

REPLACEMENT REPORT

REPORTS FROM THE EXECUTIVE MANAGER FINANCE, REVENUE AND INFORMATION TECHNOLOGY

34 [FRIT-CM] Monthly Investment Report for period ending 31 May 2019

SUBMITTED BY: Financial Services

mhm



Making decisions with you
We're in this together

LINKAGE TO INTEGRATED PLANNING AND REPORTING FRAMEWORK:

- 2 Making decisions with you
- 2.2 Engagement
- 2.2.5 Financial Services - To collect and manage Council funds and provide information and advice to support sound financial decision-making.

ROLE: **Leader**

SUMMARY OF REPORT:

The "Responsible Accounting Officer" must report monthly to Council, setting out details of all the funds Council has invested. The Executive Manager Finance, Revenue and Information Technology, being the Responsible Accounting Officer, certifies that investments have been made in accordance with Section 625 of the Local Government Act (1993), Clause 212 of the Local Government (General) Regulations and Council policies. Council had **\$337,100,824** invested as at **31 May 2019** and the actual net return on these funds was **\$779,402** or **2.77%** annualised for the month. (Note: this is income received during the month not accrued interest)

RECOMMENDATION:

That in accordance with Section 625 of the Local Government Act 1993 the monthly investment report as at period ending 31 May 2019 totalling \$337,100,824 be received and noted.

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REPORT:

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1. Ethical Investments

Australian Ethical Classification \$206,428,769 which represents 61.24% of the total portfolio <i>Source: Australian Ethical</i>
Market Forces Classification \$158,150,000 which represents 46.20% of the total portfolio <i>Source: Market Forces</i>
Major Differences <ul style="list-style-type: none">• Australian Ethical classify NAB and Westpac as non-fossil fuel lending institutions but not ANZ or CBA• Market Forces classify ANZ as non-fossil fuel lending institutions but not CBA NAB or Westpac

2. Economic Commentary

Australian and World Economy and Cash Rate

At its 4 June 2019 meeting, the Reserve Bank of Australia Board decided to lower the cash rate by 25 basis points to 1.25 per cent. The Board took this decision to support employment growth and provide greater confidence that inflation will be consistent with the medium-term target.

The outlook for the global economy remains reasonable, although the downside risks stemming from the trade disputes have increased. Growth in international trade remains weak and the increased uncertainty is affecting investment intentions in a number of countries. In China, the authorities have taken steps to support the economy, while addressing risks in the financial system. In most advanced economies, inflation remains subdued, unemployment rates are low and wages growth has picked up.

Global financial conditions remain accommodative. Long-term bond yields and risk premiums are low. In Australia, long-term bond yields are at historically low levels. Bank funding costs have also declined further, with money-market spreads having fully reversed the increases that took place last year. The Australian dollar has depreciated a little over the past few months and is at the low end of its narrow range of recent times.

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The central scenario remains for the Australian economy to grow by around 2¾ per cent in 2019 and 2020. This outlook is supported by increased investment in infrastructure and a pick-up in activity in the resources sector, partly in response to an increase in the prices of Australia's exports. The main domestic uncertainty continues to be the outlook for household consumption, which is being affected by a protracted period of low income growth and declining housing prices. Some pick-up in growth in household disposable income is expected and this should support consumption.

Employment growth has been strong over the past year, labour force participation has been increasing, the vacancy rate remains high and there are reports of skills shortages in some areas. Despite these developments, there has been little further inroads into the spare capacity in the labour market of late. The unemployment rate had been steady at around 5 per cent for some months, but ticked up to 5.2 per cent in April. The strong employment growth over the past year or so has led to a pick-up in wages growth in the private sector, although overall wages growth remains low. A further gradual lift in wages growth is expected and this would be a welcome development. Taken together, these labour market outcomes suggest that the Australian economy can sustain a lower rate of unemployment.

The recent inflation outcomes have been lower than expected and suggest subdued inflationary pressures across much of the economy. Inflation is still however anticipated to pick up, and will be boosted in the June quarter by increases in petrol prices. The central scenario remains for underlying inflation to be 1¾ per cent this year, 2 per cent in 2020 and a little higher after that.

The adjustment in established housing markets is continuing, after the earlier large run-up in prices in some cities. Conditions remain soft, although in some markets the rate of price decline has slowed and auction clearance rates have increased. Growth in housing credit has also stabilised recently. Credit conditions have been tightened and the demand for credit by investors has been subdued for some time. Mortgage rates remain low and there is strong competition for borrowers of high credit quality.

The decision to lower the cash rate will help make further inroads into the spare capacity in the economy. It will assist with faster progress in reducing unemployment and achieve more assured progress towards the inflation target. The Board will continue to monitor developments in the labour market closely and adjust monetary policy to support sustainable growth in the economy and the achievement of the inflation target over time.

(Source: RBA Monetary Policy Decision)

Council's Investment Portfolio

Council's investment portfolio is conservatively structured in accordance with NSW Office of Local Government guidelines with approximately 80% of the portfolio held in cash and term deposits. Term deposits and bonds are paying average margins over the 90 day bank bill rate. The benchmark 90 day bank bill rate hit a low of 1.42% pa during the month.

Bank demand for term deposit funds has waned as overseas wholesale funding alternatives become less expensive in conjunction with a global falling interest rate outlook. At the same time Australian Prudential Regulation Authority (APRA) imposed mortgage lending restrictions have loosened meaning some increased demand for depositor's funds. Banks are also using debt issuance (bonds) as a less expensive source of funds than term deposits.

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Many "cash at call" rates are at levels below the RBA cash rate. The historic low cash rate and long-term bond rates are translating to lower total investment yields. This continues to present difficulties obtaining reasonable investment income without risking capital.

All investment categories out-performed the UBS 90 day bank bill benchmark this month. The investment portfolio again benefited this month from some longer-dated, higher yielding bonds and recently purchased short-term term deposits. Longer-dated bonds and term deposits are being replaced with high yielding short-term deposits. Overall, the investment portfolio has returned a weighted average 1.43% pa above the 90 day UBS bank bill index for the last month.

3. Term to Maturity

Maturity Profile	Actual % Portfolio	Policy Limits
Less than 365 days	49.07%*	Minimum 40%
More than 365 days and less than 3 years	34.65%	Maximum 60%
3 years and less than 5 years	16.28%	Maximum 35%
Portfolio Total	100.00%	
*Note: Some of Council's Bond Portfolio is included with longer dated maturities i.e. >1 year <5 years however this type of investment can generally be liquidated within two (2) business days		

4. Diversification and Credit Risk

Total Portfolio Credit Limits Compared to Policy Limits					
Long-Term Credit Ratings			Short-Term Credit Ratings		
Credit Ratings	Investment Policy Limit	Portfolio	Credit Ratings	Investment Policy Limit	Portfolio
AAA Category	100%	1.36%	A-1+	100%	11.12%
AA Category	100%	26.04%	A-1	100%	12.76%
A Category	60%	17.49%	A-2	60%	17.80%
BBB Category	20%	9.28%	A-3	20%	0.00%
Unrated	10%	1.48%	Unrated	10%	2.67%

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5. Investment Summary

General Fund

Corporate Fixed Rate Bonds	4,699,163.90	
Floating Rate Notes	61,901,661.50	
Asset Backed Securities	0.00	
Fund Managers	0.00	
Term Deposits	95,999,999.00	
Call Account	6,500,000.00	169,100,824.40

Water Fund

Term Deposits	67,000,000.00	
Fund Managers	0.00	67,000,000.00

Sewerage Fund

Term Deposits	101,000,000.00	
Fund Managers	0.00	101,000,000.00
Total Investments		337,100,824.40

It should be noted that the General Fund investments of **\$169 million** are not available to be used for general purpose expenditure. It is virtually all restricted by legislation and Council resolution for such purposes as unexpended loans, developer contributions, unexpended grants and various specific purpose reserves such as domestic waste, land development and employee leave entitlements.

All Water and Sewerage Fund investments can only be expended in accordance with Government regulation and Council resolution.

Statutory Statement - Local Government (General) Regulation 2005 Clause 212

I certify that Council's investments have been made in accordance with the Local Government Act 1993, the Local Government (General) Regulations and Council's investment policies.



Responsible Accounting Officer
 Executive Manager
 Finance, Revenue & Information Technology
 Tweed Shire Council

OPTIONS:

Not Applicable.

CONCLUSION:

Not Applicable.

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COUNCIL IMPLICATIONS:

a. Policy:

Corporate Policy Not Applicable.

b. Budget/Long Term Financial Plan:

Not Applicable.

c. Legal:

Local Government (General) Regulations 2005 - Section 212 - Reports on council investments

"(1) The responsible accounting officer of a council:

(a) must provide the council with a written report (setting out details of all money that the council has invested under section 625 of the Act) to be presented:

(i) if only one ordinary meeting of the council is held in a month, at that meeting, or

(ii) if more than one such meeting is held in a month, at whichever of those meetings the council by resolution determines, and

(b) must include in the report a certificate as to whether or not the investment has been made in accordance with the Act, the regulations and the council's investment policies.

(2) The report must be made up to the last day of the month immediately preceding the meeting."

d. Communication/Engagement:

Inform - We will keep you informed.

UNDER SEPARATE COVER/FURTHER INFORMATION:

Attachment 1.

Tweed Shire Council Investment Report – 1-31 May 2019
(ECM5921798).
