



Report to General Manager

Attachment:

1. Investment Portfolio as at 28 February 2018

SUBJECT: Investments and Loan Borrowings Held as at 28 February 2018

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ENDORSED BY: Ross McCreanor, Director Corporate Services

EXECUTIVE SUMMARY:

This report provides details of the performance of Council's investment portfolio and borrowing limits for the period ending 28 February 2018.

Investment Portfolio:

The portfolio provided an annualised return of 3.37% for the year to date as at 28 February 2018, 1.64% 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.

RECOMMENDATION:

1. THAT the report be received.

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 February 2018.

	February 2018	YTD as at 28 February 2018
Actual Return	3.36%	3.37%
Benchmark	1.76%	1.73%
Variance	1.60%	1.64%

The following table shows the actual cash inflows received from the portfolio for the month of February 2018 and for the year to date as at 28 February 2018.

	February 2018	YTD as at 28 February 2018
Capital Guaranteed	\$0.00	\$0.00
Cash Enhanced Funds	\$0.00	\$0.00
Fixed Cash Fund	\$0.00	\$0.00
Senior Bonds	\$44,417.62	\$412,161.29
Term Deposits	\$323,284.93	\$1,921,168.63
Trading Accounts	\$9,105.30	\$66,956.90
	\$376,807.85	\$2,400,286.82

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 (February)	YTD Budget Variance (February)
2017/18	\$2,300,000	\$2,300,000	\$1,783,709	\$250,376
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 February (Annualised):

Investment Type	%Portfolio	February 2018 (Purchase Value)	February 2018 (Market Value)	February 2018 % Return	February 2018 YTD%
Fixed Cash Fund	0.00%	\$0.00	\$0.00	0.00%	0.00%
Senior Bonds	17.00%	\$14,000,000.00	\$14,184,240.00	3.22%	3.17%
Term Deposits	70.00%	\$59,000,000.00	\$59,000,000.00	3.38%	3.39%
Trading Accounts	13.00%	\$11,408,856.19	\$11,408,856.19	0.93%	0.95%

S & P Rating	Investments Market Value	% of Portfolio (February)
AAA	\$0.00	0.00%
AA	\$0.00	0.00%
AA-	\$34,350,942.13	41.00%
	\$34,350,942.13	41.00%
A+	\$9,057,914.06	11.00%
A	\$9,037,400.00	11.00%
A-	\$0.00	0.00%
	\$18,095,314.06	22.00%
BBB+	\$7,018,820.00	8.00%
BBB	\$18,128,020.00	21.00%
BBB-	\$0.00	0.00%
	\$25,146,840.00	29.00%
NR	\$7,000,000.00	8.00%
	\$84,593,096.19	100.00%

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 rating down grade.

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: 31 December 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 28 February 2018

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 2017/18

	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 17 - 14 Sept 17	BBSY Rate: 1.7700% Drawn Margin: 0.5700%	2.3400%	15 Sept 2017	\$56,031.78
	Floating Rate	\$9,500,000.00	14 Sept 17 - 14 Dec 17	BBSY Rate: 1.7700% Drawn Margin: 0.5700%	2.3400%	15 Dec 2017	\$55,422.74
Total							\$111,454.52
Fee and Premium Charges	Facility Fee (%)	\$30,000,000.00	14 June 17 - 14 Sept 17		0.2400%	14 Sept 2017	\$18,147.94
	Facility Fee (%)	\$30,000,000.00	14 Sept 17 - 14 Dec 17		0.2400%	14 Dec 2017	\$17,950.68
Total							\$36,098.62

The next loan repayment is due on 14 March 2018.

North Sydney Council Investment Portfolio as at 28 February 2018

	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	10,346,316.91	10,346,316.91	12%	AA-	0.80	7,644.76	0.80	42,953.67	At Call
AMP 31-day Notice Account	1,057,914.06	1,057,914.06	1%	A+	1.80	1,458.77	2.44	14,292.34	31-Mar-18
CBA Cash Management Account	4,625.22	4,625.22	0%	AA-	1.65	1.77	1.67	15.37	At Call
	11,408,856.19	11,408,856.19	13%		0.93	9,105.30	0.95	57,261.38	
Term Deposits:									
AMP @ 3.20%*	4,000,000.00	4,000,000.00	5%	A	3.20	9,819.18	3.20	85,216.43	5-Mar-18
Community Alliance CU @ 2.90%	2,000,000.00	2,000,000.00	2%	NR	2.90	4,449.32	2.90	38,613.71	13-Mar-18
NAB TD @ 2.55%	2,000,000.00	2,000,000.00	2%	AA-	2.55	3,912.33	2.55	25,430.15	30-Apr-18
NAB TD @ 2.58%	2,000,000.00	2,000,000.00	2%	AA-	2.58	3,958.36	2.58	25,729.34	27-Jun-18
CBA TD @ 2.60%	3,000,000.00	3,000,000.00	4%	AA-	2.60	5,983.56	2.60	34,619.18	16-Jul-18
RaboDirect @ 4.25%	2,000,000.00	2,000,000.00	2%	A+	4.25	6,520.55	4.25	56,589.05	20-Aug-18
CBA TD @ 2.61%	2,000,000.00	2,000,000.00	2%	AA-	2.61	4,004.38	2.61	26,028.47	27-Aug-18
Rabobank @ 4.05%	6,000,000.00	6,000,000.00	7%	A+	4.05	18,641.10	4.05	161,778.10	28-Aug-18
BCU @ 3.00%	1,000,000.00	1,000,000.00	1%	NR	3.00	2,301.37	3.00	19,972.62	29-Aug-18
Defence Bank @ 2.90%	3,000,000.00	3,000,000.00	4%	BBB	2.90	6,673.97	2.90	57,920.53	7-Sep-18
Police CU @ 2.90%	2,000,000.00	2,000,000.00	2%	NR	2.90	4,449.32	2.90	38,613.71	7-Sep-18
Police CU @ 3.05%	1,000,000.00	1,000,000.00	1%	NR	3.05	2,339.73	3.05	16,043.83	10-Sep-18
BoQ @ 5.00%	3,000,000.00	3,000,000.00	4%	BBB+	5.00	11,506.85	5.00	99,863.04	29-Oct-18
WAW CU @ 3.10%	1,000,000.00	1,000,000.00	1%	NR	3.10	2,378.08	3.10	20,638.38	12-Dec-18
CBA TD @ 2.68%	3,000,000.00	3,000,000.00	4%	AA-	2.68	6,167.67	2.68	35,684.37	18-Dec-18
ME Bank @ 5.10%	3,000,000.00	3,000,000.00	4%	BBB	5.10	11,736.99	5.10	101,860.27	14-Feb-19
ING @ 4.95%	3,000,000.00	3,000,000.00	4%	A	4.95	11,391.78	4.95	98,864.39	18-Feb-19
Newcastle PBS @ 2.90%	2,000,000.00	2,000,000.00	2%	BBB	2.90	4,449.32	2.90	38,613.71	6-Sep-19
NAB Flexi Deposit @ 3m BBSW +1.05%	1,000,000.00	1,000,000.00	1%	AA-	2.81	2,155.62	3.31	18,565.34	12-Dec-19
Westpac TD @ 3.00%	3,000,000.00	3,000,000.00	4%	AA-	3.00	6,904.11	3.00	44,876.73	31-Aug-20
Westpac TD @ 3.08%	2,000,000.00	2,000,000.00	2%	AA-	3.08	4,725.48	3.08	27,340.27	18-Sep-20
BoQ @ 3.55%	2,000,000.00	2,000,000.00	2%	BBB+	3.55	5,446.58	3.55	47,268.52	11-Dec-20
Westpac FRTD @ 3.00% for 2 years	2,000,000.00	2,000,000.00	2%	AA-	3.00	4,602.74	3.00	29,917.81	31-Aug-22
Westpac FRTD @ 3m BBSW + 1.05%	2,000,000.00	2,000,000.00	2%	AA-	2.83	4,290.41	2.79	27,749.58	31-Aug-22
Westpac FRTD @ 3m BBSW + 1.00%	2,000,000.00	2,000,000.00	2%	AA-	2.79	4,272.88	2.75	24,307.39	19-Sep-22
Expired Deposits - Financial Year	-	-	-	-	-	0.00	-	184,328.64	Expired
	59,000,000.00	59,000,000.00	70%		3.38	153,081.68	3.39	1,386,433.56	
Senior Bonds:									
CUA FRN @ 3m BBSW + 1.20%	0.00	0.00	0%	BBB	0.00	0.00	2.20	27,952.05	22-Dec-17
TMB FRN @ 3m BBSW + 1.05%	0.00	0.00	0%	BBB	0.00	0.00	2.16	13,739.35	4-Dec-17
Newcastle PBS FRN @ 3m BBSW + 1.60%	5,000,000.00	5,070,550.00	6%	BBB	3.39	13,021.92	3.34	111,104.81	22-Mar-19
CUA FRN @ 3m BBSW + 1.60%	3,000,000.00	3,038,310.00	4%	BBB	3.39	7,801.64	3.33	66,461.10	1-Apr-19
Bendigo FRN @ 3m BBSW + 0.93%	2,000,000.00	2,018,820.00	2%	BBB+	2.71	4,157.81	2.67	33,738.48	17-Sep-19
Newcastle PBS FRN @ 3m BBSW + 1.35%	2,000,000.00	2,019,160.00	2%	BBB	3.15	4,840.55	3.08	39,072.61	7-Apr-20
Westpac FRN @ 3m BBSW + 0.90%	0.00	0.00	0%	AA-	0.00	0.00	1.31	6,533.13	28-Jul-20
AMP FRN @ 3m BBSW + 1.35%	2,000,000.00	2,037,400.00	2%	A	3.13	5,231.78	3.08	41,412.60	24-May-21
	14,000,000.00	14,184,240.00	17%		3.22	35,053.70	3.17	340,014.13	
TOTAL PORTFOLIO **	84,408,856.19	84,593,096.19	100%		3.36	197,240.68	3.37	1,783,709.07	
BENCHMARK					1.76		1.73		

North Sydney Council Investment Portfolio as at 28 February 2018

Term	Market Value	%	Wgt. Avg
Working Capital (0-3 Months)	19,408,856.19	23%	1.77%
Short-Term (3-12 Months)	35,000,000.00	41%	3.65%
Short-Medium Term (1-2 Years)	13,127,680.00	16%	3.17%
Medium Term (2-5 Years)	17,056,560.00	20%	3.06%
Long Term (+5 Years)	0.00	0%	0.00%
Total	84,593,096.19	100%	

Performance	Council	AusBond BBI	Outperformance
FYTD	3.37%	1.73%	1.64%
1 year	3.83%	1.88%	1.95%
2 years	3.76%	1.96%	1.80%
3 years	3.89%	2.06%	1.82%
4 years	4.04%	2.23%	1.81%
5 years	4.26%	2.35%	1.91%

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-	41%
A+	11%
A	11%
A-	0%
BBB+	8%
BBB	21%
BBB-	0%
NR	8%
100%	