
Item: 09.04

Subject: INVESTMENTS - JUNE 2018

Presented by: Corporate Performance, Rebecca Olsen

Alignment with Delivery Program

1.5.1 Manage Council's financial assets and provide accurate, timely and reliable information.

RECOMMENDATION

That Council note the Investment Report for the month of June 2018.

Executive Summary

- Total funds invested as at 30 June 2018 equals \$275,415,661.
- Interest for the month of June was \$672,167.
- The year-to-date investment income of \$7,971,775 represents 101% of the total annual investment income budget of \$7,864,300.
- Council's total investment portfolio performance over the last 12 months was 1.29% above the benchmark (3.07% against 1.78%). Benchmark being the Bank Bill reference rate as at 30 June 2018 as identified on www.bloombergindeces.com.
- There are two policy non-conformances; credit quality and counterparty

Discussion

Council has engaged Imperium Markets to provide both an investment management platform and investment advisory service. This decision was based on the need to provide more rigour and transparency around investment choices and to provide a sound framework to support the need for increased financial sustainability into the future.

The attached investment report and portfolio provides detailed information on the performance of council's investment portfolio.

Policy Non-Conformance

There are two policy non-conformances for the month of June; credit quality and counterparty. The credit quality issues relates to Term Deposits that did conform with Council's Investment Policy when they were purchased, however the financial institutions holding those investments have received subsequent credit rating downgrades.

The counterparty non-conformance issue is a result of Council being too heavily invested in Westpac. This is due to the large amount of cash Council held in its Westpac Saver Account (working account). This was a result in large inflow of cash

as a result of investments maturing close to the end of the month of June. A focus for July will be investing some of these funds.

Overview

Councils (including Port Macquarie-Hastings Council) provide a broad range of services and associated infrastructure to their communities. These services include (but are not limited to) the following:

- Water and Sewer services;
- Waste services;
- Port Macquarie Airport;
- Cemeteries;
- Roads and Bridges;
- Various Recreation and Cultural facilities.

The Port Macquarie-Hastings area is a high growth centre of the North Coast region and is expected to accommodate a significant proportion of regional growth over the next two decades. The population will grow from 79,114 in 2016 to 102,926 in 2036. As a consequence of this growth, Council must not only provide services to the existing community and maintain existing assets, but Council must also plan for future maintenance and capital expenditure on the infrastructure that will be needed to support the community, business and visitors to the area into the future.

Council holds cash reserves as an alternative to (or to supplement) borrowing. As at June 2017, Council held \$251 million in cash and reserves. Predominantly, these reserves are all allocated for specific purposes, with 70% of these reserves legally only being able to be used for the purpose for which they were collected (for example for water and sewer). The remaining reserves are also predominantly held for specific purposes (for example, for the development of the Airport, or to fund projects which have already commenced). The balances of these reserves are audited annually and published in Council's financial statements.

An independent analysis was conducted on Council's financial reserves. The review found:

- The Port Macquarie-Hastings local government area has experienced an unprecedented level of development activity. Whilst this has increased the level of reserves held through developer contributions, councils experiencing a high level of development activity require relatively high levels of reserves in order to adequately cope with the required levels of infrastructure spending.
- Council's reserve levels to be broadly appropriate and reasonable in light of Council's circumstances. In particular... that Council has successfully maintained a prudent buffer to prepare against potential financial risks associated with the predicted high development activity.

The full report is available on Council's website:

<http://www.pmhc.nsw.gov.au/About-Us/What-Council-Does/Corporate-Planning-Reporting-Budgets/Financial-Reports?BestBetMatch=financial%20reserves|cdbad291-68a4-4d81-8aee-b3733958e5ca|bd0cff62-3134-4e81-9f7e-de4e65feb428|en-AU>

Current Investments

Council is required to undertake investments in accordance with section 625 of the Local Government Act 1993. This report provides details of Council's investments, and certifies that all funds that Council has invested as at 30 June 2018, comply with this Act.

All investments have been made in accordance with the Act and Regulations, and Council's Investment Policy.

As at 30 June 2018, the investments held by Council totalled \$275,415,661 and were attributed to the following funds:

General Fund	120,718,540
Waste Fund	15,056,625
Water Fund	87,884,896
Sewer Fund	50,442,859
Sanctuary Springs Fund	38,529
Broadwater	1,274,213
	275,415,661

Whilst the current level of investments remain high, these largely relate to funds which have legal restrictions (for example water and sewer), or for funds held for specific purposes.

These funds may be spent in the shorter or longer term depending on the required timing of future works. The totals will fluctuate dependent on the status of individual projects.

Options

This is an information report.

Community Engagement & Internal Consultation

Council uses the services of an independent financial advisor, on an ongoing basis with investments. The investments placed this month were term deposits. At least three quotes were obtained from financial institutions in line with Council's Investment Policy. Council obtains regular updates regarding market activities positions from various institutions.

Planning & Policy Implications

There are no planning and policy implications.

Financial & Economic Implications

Benchmark and budget levels have been met on a year to date basis. On an annual basis, if benchmark levels are not reached, then this may result in budget cuts in other areas to fund the shortfall.

Council's total investment portfolio performance for 30 June 2018 is 1.29% above the benchmark (3.07% against 1.78%) and year to-date income is 115% of the total annual budget.

It should be noted that investment income is noted as a gross amount. Section 97(5) of the Local Government Act 1993 indicates that any security deposit held with Council must be repaid with interest accrued. These security deposits will only relate to bonds held for security to make good damage done to works.

The overall investment income will be adjusted at financial year end by the total interest refunded on repayment of bonds. As Council constantly receives and refunds bonds, it is difficult to accurately determine the quantum of these refunds.

Certification

I hereby certify that the investments listed within this report were made in accordance with Section 625 of the Local Government Act 1993, clause 212 of the Local Government (General) Regulation 2005 and Council's Investment Policy.

Mitchel Woods
Responsible Accounting Officer

Attachments

1. Port Macquarie-Hastings Council Monthly Report - June 2018
2. Port Macquarie-Hastings Council Portfolio as at 30th June 2018