>	
Bendigo and Adelaide Bank (A-2, A-)	82%	✓
Members Equity Bank (A-2, BBB+)	67%	✓
Bank of Queensland (A-2, A-)	58%	✓
Westpac Group (A-1+, AA-)	43%	✓
National Australia Bank (A-1+, AA-)	37%	✓
Commonwealth Bank of Australia (A-1+, AA-)	15%	✓
Suncorp Bank (A-1, A+)	11%	✓
Macquarie Group (A-1, A)	11%	✓
Greater Building Society (A-2, BBB+)	10%	✓
Credit Union Australia (A-2, BBB+)	10%	✓
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.

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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 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 January 2017, Council’s portfolio yielded 3.06% and returned 3.51% for the month compared to the benchmark’s 1.86% pa return.

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

<b>Historical Performance Summary</b>			
	<b>Portfolio</b>	<b>AusBond BB Index</b>	<b>Outperformance</b>
Jan 2017	3.51%	1.86%	1.64%
Last 3 Months	2.89%	1.79%	1.11%
Last 6 Months	3.09%	1.81%	1.28%
Financial Year to Date	2.99%	1.84%	1.15%
Last 12 months	3.03%	2.03%	1.01%

Governance

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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 2017 are provided in Attachment 1.

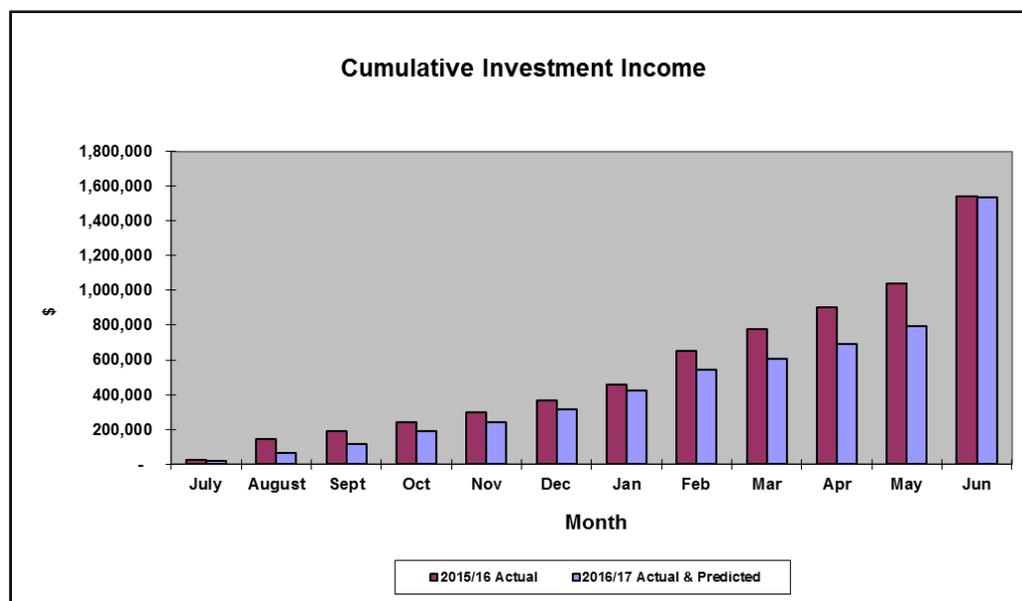
**CONSULTATION**

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 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 decreased interest rates, 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.

Governance

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**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 INCLUDED IN A SEPARATE BOOKLET**

1. Investments as at 31 January 2017 including reconciliation of invested funds.

**RECOMMENDATION**

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