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**Item: 10.08**

**Subject: INVESTMENTS - MAY 2020**

**Presented by: Corporate Performance, Rebecca Olsen**

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### **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 May 2020.**

#### **Executive Summary**

- Total funds invested as at 31 May equals \$305,996,874.
- Interest for the month of May was \$623,781.
- The year-to-date investment income of \$7,253,998 represents 90% of the revised annual investment income budget of \$8,070,000.
- Council's total investment portfolio performance for the financial year to date was 1.79% above the benchmark (2.70% against 0.91%), benchmark being the Bank Bill reference rate as at 31 May 2020.

The following outlines the significant points outlined in the attached Monthly Report (Attachment 1), as provided by Council's investment advisors:

- Council's portfolio has met compliance requirements and outperformed benchmarks during the month.
- Over the past 12 months, the portfolio has returned +2.73% p.a., outperforming bank bills by 1.76% p.a. and nearly 4 times the official cash rate. This has been very strong given deposit rates reached their all-time lows and margins have generally contracted over the past 3 years.
- The RBA's stance on the official cash rate is that it will remain unchanged at its emergency level of 0.25% until its objectives of full employment and inflation are reached, with rates to be low for a very long period of time.
- The RBA also noted that there have not been any signs of stress in the financial system from the COVID-19 crisis because, unlike during the Global Financial Crisis, the banks have cash and are well capitalised.
- Given the above, the biggest risk to Council's portfolio is decreasing interest income as interest rates drop significantly, as opposed to loss of capital.
- With official interest rates now at the RBA's effective zero bound, the priority should be to lock in any attractive medium-longer dated fixed deposits that may still be available.
- It is recommended to consider increasing the allocation to liquid senior floating rate notes.

## 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 (Attachment 2) provides detailed information on the performance of Council's investment portfolio.

## 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. 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.

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>

Many of the funds held in Council reserves (and consequently Council investments) are the subject of a separate report in this agenda titled *Ministerial Directions - Local Infrastructure Contributions*.

### 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 31 May 2020, comply with this Act.

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

As at 31 May 2020, the investments held by Council totalled \$305,996,874 and were attributed to the following funds:

General Fund	114,629,489
Waste Fund	19,892,857
Water Fund	117,557,878
Sewer Fund	52,264,266
Sanctuary Springs Fund	42,840
Broadwater	1,609,544
	<b>305,996,874</b>

Whilst the current level of investments remains 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.

It is noted that there is a minor variance between the total investments held as per this report, (\$305,996,874), and total investments held as per Imperium's attached monthly report (\$305,977,203). This is due to the fact that Council's accounting policy treatment means that floating rate notes (FRNs) are held at amortised cost, whereas they are included at fair value in Imperium's report. This variance is not expected to be material.

### **Options**

This is an information report.

### **Community Engagement and Internal Consultation**

Council uses the services of an independent financial advisor, on an ongoing basis with investments. The investments placed this month were into the cash management account. Council obtains regular updates regarding market activities positions from various institutions.

**Planning and Policy Implications**

There are no planning and policy implications in relation to this report.

**Financial and Economic Implications**

Benchmark levels have been met on a year to date basis, however the actual investment income is tracking slightly under budget due to lower than budgeted interest rates resulting from the impacts of the COVID-19 pandemic. An adjustment to the budgeted investment income will be proposed through the monthly finance report to Council.

Council's total investment portfolio performance for the financial year to date is 1.79% above the benchmark (2.70% against 0.91%) and year to-date income is 90% 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.

*Nicole Spencer*  
*Responsible Accounting Officer*

**Attachments**

1. Port Macquarie-Hastings Council Monthly Report - May 2020
2. Port Macquarie-Hastings Council Portfolio as at 31 May 2020