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Prepared by Sharon Morley – Finance Officer
Department Finance & Assets
Authorised by Chief Financial & Information Officer

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Reference

Min No 21-11: Ordinary meeting of Council held on 25 January 2021.

Min No 21-13: Ordinary meeting of Council held on 25 January 2021.

Summary

To advise Council of investments held as at 31 January 2021 and to note the certification of the Responsible Accounting Officer that funds have been invested in accordance with legislation, regulations and Council policy.

Commentary

Council's total investment portfolio as at 31 January 2021, when compared to 31 December 2020, has decreased by \$1,490,000 from \$28,780,000 to \$27,290,000. Cash in Council's bank account decreased by \$484,233 from \$662,206 to \$177,973.

There is an overall decrease in cash and investments of \$1,974,233 since 31 December 2020. The decrease in investments is due to the ordinary operations of Council. The month of January typically has higher cash outflows than cash inflows as there are no rates instalments or regular grant payments received during January.

If the movement in the bank account is negative, this is shown as a net redemption. If the movement in the bank account is positive this is shown as a net new investment.

The movement in Investments for the month of January 2021 were as follows:

Opening Balance of cash and investments as 01 January 2021	\$29,442,206
Plus New Investments – January 2021	\$2,000,000
Less Investments redeemed – January 2021	-\$3,974,233
Closing Balance of cash and investments as at 31 January 2021	\$27,467,973

A large proportion of Council's investments are held as restricted assets for specific purposes. Restricted assets may consist of externally restricted assets which must be spent for the purpose for which they have been received (e.g. Water, Wastewater, Domestic Waste) or internally restricted assets which have been set aside by Council resolution. Some internal restrictions are held to fund specific liabilities such as employee leave entitlements and bonds and deposits.

At the 2020/21 Quarter Two budget review, it was noted that there was a shortfall in internally restricted reserves of **\$3.162M**. The reserves shortfall had increased by \$651K since 30 June 2020.

The main reasons for the increase in the reserves shortfall are:

- An increase in rates debtors in the 2020/21 year to date; and
- Investment revenue is projected to be \$300K in 2020/22. This would be a decrease of \$265K on 2019/20 interest income of \$565K.

The Quarter Two budget review report includes a recommendation that Council transfer \$651K from the Land Bank reserve to restore internally restricted reserves to the internal loan balance of -\$2.51M endorsed by Council at the 26 October 2020 meeting (Min. No. 20-250). The draft 2021/22 budget

will include a transfer of \$837K as the first instalment of a three year plan to repay the internal borrowings reserve.

There are sufficient funds held in cash and investments to meet Council's immediate obligations and to fund planned utilisation of reserve balances.

Policy Implications

Investments are held in accordance with the Lithgow City Council's Investment Policy at the date of investing funds. On 24 February 2020, Council adopted a revised Investment Policy which includes the Minister's Investment Order of 12 January 2011.

Financial Implications

- YTD interest income budget approved – \$175,000
- Cost centre - 3259
- YTD Income to date - \$143,879
- Future potential impact – Nil.

The Council's interest income for YTD is \$31K under budget due to a combination of reserve balances being lower than projected and the impact of record low interest rates on investment returns. The revised 2020/21 interest income budget of \$300K will be a further 47% reduction on actual interest income received in the 2019/20 year of \$565K. A further reduction in the 2020/21 interest income budget will be considered at the Quarter Three budget review.

Interest is paid on the maturity date of the investment. The budget for interest income is determined by the average level of funds held and the rate of return. Adjustments to the budget estimate are processed through Council's Quarterly Budget Review process. Interest returns are determined by average funds invested and the rate of interest return.

Legal and Risk Management Implications

Investments are held in accordance with the Lithgow City Council's Investment Policy at the date of investing the funds. On 24 February 2020, Council adopted a revised Investment Policy and not all investments comply with this Policy. There will be an orderly transition to the new policy limits. As monies invested in instruments and category limits compliant with the previous policy but inconsistent with the current policy mature, the funds will be re-invested in accordance with the new policy limits.

Risk is managed by taking a conservative approach to managing Council's investments and only investing in term deposits.

CERTIFICATION OF THE RESPONSIBLE ACCOUNTING OFFICER

I hereby certify that the investments listed in the report have been made in accordance with Section 625 of the Local Government Act 1993, clause 212 of the Local Government (General) Regulation 2005 and Council's Investments Policy.

Ross Gurney
Chief Financial and Information Officer (Responsible Accounting Officer)

Attachments

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Recommendation

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THAT

1. Investments of \$27,290,000 and cash of \$177,973 for the period ending 31 January 2021 be noted.

2. The enclosed certificate of the Responsible Accounting Officer be noted.

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