



Report to General Manager

Attachment:

1. Investment Portfolio as at 30 June 2017
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SUBJECT: Investments and Loan Borrowings Held as at 30 June 2017

AUTHOR: Garry Ross, Manager Financial Services (Responsible Accounting Officer)

ENDORSED BY: Sandra Moore, Acting Director Corporate Services

EXECUTIVE SUMMARY:

This report provides details of the performance of Council's investment portfolio and borrowing limits for the period ending 30 June 2017.

Investment Portfolio:

The portfolio provided an annualised return of 3.70% for the year to date as at 30 June 2017, 1.88% above the reportable benchmark (BBSW Bank Bill Index). Interest returns remain consistently above the benchmark. This was attributed to additional funds being made available for investment and prudent selection and allocation of these funds to the financial institutions which make up the investment portfolio.

Borrowing Limits:

Council has commenced a \$30 million debt facility and as at the reporting date, has drawn down \$9.5 million for capital works projects. Council continues to monitor interest rate risk whenever it borrows, regardless of whether the interest rates are fixed or variable.

FINANCIAL IMPLICATIONS:

Any surplus funds generated in excess of adopted estimates will be transferred to Council's internally restricted reserves.

Comment by Responsible Accounting Officer:

Investments and Loan borrowings funding comply with Council's Financial Management Policy.

Local Government Act 1993: Section 23A Guidelines - Council Decision Making During Merger Proposal Period

The Guidelines have been considered in the preparation of this report and are not applicable

RECOMMENDATION:

1. **THAT** the report be received.
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LINK TO DELIVERY PROGRAM

The relationship with the Delivery Program is as follows:

- Direction: 5. Our Civic Leadership
- Outcome: 5.2 Council is financially sustainable

BACKGROUND

The Responsible Accounting Officer must provide Council with a monthly report detailing all funds:

- a. Invested under Section 625 of the Local Government Act 1993. This report must include certification that the investments have been made in accordance with the Act and the Regulations made thereunder, the revised Investment Order issued by the Minister for Local Government and Council's Financial Investment Policy.
- b. Borrowed under Section 624 of the Local Government Act. This report must comply with the borrowings Order issued by the Minister for Local Government and Council's Debt Management Policy.

CONSULTATION REQUIREMENTS

Community engagement is not required.

SUSTAINABILITY STATEMENT

The following table provides a summary of the key sustainability implications:

QBL Pillar	Implications
Environment	• There are no perceived short or long-term environmental implications.
Social	• There are no perceived short or long-term social implications.
Economic	• Provides Council with a significant source of income.
Governance	• Compliance with all legislative requirements and statutory obligations.

DETAIL

Investment Portfolio

The following table provides details of the performance of Council's investment portfolio against the benchmark for the month of June 2017.

	June 2017	YTD as at 30 June 2017
Actual Return	4.11%	3.70%
Benchmark	1.76%	1.82%
Variance	2.35%	1.88%

The following table shows the actual cash inflows received from the portfolio for the month of June 2017 and for the year to date as at 30 June 2017.

	June 2017	YTD as at 30 June 2017
Capital Guaranteed	\$0.00	\$0.00
Cash Enhanced Funds	\$0.00	\$0.00
Fixed Cash Fund	\$0.00	\$0.00
Senior Bonds	\$86,056.36	\$1,011,073.59
Term Deposits	\$200,549.04	\$2,493,704.38
Trading Accounts	\$314.23	\$83,193.90
	\$286,919.63	\$3,587,971.87

Investment Performance

Investment returns continue to exceed the indicative benchmark (BBSW Bank Bill Index). All funds invested have been done so in accordance with the Act and the Regulations made thereunder and with Council's Financial Investment Policy. Further, Council's investment portfolio complies with the revised Investment Order issued by the Minister for Local Government, which places restrictions on the type of investments permitted. These restrictions have placed greater emphasis on obtaining competitive investment options and the need for sound investment advice from Council's independent advisor.

Council continues to seek independent advice for all investments and is actively managing the portfolio to ensure that returns are maximised, taking into account diversification and risk.

Summary of Returns from Investments:

Year	Original Budget	Revised Budget	YTD/Annual Actual (June)	YTD Budget Variance (June)
2016/17	\$2,000,000	\$3,000,000	\$3,276,518	\$276,518
2015/16	\$2,320,000	\$3,640,000	\$4,105,146	\$465,146
2014/15	\$3,400,000	\$4,150,000	\$4,414,692	\$264,692
2013/14	\$2,700,000	\$3,400,000	\$3,983,515	\$583,515
2012/13	\$2,000,000	\$2,887,751	\$4,238,785	\$1,353,069
2011/12	\$2,000,000	\$3,400,000	\$3,728,080	\$328,080

Investments held for June (Annualised):

Investment Type	%Portfolio	June 2017 (Purchase Value)	June 2017 (Market Value)	June 2017 % Return	June 2017 YTD%
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S & P Rating	Investments Market Value	% of Portfolio (June)
AAA	\$0.00	0.00%
AA	\$0.00	0.00%
AA-	\$8,035,262.30	10.0%
	\$8,035,262.30	10.0%
A+	\$9,041,780.77	11.0%
A	\$7,032,460.00	10.0%
A-	\$3,000,000.00	4.0%
	\$19,074,240.77	25.0%
BBB+	\$19,501,780.00	24.0%
BBB	\$25,104,286.00	31.0%
BBB-	\$0.00	0.0%
	\$47,646,610.00	55.0%
NR	\$9,000,000.00	10.0%
	\$87,814,621.13	100.00%

Fixed Cash Fund	0.0%	\$0.00	\$0.00	0.00%	0.00%
Senior Bonds	24.0%	\$20,000,000.00	\$20,160,606.00	3.06%	3.12%
Term Deposits	68.0%	\$54,500,000.00	\$54,500,000.00	3.73%	3.75%
Trading Accounts	8.0%	\$6,054,963.07	\$6,054,963.07	1.24%	1.30%

Financial Investment Policy

The maximum holding limit in each rating category and the target credit quality weighting for Council's portfolio shall be:

Long Term Rating Range	Maximum Holding
AAA Category	100.00%
AA Category	100.00%
A Category	60.00%
BBB Category	35.00%
Unrated ADIs	10.00%

The policy has been independently reviewed by Council's investment advisors. Risk management guidelines and investment decision criteria have been amended. The main changes are:

- Compliance with other Council policies, those being Fraud Corruption and prevention Policy, Code of Conduct Policy and Financial Management Policy; and
- Investment decision criteria, in particular, the review mechanism associated with a ratings down grade.

The maximum holding percentage of BBB Category investments is currently outside the policy limit as a result of recent rating downgrades in May and June 2017. Compliance will be restored as investment opportunities arise in the future.

Loan Borrowings

Council has implemented an expanded capital works program which requires alternate sources of funding, both internal and from financial institutions. Council has been debt free for a considerable period, which has prompted the need for a loan borrowing program to ensure that there is intergenerational equity in the provision of essential infrastructure and other major capital projects.

Council's Debt Management Policy provides the framework for Council's borrowing activities and defines key responsibilities and the operating parameters within which borrowing and related risk management activities are to be carried out.

The Policy's objective is to control Council's exposure to movements in interest rates through the application of fixed, floating or a combination of both in order to maintain its risk averse strategy.

Loan borrowing will be undertaken in line with the following principles:

- a) That the capital cost of infrastructure be recognised over the period during which the benefits will be enjoyed;
- b) That loan funds are a resource to fund the replacement and upgrading of existing infrastructure and fund the creation of new infrastructure.
- c) That loan funds will be limited:
 - To the acquisition or enhancement of income producing assets;
 - To the construction and/or upgrading of buildings;
 - To infrastructure assets that have a life expectancy of greater than 10 years.

The current Debt Facility is as follows:

- Bank loan via the NAB Corporate Market loan (Variable Rate Option)
- Facility Limit: \$30 million (Initial offer)
- Capital projects purposes only (refer to loan funded projects list)
- 3 year tenor with facility to be reviewed annually
- Interest rate linked to 90 day BBSY index + drawn margin%
- Drawn margin: 0.57%
- Facility Fee: 0.24%
- Facility expiry date: 30 June 2018
- Facility Utilisation: 31.7% (\$9.5m of \$30m)

The estimated Debt Service Cover Ratio this financial year is approximately 24% compared to the Local Government industry benchmark of greater than or equal to 2%. This ratio measures Council's availability of operating cash to service debt liabilities.

Council has no fixed interest rate loans. This situation will be reviewed when additional borrowings are required or when interest rates move from their current low level.

Loan Funded Capital Projects as at 30 June 2017

Project 1: Upgrading the car park in Alexander Street, Crows Nest

A **\$5 million** loan has been sourced to fund this project.
Current length of Loan as per LTFP: 20 years to 2035/36

Project 2: Upgrading of On-Street Parking Management System

A **\$4.5 million** loan has been sourced to fund this project.
Current length of Loan as per LTFP: 20 years to 2035/36

Loan Borrowings Summary 2016/17

	Interest & Fee Details	Amount	Applicable Dates	Rate Charge	Applicable Rate	Charge Date	Interest & Fee Charges YTD
Interest Charges	Floating Rate	\$9,500,000.00	14 June 16 - 14 Sept 16	BBSY Rate: 2.0717% Drawn Margin: 0.5700%	2.6417%	15 Sept 2016	\$63,256.05
	Floating Rate	\$9,500,000.00	14 Sept 16 - 14 Dec 16	BBSY Rate: 1.7933% Drawn Margin: 0.5700%	2.3633%	15 Dec 2016	\$55,974.60
	Floating Rate	\$9,500,000.00	14 Dec 16 - 14 Mar 17	BBSY Rate: 1.8200% Drawn Margin: 0.5700%	2.3900%	15 Mar 2017	\$55,984.93
	Floating Rate	\$9,500,000.00	14 Mar 17 - 14 June 17	BBSY Rate: 2.3850% Drawn Margin: 0.5700%	2.9550%	15 June 2017	\$70,758.08
Total							\$245,973.66
Fee and Premium Charges	Facility Fee (%)	\$30,000,000.00	14 June 16 - 14 Sept 16		0.2400%	14 Sept 2016	\$18,147.94
	Facility Fee (%)	\$30,000,000.00	14 Sept 16 - 14 Dec 16		0.2400%	14 Dec 2016	\$17,950.68

Report of Garry Ross, Manager Financial Services
Re: Investments and Loan Borrowings Held as at 30 June 2017

(7)

Facility Fee (%)	\$30,000,000.00	14 Dec 16 - 14 Mar 17	0.2400%	14 Mar 2017	\$17,753.42
Facility Fee (%)	\$30,000,000.00	14 Mar 17 - 14 June 17	0.2400%	14 June 2017	\$18,147.94
Total					\$71,999.98

The next loan repayment is due on 14 September 2017

North Sydney Council Investment Portfolio as at 30 June 2017

	Investment Face Value	Investment Market Value	%	S&P Rating *	Net Returns - 1 Month		Net Returns - FYTD		Maturity
Trading Account:					Return*	Income^	Return	Income^	
CBA Trading Account - General Fund	508,574.48	508,574.48	1%	AA-	0.80	1,416.21	1.00	16,038.58	At Call
CBA Business On-Line Saver	4,500,000.00	4,500,000.00	6%	AA-	1.05	6,750.68	1.05	45,551.76	At Call
AMP 31-day Notice Account	1,041,780.77	1,041,780.77	1%	A+	2.25	1,840.96	2.51	22,784.69	31-Jul-17
CBA Cash Management Account	4,607.82	4,607.82	0%	AA-	1.65	1.90	1.69	21.38	At Call
	6,054,963.07	6,054,963.07	8%		1.24	10,009.75	1.30	84,396.41	
Term Deposits:									
AMP @ 2.90%~	1,000,000.00	1,000,000.00	1%	A	2.90	2,383.56	2.90	28,999.97	28-Aug-17
BoQ @ 4.90%	3,000,000.00	3,000,000.00	4%	BBB+	4.90	12,082.19	4.90	146,999.98	28-Aug-17
BCU @ 4.00%	2,000,000.00	2,000,000.00	2%	NR	4.00	6,575.34	4.00	79,999.99	28-Aug-17
Bendigo TD @ 2.90%	3,000,000.00	3,000,000.00	4%	BBB+	2.90	7,150.68	2.90	86,999.97	30-Aug-17
Bendigo TD @ 2.90%	3,000,000.00	3,000,000.00	4%	BBB+	2.90	7,150.68	2.90	86,999.97	4-Sep-17
CUA @ 3.75%	3,000,000.00	3,000,000.00	4%	BBB	3.75	9,246.58	3.75	112,499.99	11-Sep-17
Bendigo TD @ 2.92%	2,000,000.00	2,000,000.00	2%	BBB+	2.92	4,800.00	2.92	58,400.00	15-Sep-17
BoQ @ 4.70%	1,000,000.00	1,000,000.00	1%	BBB+	4.70	3,863.01	4.70	46,999.98	27-Sep-17
BoQ Specialist @ 5.60%	500,000.00	500,000.00	1%	BBB+	5.60	2,301.37	5.60	27,999.99	2-Nov-17
AMP @ 3.20%~	4,000,000.00	4,000,000.00	5%	A	3.20	10,520.55	3.20	127,999.99	5-Mar-18
Community Alliance CU @ 2.90%	2,000,000.00	2,000,000.00	2%	NR	2.90	4,767.12	2.90	46,400.01	13-Mar-18
RaboDirect @ 4.25%	2,000,000.00	2,000,000.00	2%	A+	4.25	6,986.30	4.25	85,000.01	20-Aug-18
Rabobank @ 4.05%	6,000,000.00	6,000,000.00	7%	A+	4.05	19,972.60	4.05	243,000.02	28-Aug-18
BCU @ 3.00%	1,000,000.00	1,000,000.00	1%	NR	3.00	2,465.75	3.00	25,150.70	29-Aug-18
Defence Bank @ 2.90%	3,000,000.00	3,000,000.00	4%	BBB	2.90	7,150.68	2.90	70,791.76	7-Sep-18
Police CU @ 2.90%	2,000,000.00	2,000,000.00	2%	NR	2.90	4,767.12	2.90	47,194.53	7-Sep-18
Police CU @ 3.05%	1,000,000.00	1,000,000.00	1%	NR	3.05	2,506.85	3.05	30,500.00	10-Sep-18
BoQ @ 5.00%	3,000,000.00	3,000,000.00	4%	BBB+	5.00	12,328.77	5.00	150,000.04	29-Oct-18
WAW CU @ 3.10%	1,000,000.00	1,000,000.00	1%	NR	3.10	2,547.95	3.10	17,071.25	12-Dec-18
ME Bank @ 5.10%	3,000,000.00	3,000,000.00	4%	BBB	5.10	12,575.34	5.10	152,999.99	14-Feb-19
ING @ 4.95%	3,000,000.00	3,000,000.00	4%	A-	4.95	12,205.48	4.95	148,500.01	18-Feb-19
Newcastle PBS @ 2.90%	2,000,000.00	2,000,000.00	2%	BBB	2.90	4,767.12	2.90	47,194.53	6-Sep-19
NAB Flexi Deposit @ 3m BBSW +1.05%	1,000,000.00	1,000,000.00	1%	AA-	2.77	2,301.37	3.44	31,083.01	12-Dec-19
BoQ @ 3.55%	2,000,000.00	2,000,000.00	2%	BBB+	3.55	5,835.62	3.55	39,098.65	11-Dec-20
Expired Deposits - Financial Year	-	-	-	-	-	2,991.78	-	336,686.25	Expired
	54,500,000.00	54,500,000.00	68%		3.73	170,243.81	3.75	2,274,570.59	
Senior Bonds:									
CUA FRN @ 3m BBSW + 1.20%	2,000,000.00	2,004,316.00	2%	BBB	2.92	4,883.84	3.01	60,493.73	22-Dec-17
TMB FRN @ 3m BBSW + 1.05%	2,000,000.00	2,006,200.00	2%	BBB	2.84	4,581.92	2.84	56,946.04	4-Dec-17
Credit Suisse FRN @ 3m BBSW + 1.05%	0.00	0.00	0%	A	-	0.00	-	32,543.87	24-Aug-18
Newcastle PBS FRN @ 3m BBSW + 1.60%	5,000,000.00	5,035,750.00	6%	BBB	3.32	13,853.42	3.41	171,234.23	22-Mar-19
CUA FRN @ 3m BBSW + 1.60%	3,000,000.00	3,044,040.00	4%	BBB	3.39	8,383.56	3.42	102,662.47	1-Apr-19
Westpac FRN @ 3m BBSW + 1.00%	0.00	0.00	0%	AA-	-	0.00	-	1,665.75	10-May-19
CBA FRN @ 3m BBSW + 0.98%	0.00	0.00	0%	AA-	-	0.00	-	36,233.65	18-Jul-19
Bendigo FRN @ 3m BBSW + 0.93%	2,000,000.00	2,001,780.00	2%	BBB+	2.65	4,430.14	2.73	54,955.06	17-Sep-19
Newcastle PBS FRN @ 3m BBSW + 1.35%	2,000,000.00	2,013,980.00	2%	BBB	3.13	5,153.42	3.17	63,457.80	7-Apr-20
NAB FRN @ 3m BBSW + 0.80%	0.00	0.00	0%	AA-	0.00	0.00	2.31	99,014.38	3-Jun-20
Westpac FRN @ 3m BBSW + 0.90%	2,000,000.00	2,022,080.00	3%	AA-	2.64	4,347.95	2.68	54,243.02	28-Jul-20
Bendigo FRN @ 3m BBSW + 1.10%	0.00	0.00	0%	BBB+	0.00	0.00	2.51	121,757.30	18-Aug-20
AMP FRN @ 3m BBSW + 1.35%	2,000,000.00	2,032,460.00	3%	A	3.09	5,145.21	3.12	62,343.56	24-May-21
	20,000,000.00	20,160,606.00	24%		3.06	50,779.46	3.12	917,550.86	
TOTAL PORTFOLIO **	80,554,963.07	80,715,569.07	100%		4.11	231,033.02	3.70	3,276,517.86	
BENCHMARK					1.76		1.82		

North Sydney Council Investment Portfolio as at 30 June 2017

Term	Market Value	%	Wgt. Avg
Working Capital (0-3 Months)	24,054,963.07	30%	3.00%
Short-Term (3-12 Months)	10,510,516.00	13%	3.13%
Short-Medium Term (1-2 Years)	33,079,790.00	41%	3.89%
Medium Term (2-5 Years)	13,070,300.00	16%	2.98%
Long Term (+5 Years)	0.00	0%	0.00%
Total	80,715,569.07	100%	

Performance	Council	AusBond BBI	Outperformance
FYTD	3.70%	1.82%	1.89%
1 year	3.70%	1.82%	1.89%
2 years	3.84%	2.03%	1.81%
3 years	4.01%	2.22%	1.79%
4 years	4.19%	2.34%	1.85%
5 years	4.54%	2.52%	2.02%

Benchmark	Investments
AusBond Bank Bill Index	Cash, Term Deposits, Senior Fixed and Senior FRN's
Investment Horizon	Investments
Working Capital (0-3 Months)	At-Call Accounts, Term Deposits
Short-Term (3-12 Months)	Term Deposits
Short-Medium Term (1-2 Years)	Senior Bonds, Term Deposits
Medium Term (2-5 Years)	Senior Bonds, Term Deposits
Long Term (+5 Years)	N/A

Summary by Credit Rating *	
AAA	0%
AA+	0%
AA	0%
AA-	10%
A+	11%
A	9%
A-	4%
BBB+	24%
BBB	31%
BBB-	0%
NR	11%
	100%