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**Item: 09.20**

**Subject: INVESTMENTS - DECEMBER 2021**

**Presented by: Business and 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 December 2021.**

#### **Executive Summary**

- Total funds invested as at 31 December 2021 was \$353,650,972.
- Interest for the month of December was \$439,214
- The year-to-date investment income of \$2,705,779 represents 53% of the total annual investment income budget of \$5,132,800.
- Council's total investment portfolio performance for the financial year to date was 1.56% above the benchmark (1.59% against 0.03%), benchmark being the Bank Bill reference rate as at 31 December 2021.

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 1.75% p.a., outperforming bank bills by 1.72% p.a. This has been very strong given deposit rates have reached their all-time lows and margins have generally contracted over the past 3 years.
- The RBA would like to see the following economic indicators improve before considering increasing interest rates: unemployment rate of around 4.25%, actual inflation within 2-3% range and wage growth surpassing +3%. The RBA Board has commented that they want to see inflation sustained within the target band.
- Given the above, the biggest risk to Council's portfolio continues to be decreasing interest income as interest rates remain low, as opposed to loss of capital.
- Council's exposure to institutions that fund fossil fuels is 65% of the total portfolio.
- PMHC remains amongst the best performing Councils in the state of NSW where deposits are concerned, earning on average, \$2.8m in additional interest income compared to its peers.

## 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 are often large and diverse organisations which have many regulatory and compliance requirements including how to raise revenue, and how that can be spent. For context, Port Macquarie-Hastings Council is a large regional Council with an annual expenditure of approximately \$200 million. Whilst every Council has some similarities, they often have characteristics that may set them apart. Port Macquarie-Hastings Council is a large regional Council with high development activity and is also a water authority. These points are relevant in the context of Council reserves / investments. Following is a summary outline of the main areas that have seen an increase in reserves being collected.

### *Development Activity*

This Council has experienced large development growth in recent years and this cycle of activity will see larger amounts of developer contributions being received during those years. The purpose of these contributions is to fund infrastructure associated with the growth of an area and consequently are for new infrastructure and are future focussed. The funds cannot be spent on existing infrastructure. There are specific contribution plans which dictate which projects can be funded from these funds and many of the projects are not ready for completion yet (or are not yet needed as growth levels do not yet require the infrastructure). To complicate matters, Councils cannot spend these funds on projects that are not listed in the relevant contribution plans.

### *Water and Sewer*

Port Macquarie-Hastings Council is a water authority. Not every Council is (as separate Water Authorities exist e.g. Sydney Water and Hunter Water). The provision of water and sewer services requires large capital investment, with large projects often occurring cyclically and requiring a combination of reserve funds and borrowing to fund these large infrastructure requirements.

## 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 December 2021, comply with this Act. All investments have been made in accordance with the Act and Regulations, and Council's Investment Policy.

As at 31 December 2021, the investments held by Council totalled \$353,650,972 and were attributed to the following funds:

General Fund*	147,946,348
Waste Fund	20,097,985
Water Fund	125,924,501
Sewer Fund	58,076,562
Broadwater	1,552,528
Sanctuary Springs	53,048
	<b>353,650,972</b>

*\*Includes funds collected from development that must be expended in relation to adopted contribution plans. Also includes funds collected for works on the Port Macquarie Town Centre Master Plan totalling \$2.5m.*

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.

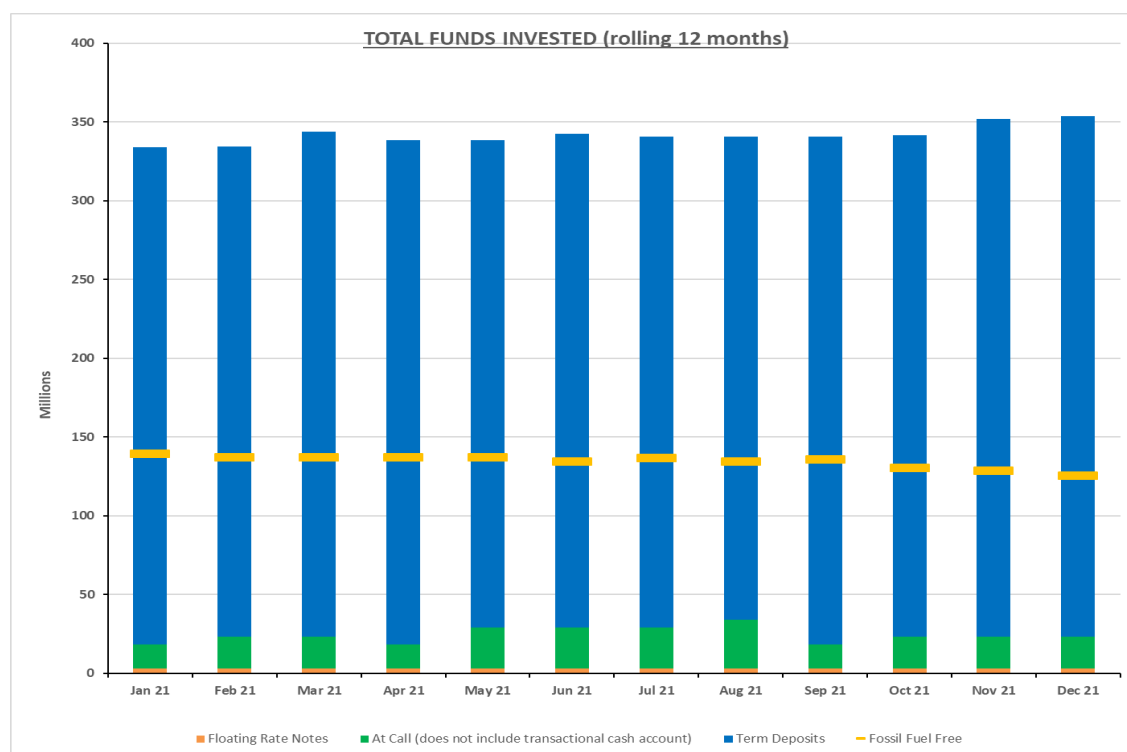
These funds may be spent in the shorter or longer term depending on the required timing of future works. The totals will fluctuate dependent on the status of individual projects.

It is noted that there is a variance between the total investments held as per this report, (\$353,650,972), and total investments held as per Imperium's attached monthly report (\$353,687,212). 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.

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

<b>Financial institutions funding fossil fuels</b>	<b>Purchases since 01/07/21 (\$)</b>	<b>Purchases since 01/07/21 (%)</b>	<b>Amount invested at 31/12/21 (\$)</b>	<b>Amount invested at 18/10/21 (%)</b>
Yes	72,020,000	80%	228,150,972	64.51%
No	18,000,000	20%	125,500,000	35.49%
	<b>90,020,000</b>		<b>353,650,972</b>	

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



The value of Council’s investments as at 31 December was \$2m higher than November due to Council receiving grant funding from Transport NSW totalling \$1.41m and the Quarterly rates received at the end of November. These surplus funds were invested during December 2021.

**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 1.56% above the benchmark (1.59% against 0.03%) and year to-date income is 53% 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 Investment Report - December 2021
2. Port Macquarie-Hastings Council Portfolio Valuation - December 2021