

ITEM 14 STATEMENT OF INVESTMENT - FEBRUARY 2023

This report provides an overview of Council's investment portfolio performance for the month of February 2023.

Council had an average weighted return for February 2023 of 0.24% which equalled the benchmark return of 0.24%. This result was primarily due to positive valuations of the consolidated Floating Rate Notes. The remainder of Council's portfolio continues to provide a high degree of credit quality and liquidity.

RECOMMENDATION

Council receive the Statement of Investment for February 2023.

REPORT AUTHORISATIONS

Report of: Brian Jenkins, Chief Financial Officer

Authorised by: Renee Campbell, Director Corporate Services - Connected + Engaged City

ATTACHMENTS

- 1 Statement of Investment - February 2023
- 2 Investment Income Compared to Budget 2022-2023

BACKGROUND

Council is required to invest its surplus funds in accordance with the Ministerial Investment Order and Office of Local Government guidelines. The Order reflects a conservative approach and restricts the investment types available to Council. In compliance with the Order and Office of Local Government guidelines, Council adopted an Investment Policy on 12 December 2022. The Investment Policy provides a framework for the credit quality, institutional diversification and maturity constraints Council's portfolio can be exposed to. Council's investment portfolio was controlled by Council's Finance Division during the period to ensure compliance with the Investment Policy. Council's Audit, Risk and Improvement Committee's (ARIC) role of overseer provides for the review of Council's Investment Policy and the Management Investment Strategy.

Council's Responsible Accounting Officer is required to sign the complying Statement of Investment contained within the report, certifying that all investments were made in accordance with the Local Government Act 1993 and the Local Government Regulation 2005.

Council's investment holdings as at 24 February 2023 were \$163,884,844 (Statement of Investment attached) [25 February 2022 \$168,516,299] and include Council's interest in CivicRisk Mutual Ltd recognised at fair value as at 30 June 2022.

Council had an average weighted return for February 2023 of 0.24% which equalled the benchmark return of 0.24%. This result was primarily due to positive valuations of the consolidated Floating Rate Notes. The remainder of Council's portfolio continues to provide a high degree of credit quality and liquidity. The global markets are still experiencing high levels of instability and the heightened volatility in interest rates driven by the persistent ongoing inflation issues is still providing uncertainty for the foreseeable future.

At 24 February 2023, year to date interest and investment revenue of \$2,781,470 was recognised compared to the year to date budget of \$2,470,707.

Council's 15 floating rate notes had a net increase in value of \$107,472 for February 2023.

Council holds two Mortgaged Backed Securities (MBS) that recorded a net decrease in value of \$14,000 for February 2023. The market value of this security takes into account the extended term of the security along with the limited liquidity and the coupon margin reflects pre-Global Financial Crisis (GFC) pricing. While the maturity dates are outside Council's control, the investment advisors had previously indicated capital is not at risk at that stage and recommended a hold strategy due to the illiquid nature of the investment.

Council has two investment holdings under the NSW TCorp Hour Glass Facility: the Long-Term Growth Fund and the Medium-Term Growth Fund. The Long-Term Growth recorded a net decrease in value of \$29,174 and the Medium-Term Growth Fund recorded a net decrease in value of \$31,262 in February 2023. The fluctuations in both the Long-Term Growth and Medium-Term Growth Funds are a reflection of the current share market volatility both domestically and internationally and is diversified across a number of different asset classes that have differing risk and return characteristics.

At their March 2023 meeting, the Reserve Bank of Australia (RBA) decided to increase the cash rate by 25 basis points from 3.35% to 3.60%. The Board is committed to doing what is necessary to ensure that inflation in Australia returns to target over time. The increase in interest rates has been required to bring inflation back to target and to create a more sustainable balance of demand and supply in the Australian economy. The RBA will continue to assess the outlook and adjust policy as needed and will continue to monitor information and evolving balance of risks and determine the timing and extent of future interest rate increases.

The current Investment Policy sets a 40% maximum exposure limit to individual institutions within the AAA category. This limit is currently considered to include funds held within the CBA (Council's banker) savings account that is used daily to hold cash. Through the banking services contract with the CBA, that includes a fixed margin over the current cash rate, this account is providing a better return than alternate short to medium term investments available to Council. At the end of February 2023, the exposure to CBA was 33.64%, which is above the 25% target set in the Investment Strategy, but still within the maximum investment policy exposure. The CBA savings account is currently the best option available for surplus cash, however this will be continually monitored to ensure best value.

The current investment portfolio complies with Council's Investment Policy which was endorsed by Council on 12 December 2022. Council's Responsible Accounting Officer has signed the Statement of Investment contained within the report, certifying all investments were made in accordance with the Local Government Act 1993 and the Local Government Regulation 2005.

PLANNING AND POLICY IMPACT

This report contributes to the delivery of Our Wollongong Our Future 2032 Goal 4 "We are a connected and engaged community". It specifically delivers on the following:

Community Strategic Plan 2032		Delivery Program 2022-2026
Strategy		Service
4.8	Council's resources are managed effectively to ensure long term financial sustainability.	Financial Services

CONCLUSION

The investments for February 2023 recorded an average weighted return that equalled the annualised AusBondBank Bill Index Benchmark and performed favourably when compared to the year-to-date budget.

Brian Jenkins
RESPONSIBLE ACCOUNTING OFFICER

