



Report to General Manager

Attachment:

1. Investment Portfolio as at 31 July 2018

SUBJECT: Investments and Loan Borrowings Held as at 31 July 2018

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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 31 July 2018.

Investment Portfolio:

The portfolio provided an annualised return of 3.53% for the year to date as at 31 July 2018, 1.27% 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's \$30 million debt facility expired as at the reporting date. Council has entered into a new loan facility which has taken on the previously drawn down \$9.5 million. 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.

RECOMMENDATION:

1. THAT the report on Investments and Loan Borrowings held as at 31 July 2018 be received.

LINK TO COMMUNITY STRATEGIC PLAN

The relationship with the Community Strategic Plan is as follows:

Direction: 5. Our Civic Leadership

Outcome: 5.1 Council leads the strategic direction of North Sydney

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 July 2018.

	July 2018	YTD as at 31 July 2018
Actual Return	3.53%	3.53%
Benchmark	2.26%	2.26%
Variance	1.27%	1.27%

The following table shows the actual cash inflows received from the portfolio for the month of July 2018 and for the year to date as at 31 July 2018.

	July 2018	YTD as at 31 July 2018
Capital Guaranteed	\$0.00	\$0.00
Cash Enhanced Funds	\$0.00	\$0.00
Fixed Cash Fund	\$0.00	\$0.00
Senior Bonds	\$43,817.53	\$43,817.53
Term Deposits	\$104,192.88	\$104,192.88
Trading Accounts	\$15,666.07	\$15,666.07
	\$163,676.48	\$163,676.48

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 (July)	YTD Budget Variance (July)
2018/19	\$1,590,000	\$1,590,000	\$191,673	\$59,173
2017/18	\$2,300,000	\$2,490,000	\$2,589,813	\$99,813
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 July (Annualised):

Investment Type	%Portfolio	July 2018 (Purchase Value)	July 2018 (Market Value)	July 2018 % Return	July 2018 YTD% Return
Fixed Cash Fund	0.00%	\$0.00	\$0.00	0.00%	0.00%
Senior Bonds	22.00%	\$14,000,000.00	\$14,116,610.00	3.50%	3.50%
Term Deposits	71.00%	\$46,000,000.00	\$46,000,000.00	3.56%	3.56%
Trading Accounts	7.00%	\$4,320,104.84	\$4,320,104.84	1.16%	1.16%

S & P Rating	Investments Market Value	% of Portfolio (July)
AAA	\$0.00	0.00%
AA	\$0.00	0.00%
AA-	\$23,251,712.92	35.00%
	\$23,251,712.92	35.00%
A+	\$9,068,391.92	14.00%
A	\$5,031,300.00	7.00%
A-	\$0.00	0.00%
	\$14,099,691.92	21.00%
BBB+	\$7,012,240.00	10.00%
BBB	\$18,073,070.00	27.00%
BBB-	\$0.00	0.00%
	\$25,085,310.00	37.00%
NR	\$5,000,000.00	7.00%
	\$67,436,714.84	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 (NR)	10.00%

It should be noted that at the time of this report, the BBB rating category exceeded the maximum holding percentage by 2.00%. This has occurred as a result of maturing investments, other than BBB rated effecting the overall holdings distribution. As investments mature they will be reinvested in A rated instruments or above until this situation is addressed. Total investments held below A rating is 44% and is within the allowable maximum holding limit of 45%.

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.

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:

As advised at the July 2018 Council meeting, the previous NAB \$30 million debt facility agreement expired on 31 July 2018. After obtaining independent advice pertaining to the existing loan of \$9.5 million and future debt requirements, a refinancing loan with the CBA was awarded.

The current facility is a fixed loan financing option, fully amortising the drawn down amount of \$9,500,000.00 over 10 years, fixed interest rate with quarterly repayments of interest and principle.

The new loan commenced on 31 July 2018 and the next loan instalment is due 31 October 2018.

Loan Funded Capital Projects as at 31 July 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: 10 years to 2028

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: 10 years to 2028

North Sydney Council Investment Portfolio as at 31 July 2018

	Investment Face Value	Investment Market Value	%	S&P Rating #	Net Returns - 1 Month Return* Income^		Net Returns - FYTD Return Income^		Maturity
Trading Account:									
CBA Trading Account - General Fund	3,247,078.00	3,247,078.00	5%	AA-	0.80	5,008.29	0.80	5,008.29	At Call
AMP 31-day Notice Account	1,068,391.92	1,068,391.92	2%	A+	2.25	1,943.69	2.25	1,943.69	31-Aug-18
CBA Cash Management Account	4,634.92	4,634.92	0%	AA-	1.65	1.97	1.65	1.97	At Call
	4,320,104.84	4,320,104.84	7%		1.16	6,953.95	1.16	6,953.95	
Term Deposits:									
RaboDirect @ 4.25%	2,000,000.00	2,000,000.00	3%	A+	4.25	7,219.18	4.25	7,219.18	20-Aug-18
CBA TD @ 2.61%	2,000,000.00	2,000,000.00	3%	AA-	2.61	4,433.42	2.61	4,433.42	27-Aug-18
Rabobank @ 4.05%	6,000,000.00	6,000,000.00	9%	A+	4.05	20,638.36	4.05	20,638.36	28-Aug-18
BCU @ 3.00%	1,000,000.00	1,000,000.00	2%	NR	3.00	2,547.95	3.00	2,547.95	29-Aug-18
Defence Bank @ 2.90%	3,000,000.00	3,000,000.00	5%	BBB	2.90	7,389.04	2.90	7,389.04	7-Sep-18
Police CU @ 2.90%	2,000,000.00	2,000,000.00	3%	NR	2.90	4,926.03	2.90	4,926.03	7-Sep-18
Police CU @ 3.05%	1,000,000.00	1,000,000.00	2%	NR	3.05	2,590.41	3.05	2,590.41	10-Sep-18
BoQ @ 5.00%	3,000,000.00	3,000,000.00	5%	BBB+	5.00	12,739.73	5.00	12,739.73	29-Oct-18
WAW CU @ 3.10%	1,000,000.00	1,000,000.00	2%	NR	3.10	2,632.88	3.10	2,632.88	12-Dec-18
CBA TD @ 2.68%	3,000,000.00	3,000,000.00	5%	AA-	2.68	6,828.49	2.68	6,828.49	18-Dec-18
ME Bank @ 5.10%	3,000,000.00	3,000,000.00	5%	BBB	5.10	12,994.52	5.10	12,994.52	14-Feb-19
ING @ 4.95%	3,000,000.00	3,000,000.00	5%	A	4.95	12,612.33	4.95	12,612.33	18-Feb-19
Newcastle PBS @ 2.90%	2,000,000.00	2,000,000.00	3%	BBB	2.90	4,926.03	2.90	4,926.03	6-Sep-19
NAB Flexi Deposit @ 3m BBSW +1.05%	1,000,000.00	1,000,000.00	2%	AA-	3.11	2,645.70	3.28	2,645.70	12-Dec-19
Westpac TD @ 3.00%	3,000,000.00	3,000,000.00	5%	AA-	3.00	7,643.84	3.00	7,643.84	31-Aug-20
Westpac TD @ 3.08%	2,000,000.00	2,000,000.00	3%	AA-	3.08	5,231.78	3.08	5,231.78	18-Sep-20
BoQ @ 3.55%	2,000,000.00	2,000,000.00	3%	BBB+	3.55	6,030.14	3.55	6,030.14	11-Dec-20
Westpac FRTD @ 3.00% for 2 years	2,000,000.00	2,000,000.00	3%	AA-	3.00	5,095.89	3.00	5,095.89	31-Aug-22
Westpac FRTD @ 3m BBSW + 1.05%	2,000,000.00	2,000,000.00	3%	AA-	3.03	5,146.51	2.86	5,146.51	31-Aug-22
Westpac FRTD @ 3m BBSW + 1.00%	2,000,000.00	2,000,000.00	3%	AA-	3.06	5,203.41	2.87	5,203.41	19-Sep-22
Expired Deposits - Financial Year	-	-	-	-	-	3,205.48	-	3,632.87	Expired
	46,000,000.00	46,000,000.00	71%		3.57	142,681.12	3.57	143,108.51	
Senior Bonds:									
Newcastle PBS FRN @ 3m BBSW + 1.60%	5,000,000.00	5,037,150.00	8%	BBB	3.71	15,733.56	3.71	15,733.56	22-Mar-19
CUA FRN @ 3m BBSW + 1.60%	3,000,000.00	3,023,520.00	5%	BBB	3.70	9,422.05	3.70	9,422.05	1-Apr-19
Bendigo FRN @ 3m BBSW + 0.93%	2,000,000.00	2,012,240.00	3%	BBB+	2.99	5,079.75	2.99	5,079.75	17-Sep-19
Newcastle PBS FRN @ 3m BBSW + 1.35%	2,000,000.00	2,012,400.00	3%	BBB	3.41	5,786.38	3.41	5,786.38	7-Apr-20
AMP FRN @ 3m BBSW + 1.35%	2,000,000.00	2,031,300.00	3%	A	3.29	5,588.49	3.29	5,588.49	24-May-21
	14,000,000.00	14,116,610.00	22%		3.50	41,610.23	3.50	41,610.23	
TOTAL PORTFOLIO **	64,320,104.84	64,436,714.84	100%		3.53	191,245.30	3.53	191,672.69	
BENCHMARK					2.26		2.26		

North Sydney Council Investment Portfolio as at 31 July 2018

Term	Market Value	%	Wgt. Avg
Working Capital (0-3 Months)	24,320,104.84	38%	3.23%
Short-Term (3-12 Months)	18,060,670.00	28%	3.94%
Short-Medium Term (1-2 Years)	7,024,640.00	11%	3.10%
Medium Term (2-5 Years)	15,031,300.00	23%	3.14%
Long Term (+5 Years)	0.00	0%	0.00%
Total	64,436,714.84	100%	

Performance	Council	AusBond BBI	Outperformance
FYTD	3.53%	2.26%	1.27%
1 year	3.38%	1.83%	1.55%
2 years	3.54%	1.81%	1.73%
3 years	3.67%	1.95%	1.72%
4 years	3.84%	2.10%	1.74%
5 years	3.99%	2.21%	1.78%

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-	31%
A+	14%
A	8%
A-	0%
BBB+	11%
BBB	28%
BBB-	0%
NR	8%
	100%