
Item: 10.05

Subject: INVESTMENTS - SEPTEMBER 2020

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 September 2020.

Executive Summary

- Total funds invested as at 30 September 2020 equals \$313,032,786.
- Interest for the month of September was \$557,519.
- The year-to-date investment income of \$1,738,941 represents 28% of the total annual investment income budget of \$6,321,693.
- Council's total investment portfolio performance for the financial year to date was 2.22% above the benchmark (2.32% against 0.10%), benchmark being the Bank Bill reference rate as at 30 September 2020.

The following outlines the significant points identified 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 +2.54% p.a., outperforming bank bills by 1.96% p.a. and around 5 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 official cash rate 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 has recently suggested that the official rate could be cut further to 0.10% if required.
- 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 continues to be decreasing interest income as interest rates drop significantly, as opposed to loss of capital.
- With the RBA flagging the possibility of a further interest rate cut, 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.

- During the month, AMP was downgraded by S&P from BBB+ to BBB and MyState was downgraded by Moody's from Baa1 to Baa2 (S&P equivalent: BBB+ to BBB). There are however no concerns with Council's investments in these institutions.
- Council's exposure to institutions that fund fossil fuels is 56% of the total portfolio.

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>

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 September 2020, comply with this Act.

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

As at 30 September 2020, the investments held by Council totalled \$313,032,786 and were attributed to the following funds:

General Fund	138,260,320
Waste Fund	15,635,988
Water Fund	111,805,920
Sewer Fund	45,874,955
Sanctuary Springs Fund	37,564
Broadwater	1,418,039
	313,032,786

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, (\$313,032,786), and total investments held as per Imperium's attached monthly report (\$313,064,988). 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.

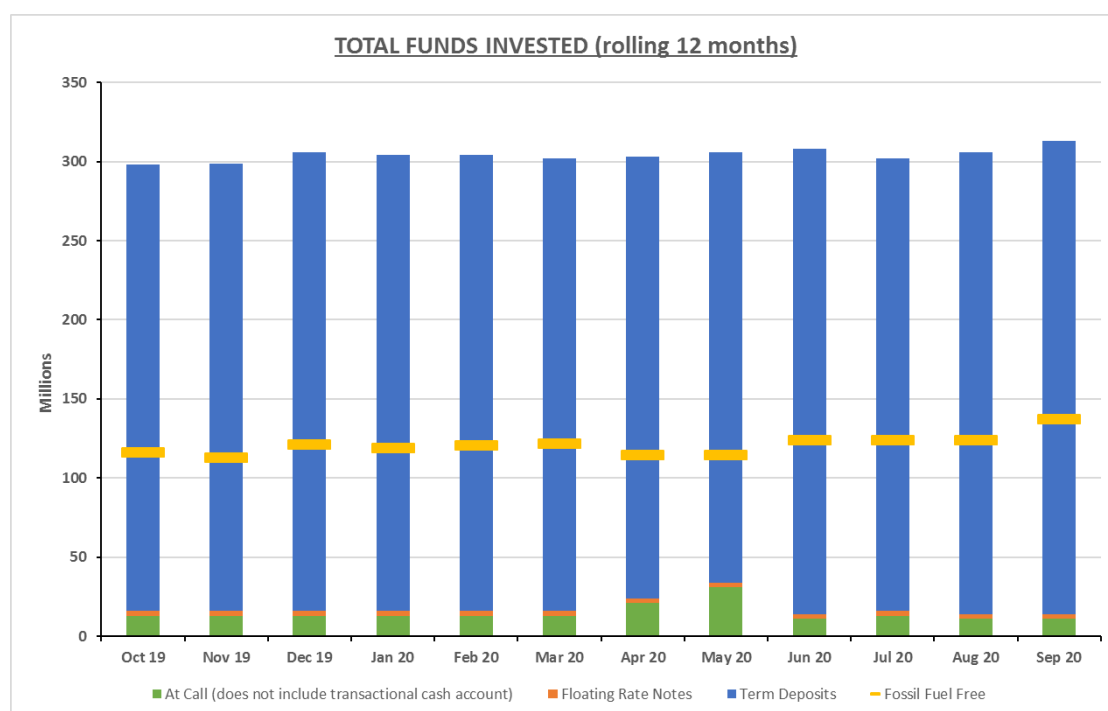
During the month, AMP bank was downgraded from BBB+ to BBB by ratings agency S&P. This downgrade was due to the view that the overall creditworthiness of the AMP group is weaker, it being exposed to challenges which may disrupt its overall strategic direction. Moody's also downgraded MyState Bank from Baa1 to Baa2, which equates to BBB+ down to BBB in S&P's ratings. This downgrade reflects lower financial buffers in a more challenging operating environment when compared to its peers, with Moody noting however that the bank's capital ratio had remained steady.

There are currently no indications of concerns with Council’s exposure to AMP or MyState from a capital loss or return perspective, given that they are super-senior ranked assets, extremely low risk and high up the bank capital structure. Council has \$9m of its total portfolio of \$313m invested with AMP and \$13m with MyState. The downgrade does not impact Council’s compliance with counterparty or credit quality exposure limits.

In relation to Council’s exposure to financial institutions that fund fossil fuels, the following provides a summary:

Financial institutions funding fossil fuels	Amount invested at 30/09/20 (\$)	Amount invested at 30/09/20 (%)
Yes	176,032,786	56.2%
No	137,000,000	43.8%
	313,032,786	

The following graph shows total investments on a rolling 12 month basis:



During the month of September, total investments increased by \$7m as compared to August. This movement comprised a number of individual increases and decreases, however was largely impacted by receipt of the 1st quarter rates instalment which was due 30th September, as well as the receipt of \$2.5m in grant funding for the Stuart Park Regional Sporting Precinct and \$0.9m in grant funding for the Local Roads and Community Infrastructure Program.

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 term deposits. 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 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 the financial year to date is 2.22% above the benchmark (2.32% against 0.10%) and year to-date income is 28% 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 - September 2020
2. Port Macquarie-Hastings Council Portfolio as at 30 September 2020