Item 14.1

14 REPORT OF THE CHIEF OPERATING OFFICER

14.1 Monthly Financial Report - May 2024

CSP Objective:	Outcome 5.1: Public funds and assets are managed strategically, transparently, and efficiently
CSP Strategy:	5.1.1 Public funds are managed in accordance with Financial Management Standards and the Local Government Act.
Delivery Program:	5.1.1.1 Improved financial reporting and legislative compliance through reporting, scrutiny oversight and processes

Summary

This report provides a year-to-date Statement of Financial Position and Income Statement for Council's various business activities and at a consolidated level. This report aims to outline and explain any material deviations from budget year to date.

Financial implication

This report relates directly to the financial performance of Council.

Policy

Local Government Act 1993

Local Government (General) Regulation 2021

Consultation (internal)

Chief Executive Officer

Chief Financial Officer

Management Accountants

Communication/Community engagement

N/A

Attachments

1 Financial Statements - May 2024 - Monthly Report⇩

Enclosures

Nil

RECOMMENDATION

That Council receives and adopts the Monthly Financial Report for May 2024.

Background

The Monthly Financial Report for May 2024 provides an update on the current financial position of Council on a year-to-date basis. This report aims to highlight the operational performance against budget of each of the Council's main business activities at a consolidated level.

Consolidated Income and Expenditure Statement

As at May 2024, Council has achieved an operational deficit of $3.4M at a consolidated level compared to a budget surplus of $4.7M, resulting in an unfavourable variance of $8.1M year to date. This variance is due to operational revenue being $5.5M or 5.9% unfavourable to budget, while concurrently operational expenditure is also unfavourable by $2.6M or 3%.

The timing of capital grants is a key factor for the income variance contributing $3.9M of the $5.5M. If this unfavourable variance of $3.9M relating to capital grants is excluded, the consolidated revenue variance would be a smaller $1.6M unfavourable. Overall, this offsets 60% of the $2.6M unfavourable variance in operational expenditure.

Further explanations regarding material income and expenditure variances, along with a financial overview of each of the Council's entities, are provided below.

Table 1. The following table presents variances in operating results to the adopted budget, per entity as of May 2024

$'000	Consolidated	Council General Operations*	Blue Haven	Holiday Parks	Pavilion
Income Actual	88,415	52,188	25,220	10,257	750
Income Budget	93,931	57,525	25,294	10,358	754
Income Variance $	**(5,516)**	**(5,337)**	**(74)**	**(102)**	**(4)**
Income Variance %	**(5.9%)**	**(9.3%)**	**(0.3%)**	**(1.0%)**	**(0.6%)**
Expenses Actual	91,813	56,504	27,887	6,675	747
Expenses Budget	89,166	55,808	25,588	6,947	823
Expenses Variance $	**(2,647)**	**(696)**	**(2,299)**	**272**	**76**
Expense Variance %	**(3.0%)**	**(1.2%)**	**(9.0%)**	**3.9%**	**9.2%**
Actual operating results	(3,398)	(4,316)	(2,667)	3,582	3
Budgeted operating results	4,765	1,717	(294)	3,411	(69)
Operating results Variance $	**(8,163)**	**(6,033)**	**(2,372)**	**171**	**72**
Operating results Variance %	**(171.3%)**	**(351.3%)**	**(806.3%)**	**5.0%**	**104.0%**
Actual operating results (before capital grants and contributions)	(11,266)	(12,184)	(2,667)	3,582	3
Budgeted operating results (before capital grants and contributions)	(7,030)	(10,078)	(294)	3,411	(69)
Operating results Variance $ (before capital grants and contributions)	**(4,236)**	**(2,106)**	**(2,372)**	**171**	**72**
Operating results Variance % (before capital grants and contributions)	**(60.3%)**	**(20.9%)**	**(806.3%)**	**5.0%**	**104.0%**

**Council General Operations exclude Blue Haven, Holiday Parks and Pavilion.*

Operating cash flow

If the consolidated operating results excluding capital grants of $11.2M was further adjusted for non-cash items such as depreciation ($11.2M), Blue Haven ILU amortised income ($4.4M) and non-cash cost of assets sold ($6.9M) this would present a positive operating cash result of $2.5M before considering capital expenditure, principal loan repayments and reserve movements.

Income

User charges and fees

As of May 2024, the Council has recorded an additional $97K in user charges and fees above budgeted expectations at the consolidated level. This favourable position is primarily due to the Council's general operations, excluding Blue Haven, Holiday Parks, and the Pavilion, which have generated $408K in additional revenue over the budget. The Leisure Centre is the main contributor, exceeding its budget by $279K. Public fees and rents for Kiama Showground and Blowhole Points Reserve have also contributed to this positive outcome, adding a favourable variance of $222K. The remaining variance in the Council's general operations is distributed across multiple areas, though individually these amounts are immaterial.

Conversely, Holiday Parks' consolidated operations have resulted in an unfavourable variance of $231K, primarily due to Seven Mile Beach Holiday Park. Further details can be found in the Holiday Parks section.

Blue Haven and the Pavilion have minor unfavourable variances of $40K and $39K respectively. These deviations from the budget are largely immaterial and, and if considered in conjunction with other income streams, they remain in line with forecasts.

Grants and contributions

Operational

As of May 2024, consolidated grants and contributions for operating purposes are $755K over budget. This includes small favourable variances in Blue Haven and the Holiday Parks, with the majority of the favourable variance relating to General Fund.

Blue Haven received $59K for June before month end May. The $83K favourable variance in Holiday park operating grants relates to Crown Land Flood Recovery Program funding originally not included in the budget. The General Fund variance is due to delays in receiving certain grants expected in previous financial years, which were received in the current financial year. For example, in 2022-23, the Council was expected to receive $246K for Roads to Recovery funding but only received it in March 2024. Additionally, delays in receiving claims for various Transport for NSW projects from previous financial years have also contributed to the variance.

Capital

The consolidated grants and contributions for capital purposes are $3.9M unfavourable to the budget year to date. This variance is closely related to changes in capital works at the end of the financial year.

The Council expected to receive $2M under Disaster Recovery Funding Arrangements in May 2024; however, due to the timing of claim payments, the $2M was received in early June 2024 and as such are reflected in the June ledger.

Several factors have contributed to delays in multiple projects, including weather conditions, contractor availability, unexpected additional investigations, and upgrades ahead of schedule. These delays have resulted in deferrals of significant capital grants for the current financial year. Notable examples include the NSW Office of Sport grants, where the Council is expected to receive $1.1M under the Female Friendly Community Sport Facilities and Lighting Upgrades Grant Program and the Essential Community Sport Assets Program in the 2023-24 financial year, but this funding is delayed pending further confirmation of contractor availability.

Net gain/(loss) from the disposal of assets

The net gain/(loss) from asset disposals shows an unfavourable variance of $2.3M. This primarily relates to a revaluation of Akuna Street South Carpark, which was reclassified to an asset held for sale. The current adopted budget does not reflect this revaluation and therefore this has created an unfavourable variance that will be carried until the end of this year.

It is important to note that the deferral of the divestment of Blue Haven Bonaira and Grey Street to the 2024-25 financial year, has been adopted by Council as a part of 2024/25 Budget and Long-Term Financial Plan.

<u>Expenses</u>

Employee Benefits

Employee benefits and on-costs are unfavourable and exceed the budget by $725K at a consolidated level. General Fund represents a significant portion of this discrepancy, with an overspend of $586K. Additionally, Blue Haven contributes the second largest amount, being $224K unfavourable. Holiday Park and The Pavilion have minor favourable variances.

The variance in General Fund primarily arises from undercapitalisation of wages, noting this is an internal allocation and a non-cash adjustment. The wage capitalisation issue concerns the allocation of Infrastructure Team wage costs to capital projects. In addition, a $360K overspend in employee allowances also contributes to the unfavourable variance in General Fund, notably lump sum back payments for various allowances as foreshadowed in previous reports.

Employee cost overspends at Blue Haven are predominately attributed to additional staffing including casual employees to cover for permanent employees while on leave or to cover vacant positions. The updated ACQSC regulations, higher occupancy rates, related mandatory staff minutes and improved accreditation, have all impacted the overspend all of which were not fully absorbed in the budget review adjustments.

Materials and services

Consolidated materials and services are $1.5M over budget year to date to May 2024. The Council's General Fund remains on track to the budget, with only a $98K overspend.

Blue Haven is the primary contributor to this unfavourable position, being $1.7M overspent. The main drivers of this overspend are contractors and agency staff ($837M over budget) and building and site maintenance (totally $820K over budget). Further detailed analysis and insights on this matter are provided in the Blue Haven section of this report.

In contrast, Pavilion and Holiday Parks are favourable with regards to materials and services by $37K and $238K respectively. Further details on the Council's other entities can be found in the Holiday Park and Pavilion sections.

Borrowing Costs

The unfavourable variance in borrowing costs of $395K is largely due interest repayments on the Blue Haven Bonaira T-Corp loan which has a variable interest rate.

Blue Haven

Blue Haven Care Consolidated

Blue Haven experienced a consolidated operating loss of $2.6M. This is attributable to large unfavourable variances in materials and services costs and in employee costs. Revenues from subsidies and grants recorded a minimal favourable variance compared to the budget.

Blue Haven Bonaira Residential Aged Care (RAC)

The RAC incurred a net deficit of $2.7M exceeding the budgeted net deficit of $1.4M. This variance is largely due to rising increasing agency costs necessary to achieve the mandated average daily care staff requirements and registered nurse daily care minutes per resident alongside activities undertaken to maintain higher occupancy levels which is currently at 116. A Roster review has shown some improvements in the staff cost to revenue ratio following increased occupancy and funding. Overall the result remains a significant deficit.

Blue Haven Bonaira Community Programs

Community Programs experienced a net deficit of $217K against an anticipated budget deficit of $147K reflecting revenues of $5M and expenses of $5.2M. This unfavourable variance is primarily attributable to higher materials and services costs. The increased expenses stem from medical equipment and supplies purchased for clients.

Blue Haven Bonaira Independent Living Units (ILUs)

The ILU Bonaira achieved a net surplus of $1.3M. This reflects revenues of $2.6M against expenses of $1.3M. It is important to note that only $310K of this revenue represents actual cash flows through ILU maintenance levies whereas $2.3M is derived from the amortisation of deferred management fee.

Blue Haven Terralong Independent Living Units (ILUs)

The ILU Terralong reported a net deficit of $320K which stems from revenues of $3M and expenses of $3.3M. ILU maintenance levies contribute $967K of revenue whereas amortised deferred management fee accounts for $2.1M of revenues. High materials and contract costs amounting to $1.2M, specifically related to costs of refurbishment and maintenance services, are the primary drivers of this deficit. Higher refurbishment costs addressing water penetration and fire safety requirements, asset and maintenance back log work across the site has resulted in significantly higher expenditure. The 're-structuring' of introducing Council's Infrastructure & Liveability Team who are responsible for Council assets across the community to review and oversee Blue Haven (noting this was not the case previously) is proving beneficial in ensuring improved facilities maintenance systems and processes, compliance and resident amenity notwithstanding the cost. These systems have not had the necessary focus and required maturity previously, commensurate with the significance of the asset.

Holiday Parks

The combined operating result for all Holiday Parks to May 2024 is an operating surplus of $3.5M. Budget for the same period was $3.4, resulting in a favourable variance to budget of $171K or 5%. Operating revenue is marginally unfavourable, primarily due to a reduction in user charges and fees income relating to income generated from the park cabin rental and accommodation.

This income is down on budget mainly due to compliance works, including the removal of some Holiday Vans at both Seven Mile Beach and Werri Beach and the cessation of several camping sites at Kendalls Beach Holiday Park. The continuation of maintenance works that had previously been postponed due to high occupancy rates during the busy season have been undertaken in May and June, resulting in some cabins being unavailable for reservations.

Operational expenditure is underspent by $272K, mostly due to an underspend in materials and services ($238K) and employee benefits ($60K). As noted in previous monthly reports, the postponement of some cabin and site maintenance works during the busy season has contributed to the underspend, however, this is starting to catch up. Park manager remuneration and commission payments are underbudget, however this is likely to resolve once end of financial year remuneration reconciliations are completed.

The Pavilion

As of May 2024, the Pavilion has a net favourable variance of $72K. A sustained rise in the demand for community and corporate events, as well as weddings at The Pavilion, from both local and intrastate clients has contributed to its consistent performance relative to the budget this financial year. Although total income is slightly unfavourable by $4K, this has been offset by marginal underspends in employee costs, and materials and services. Additionally, internal revenue and expenditure together have added to the favourable variance, which highlights effective implementation of cost control measures in order to maximise its profitability. Overall, the Pavilion has consistently remained in line with the budget year-to-date.

Consolidated Statement of Financial Position

The 2022-23 financial statement audit has now been completed. Therefore, the opening balances of the 2023-24 financial year are prepared in accordance with the relevant accounting standards. The 2023-24 financial statement audit commenced in May 2024.

Current Asset Ratio

The current asset ratio measures a company's ability to pay its short-term obligations. The consolidated current asset ratio is approximately 0.31 as at May 2024, decreasing marginally from 0.35 in April. This is in part due to a decrease in cash and cash equivalents and investments of $4.7M. This $4.7M decrease is mainly associated with the net outflow of Residential Accommodation Deposit and ILU refunds of $2.2M. These are timing matters based on resident departure and also probate processes.

KIAMA MUNICIPAL COUNCIL

Income Statement - Consolidated

For the Period Ending 31 May 2024

	Year to Date				Full Year	
	Actual 2023/24 $'000	**Adopted Budget 2023/24 $'000**	**Variance 2023/24 $'000**	**Last Year Actual 2022/23 $'000**	**Last Year Actual 2022/23 $'000**	**Adopted Budget 2023/24 $'000**
Income from continuing operations						
Rates and annual charges	25,651	25,843	(192)	25,651	27,960	28,175
User charges and fees	21,838	21,741	97	21,838	22,726	23,476
Other revenue	5,864	5,764	100	5,864	5,915	6,251
Grants and contributions provided for operating purposes	16,564	15,809	755	16,564	21,482	19,613
Grants and contributions provided for capital purposes	7,868	11,795	(3,927)	7,868	14,567	14,346
Interest and investment income	2,145	2,188	(43)	2,145	2,178	2,387
Other income	-	0	(0)	-	-	0
Net gain/(loss) from the disposal of assets	72	2,407	(2,335)	72	45	28,921
Internal Revenue	8,413	8,384	29	8,413	7,472	9,144
Total income from continuing operations	88,415	93,931	(5,516)	88,415	102,345	132,313
Expenses from continuing operations						
Employee benefits and on-costs	35,760	35,036	(725)	35,760	38,930	38,027
Materials and services	34,568	33,023	(1,545)	34,568	39,535	36,579
Borrowing costs	918	523	(395)	918	937	549
Depreciation,amortisation and impairment for non financial assets	11,293	11,339	46	11,293	11,293	12,370
Other expenses	869	861	(8)	869	991	1,165
Internal Expenditure	8,405	8,385	(20)	8,405	7,465	9,144
Total Expenses from continuing operations	91,813	89,166	(2,647)	91,813	99,150	97,835
Operating result from continuing operations	(3,398)	4,765	(8,163)	(3,398)	3,194	34,478
Net operating results for the year	(3,398)	4,765	(8,163)	(3,398)	3,194	34,478
Net operating result for the year before grants and contributions provided for capital purposes	(11,266)	(7,030)	(4,236)	(11,266)	(11,373)	20,132

Attachment 1 **Item 14.1**

KIAMA MUNICIPAL COUNCIL

Income Statement - Consolidated (excluding Blue Haven, Holiday Parks, Pavilion)

For the Period Ending 31 May 2024

	Year to Date				Full Year	
	Actual 2023/24 $'000	**Adopted Budget 2023/24 $'000**	**Variance 2023/24 $'000**	**Last Year Actual 2022/23 $'000**	**Last Year Actual 2022/23 $'000**	**Adopted Budget 2023/24 $'000**
Income from continuing operations						
Rates and annual charges	25,651	25,843	(192)	25,651	27,960	28,175
User charges and fees	6,005	5,597	408	6,005	6,372	6,098
Other revenue	1,283	1,168	115	1,283	1,324	1,236
Grants and contributions provided for operating purposes	1,985	1,372	613	1,985	5,881	3,891
Grants and contributions provided for capital purposes	7,868	11,795	(3,927)	7,868	14,567	14,346
Interest and investment income	2,138	2,187	(50)	2,138	2,171	2,386
Other income	-	-	-	-	-	-
Net gain/(loss) from the disposal of assets	69	2,404	(2,335)	69	42	28,918
Internal Revenue	7,190	7,159	31	7,190	6,249	7,808
Total income from continuing operations	52,188	57,525	(5,337)	52,188	64,567	92,859
Expenses from continuing operations						
Employee benefits and on-costs	23,110	22,524	(586)	23,110	25,156	24,455
Materials and services	19,780	19,681	(98)	19,780	23,290	21,899
Borrowing costs	64	63	(1)	64	84	83
Depreciation,amortisation and impairment for non financial assets	8,618	8,633	16	8,618	8,618	9,570
Other expenses	449	530	81	449	570	726
Internal Expenditure	4,484	4,377	(107)	4,484	4,393	4,775
Total Expenses from continuing operations	56,504	55,808	(696)	56,504	62,111	61,507
Operating result from continuing operations	(4,316)	1,717	(6,033)	(4,316)	2,456	31,352
Net operating results for the year	(4,316)	1,717	(6,033)	(4,316)	2,456	31,352
Net operating result for the year before grants and contributions provided for capital purposes	(12,184)	(10,078)	(2,106)	(12,184)	(12,111)	17,006

KIAMA MUNICIPAL COUNCIL

Income Statement - Blue Haven

For the Period Ending 31 May 2024

	Year to Date				Full Year	
	Actual 2023/24 $'000	**Adopted Budget 2023/24 $'000**	**Variance 2023/24 $'000**	**Last Year Actual 2022/23 $'000**	**Last Year Actual 2022/23 $'000**	**Adopted Budget 2023/24 $'000**
Income from continuing operations						
Rates and annual charges	-	-	-	-	-	-
User charges and fees	5,008	5,048	(40)	5,008	5,505	5,507
Other revenue	4,572	4,595	(23)	4,572	4,582	5,013
Grants and contributions provided for operating purposes	14,496	14,437	59	14,496	15,518	15,722
Grants and contributions provided for capital purposes	-	-	-	-	-	-
Interest and investment income	7	1	6	7	7	1
Other income	-	0	(0)	-	-	0
Net gain/(loss) from the disposal of assets	-	-	-	-	-	-
Internal Revenue	1,138	1,213	(75)	1,138	1,138	1,323
Total income from continuing operations	25,220	25,294	(74)	25,220	26,749	27,566
Expenses from continuing operations						
Employee benefits and on-costs	12,132	11,908	(224)	12,132	13,197	12,914
Materials and services	9,339	7,618	(1,721)	9,339	10,219	8,311
Borrowing costs	787	393	(394)	787	787	393
Depreciation,amortisation and impairment for non financial assets	1,969	1,999	30	1,969	1,969	2,181
Other expenses	67	8	(59)	67	67	9
Internal Expenditure	3,593	3,662	69	3,593	2,823	3,993
Total Expenses from continuing operations	27,887	25,588	(2,299)	27,887	29,061	27,799
Operating result from continuing operations	(2,667)	(294)	(2,372)	(2,667)	(2,312)	(233)
Net operating results for the year	(2,667)	(294)	(2,372)	(2,667)	(2,312)	(233)
Net operating result for the year before grants and contributions provided for capital purposes	(2,667)	(294)	(2,372)	(2,667)	(2,312)	(233)

KIAMA MUNICIPAL COUNCIL

Income Statement - Blue Haven Per Area

For the Period Ending 31 May 2024

	Year to Date									Full Year	
	RACF	ILU	Community Programs	Barroul House	BH Management	Total Bluehaven					
	Actual 2023/24 $'000	Actual 2023/24 $'000	Actual 2023/24 $'000	Actual 2023/24 $'000	Actual 2023/24 $'000	Actual 2023/24 $'000	Adopted Budget 2023/24 $'000	Variance 2023/24 $'000	Last Year Actual 2022/23 $'000	Last Year Actual 2022/23 $'000	Adopted Budget 2023/24 $'000
Income from continuing operations											
Rates and annual charges	-	-	-	-	-	-	-	-	-	-	-
User charges and fees	3,563	1,277	168	-	-	5,008	5,048	(40)	5,008	5,505	5,507
Other revenue	11	4,442	21	97	-	4,572	4,595	(23)	4,572	4,582	5,013
Grants and contributions provided for operating purposes	10,061	-	4,435	-	-	14,496	14,437	59	14,496	15,518	15,722
Grants and contributions provided for capital purposes	-	-	-	-	-	-	-	-	-	-	-
Interest and investment income	-	7	-	-	-	7	1	6	7	7	1
Other income	-	-	-	-	-	-	0	(0)	-	-	0
Net gain/(loss) from the disposal of assets	-	-	-	-	-	-	-	-	-	-	-
Internal Revenue	-	-	376	-	762	1,138	1,213	(75)	1,138	1,138	1,323
Total income from continuing operations	13,635	5,727	4,999	97	762	25,220	25,294	(74)	25,220	26,749	27,566
Expenses from continuing operations											
Employee benefits and on-costs	8,150	240	2,938	326	479	12,132	11,908	(224)	12,132	13,197	12,914
Materials and services	6,470	1,431	805	94	538	9,339	7,618	(1,721)	9,339	10,219	8,311
Borrowing costs	551	236	-	-	-	787	393	(394)	787	787	393
Depreciation,amortisation and impairment for non financial assets	187	1,782	-	-	-	1,969	1,999	30	1,969	1,969	2,181
Other expenses	67	-	-	-	-	67	8	(59)	67	67	9
Internal Expenditure	966	1,027	1,474	32	94	3,593	3,662	69	3,593	2,823	3,993
Total Expenses from continuing operations	16,390	4,716	5,216	453	1,111	27,887	25,588	(2,299)	27,887	29,061	27,799
Operating result from continuing operations	(2,755)	1,011	(217)	(356)	(349)	(2,667)	(294)	(2,372)	(2,667)	(2,312)	(233)
Net operating results for the year	(2,755)	1,011	(217)	(356)	(349)	(2,667)	(294)	(2,372)	(2,667)	(2,312)	(233)
Net operating result for the year before grants and contributions provided for capital purposes	(2,755)	1,011	(217)	(356)	(349)	(2,667)	(294)	(2,372)	(2,667)	(2,312)	(233)

Attachment 1

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KIAMA MUNICIPAL COUNCIL

Income Statement - Holiday Parks

For the Period Ending 31 May 2024

	Year to Date				Full Year	
	Actual 2023/24 $'000	Adopted Budget 2023/24 $'000	Variance 2023/24 $'000	Last Year Actual 2022/23 $'000	Last Year Actual 2022/23 $'000	Adopted Budget 2023/24 $'000
Income from continuing operations						
Rates and annual charges	-	-	-	-	-	-
User charges and fees	10,125	10,357	(231)	10,125	10,129	11,063
Other revenue	9	2	8	9	9	2
Grants and contributions provided for operating purposes	83	-	83	83	83	-
Grants and contributions provided for capital purposes	-	-	-	-	-	-
Interest and investment income	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Net gain/(loss) from the disposal of assets	-	-	-	-	-	-
Internal Revenue	39	-	39	39	38	-
Total income from continuing operations	10,257	10,358	(102)	10,257	10,260	11,065
Expenses from continuing operations						
Employee benefits and on-costs	302	362	60	302	344	397
Materials and services	5,078	5,316	238	5,078	5,606	5,925
Borrowing costs	67	67	(0)	67	67	73
Depreciation,amortisation and impairment for non financial assets	568	568	1	568	568	620
Other expenses	353	323	(30)	353	353	430
Internal Expenditure	307	311	4	307	246	339
Total Expenses from continuing operations	6,675	6,947	272	6,675	7,184	7,784
Operating result from continuing operations	3,582	3,411	171	3,582	3,075	3,281
Net operating results for the year	3,582	3,411	171	3,582	3,075	3,281
Net operating result for the year before grants and contributions provided for capital purposes	3,582	3,411	171	3,582	3,075	3,281

KIAMA MUNICIPAL COUNCIL

Income Statement - The Pavilion

For the Period Ending 31 May 2024

	Year to Date				Full Year	
	Actual 2023/24 $'000	Adopted Budget 2023/24 $'000	Variance 2023/24 $'000	Last Year Actual 2022/23 $'000	Last Year Actual 2022/23 $'000	Adopted Budget 2023/24 $'000
Income from continuing operations						
Rates and annual charges	-	-	-	-	-	-
User charges and fees	700	740	(39)	700	720	807
Other revenue	-	-	-	-	-	-
Grants and contributions provided for operating purposes	-	-	-	-	-	-
Grants and contributions provided for capital purposes	-	-	-	-	-	-
Interest and investment income	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Net gain/(loss) from the disposal of assets	3	2	0	3	3	3
Internal Revenue	47	12	35	47	47	13
Total income from continuing operations	750	754	(4)	750	769	823
Expenses from continuing operations						
Employee benefits and on-costs	216	242	26	216	232	262
Materials and services	371	407	37	371	420	445
Borrowing costs	-	-	-	-	-	-
Depreciation,amortisation and impairment for non financial assets	139	139	0	139	139	-
Other expenses	-	-	-	-	-	-
Internal Expenditure	21	35	13	21	3	38
Total Expenses from continuing operations	747	823	76	747	795	744
Operating result from continuing operations	3	(69)	72	3	(25)	78
Net operating results for the year	3	(69)	72	3	(25)	78
Net operating result for the year before grants and contributions provided for capital purposes	3	(69)	72	3	(25)	78

KIAMA MUNICIPAL COUNCIL
Consolidated
Statement of Financial Position
For the Period Ended 31 May 2024

	Notes	Actual 11 Months 2024 $'000	Actual 11 Months 2023 $'000
ASSETS			
Current assets			
Cash and cash equivalants	C1-1	**14,818**	16,111
Investments	C1-2	**22,750**	22,837
Receivables	C1-4	**3,028**	2,545
Inventories	C1-5	**327**	314
Contract assets and contract cost assets	C1-6	**-**	822
Current assets classified as 'held for sale'	C1-7	**4,342**	-
Other		**552**	552
Total current assets		**45,817**	43,181
Non current assets			
Investments	C1-2	**9,000**	9,000
Receivables	C1-4	**204**	204
Infrastructure, property, plant and equipment	C1-8	**584,594**	587,741
Investment property	C1-9	**124,950**	124,950
Intangable assets	C1-10	**-**	-
Right of use assets	C2-1	**122**	122
Total non current assets		**718,870**	722,017
Total assets		**764,686**	765,198
LIABILITIES			
Current liabilities			
Payables	C3-1	**141,011**	139,419
Contract liabilities	C3-2	**81**	**6,950**
Lease liabilities	C2-1	**36**	**36**
Borrowings	C3-3	**506**	674
Employee benefit provisions	C3-4	**6,452**	6,410
Total current liabilities		**148,086**	153,490
Non current liabilities			
Payables	C3-1	**18**	18
Lease liabilities	C2-1	**6**	6
Borrowings	C3-3	**20,197**	20,072
Employee benefit provisions	C3-4	**601**	601
Total non current liabilities		**20,822**	20,697
Total Liabilities		**168,908**	174,187
Net Assets		**595,778**	591,011
EQUITY			
Retained earnings		**180,976**	176,201
Revaluation reserves		**415,319**	418,281
Current Year Net Earnings		**-517**	-3,470
Total equity		**595,778**	591,011

Item 14.1

Attachment 1

14.2 Statement of Investments: June 2024

CSP Objective: Outcome 5.1: Public funds and assets are managed strategically, transparently, and efficiently

CSP Strategy: 5.1.1 Public funds are managed in accordance with Financial Management Standards and the Local Government Act.

Delivery Program: 5.1.1.1 Improved financial reporting and legislative compliance through reporting, scrutiny oversight and processes

Summary

This report provides an overview of Council’s cash and investment portfolio and investment performance as at June 2024 and endorsement of the restricted funds position.

Financial implication

Investments are undertaken based upon the best rate on the day and after consideration of spreading Council's Investment risk across various institutions as per the Investment Policy and section 625 of the Local Government Act 1993. The distinction between restricted and unrestricted funds is a key operational and financial understanding.

Risk implication

The risk related to this information is non-compliance with Council’s Investment Policy and Office of Local Government guidelines for appropriate monitoring and reporting of changes and the position of restricted funds.

Policy

Clause 625 of the *Local Government Act 1993*

Clause 212 of the Local Government (General) Regulation 2021

Kiama Municipal Council – Investment Policy

Kiama Municipal Council – Restricted Funds Policy

Consultation (internal)

Chief Executive Officer

Chief Financial Officer

Senior Financial Accountant

Communication/Community engagement

N/A

Attachments

1 June 2024 Investment Report⇩

Enclosures

Nil

RECOMMENDATION

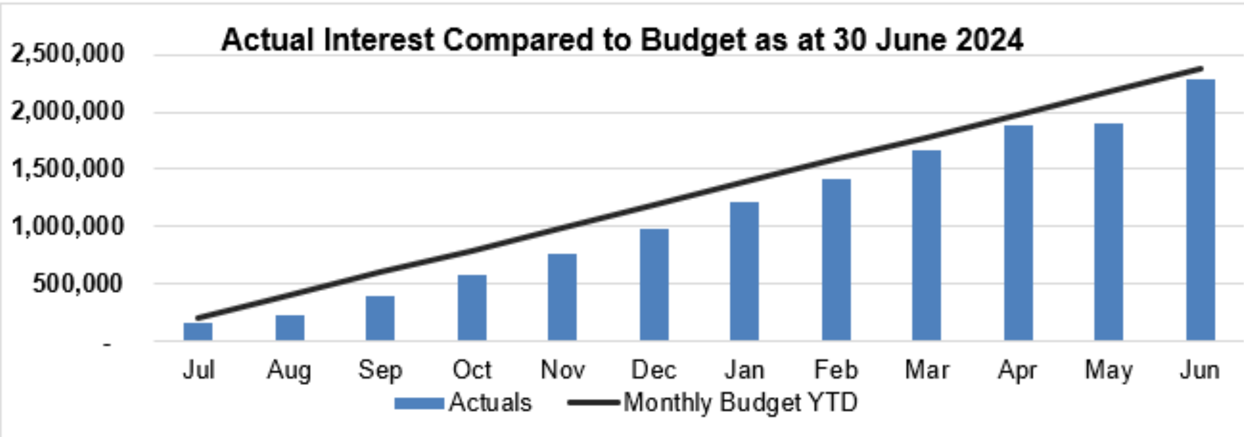
That Council notes the information relating to the Statement of Investments as at 30 June 2024.

Background

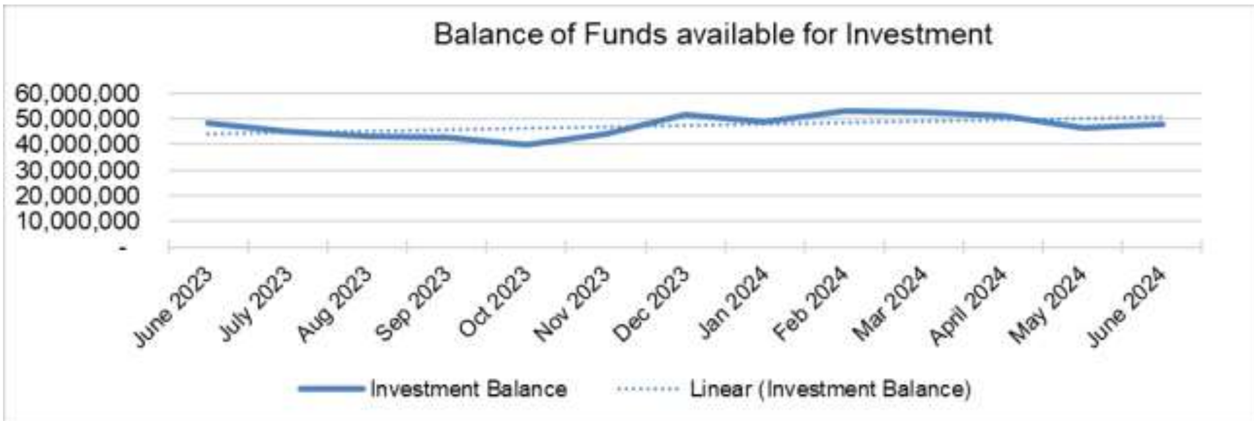
Council is required to invest its surplus funds in accordance with the Ministerial Investment Order and Office of Local Government guidelines. The Order reflects a conservative approach and restricts the investment types available to Council. Council's Investment Policy provides a framework for the credit quality, institutional diversification, and maturity constraints that Council's portfolio can be exposed to. Council's investment portfolio was controlled by Council's Finance Department during the period to ensure compliance with the Investment Policy. External investment advisor advice is also considered at the time.

Return on Investments

For the month of June, excluding cash, the total portfolio provided a return of +0.43% (actual) or +5.39% p.a. (annualised), outperforming the benchmark AusBond Bank Bill Index return of +0.35% (actual) or +4.35% p.a. (annualised).



Movement in Investments
Compared to June 2023 Council's investments portfolio decreased by $340K.



Trades matured in June:

Issuer	Rating	Type	Interest	Purchase	Maturity	Rate %	Value
Suncorp Bank	A+	TD	At Maturity	04/12/2023	03/06/2024	5.28	1,000,000
NAB	AA-	TD	At Maturity	10/01/2024	12/06/2024	5.10	4,000,000
NAB	AA-	TD	At Maturity	26/02/2024	26/06/2024	5.05	2,000,000
Total							**7,000,000**

No new trades were entered into during June in anticipation of end of financial year cash outflows and uncertainty around timing of claim payments by Transport for NSW.

Portfolio Compliance

As advised by external Investment Advisor

> *As at the end of the June, aside from the slight overweight position with ING (A), Council is within compliance of the Policy limits. This slight overweight position with ING (30.5% actual exposure versus 30% limit) was due to the fall in the total portfolio size from $51.98m in May to $49.12m in June. This can easily be rectified when the total portfolio size increases over the coming weeks/months, or by redeeming the next ING deposit maturing on 16th October 2024.*

As of 3 July 2024, Council has now rectified this overweight exposure by investing funds with NAB, resulting in ING's total exposure dropping from 30.54% to 28.24%.

Portfolio Summary:

Issuer	Rating	Type	Interest	Purchase	Maturity	Rate %	Value
NAB	AA-	TD	At Maturity	06/03/2024	10/07/2024	5.10	2,000,000
Suncorp Bank	A+	TD	At Maturity	30/10/2023	30/07/2024	5.35	2,000,000
NAB	AA-	TD	At Maturity	11/03/2024	07/08/2024	5.10	1,000,000
BOQ	A-	TD	At Maturity	21/11/2023	21/08/2024	5.40	1,000,000
NAB	AA-	TD	Annual	18/12/2023	18/09/2024	5.13	1,000,000
AMP Bank	BBB+	TD	Annual	27/09/2022	26/09/2024	4.95	750,000
ING Bank (Australia) Ltd	A	TD	At Maturity	16/10/2023	16/10/2024	5.23	2,000,000
Commonwealth Bank	AA-	TD	At Maturity	23/10/2023	23/10/2024	5.26	2,000,000
ING Bank (Australia) Ltd	A	TD	At Maturity	15/11/2023	15/11/2024	5.48	2,000,000
Suncorp Bank	A+	TD	At Maturity	21/11/2023	21/11/2024	5.40	1,000,000
Suncorp Bank	A+	TD	At Maturity	28/11/2023	28/11/2024	5.50	2,000,000
Suncorp Bank	A+	TD	At Maturity	04/12/2023	04/12/2024	5.35	1,000,000
Suncorp Bank	A+	TD	At Maturity	13/12/2023	13/12/2024	5.30	2,000,000
ING Bank (Australia) Ltd	A	TD	Annual	21/12/2023	18/12/2024	5.23	2,000,000
ING Bank (Australia) Ltd	A	TD	At Maturity	10/01/2024	09/01/2025	5.22	1,000,000
NAB	AA-	TD	At Maturity	26/02/2024	26/02/2025	5.08	2,000,000
Suncorp Bank	A+	TD	At Maturity	06/03/2024	12/03/2025	5.14	1,000,000
BankVic	BBB+	TD	At Maturity	25/03/2024	26/03/2025	5.15	2,000,000
ING Bank (Australia) Ltd	A	TD	At Maturity	16/04/2024	02/04/2025	5.13	1,000,000
ING Bank (Australia) Ltd	A	TD	At Maturity	22/11/2023	23/09/2025	5.35	1,000,000
Suncorp Bank	A+	TD	At Maturity	21/11/2023	21/11/2025	5.36	1,000,000
ING Bank (Australia) Ltd	A	TD	At Maturity	04/12/2023	04/12/2025	5.25	1,000,000
ING Bank (Australia) Ltd	A	TD	Annual	18/12/2023	18/12/2025	5.20	2,000,000
ING Bank (Australia) Ltd	A	TD	Annual	10/01/2024	14/01/2026	4.96	1,000,000
Bank of Us	BBB+	TD	At Maturity	06/03/2024	11/03/2026	4.96	1,000,000
ING Bank (Australia) Ltd	A	TD	At Maturity	11/04/2024	08/04/2026	4.92	2,000,000
Westpac	AA-	CASH	Monthly	30/06/2024	30/06/2024	4.24	11,366,329
Total 49,116,329							

Item 14.2

Restricted Funds Movements

The restricted funds movement for this month and balances are presented in the table below:

Cash and Investments Held	May-24	Movement	Jun-24
Cash at Bank - Transactional Account	7,232,708	4,133,621	11,366,329
Other Cash and Investments	44,750,000	(7,000,000)	37,750,000
Total Portfolio Balance (agrees to Arlo Advisory report)	**51,982,708**	**(2,866,379)**	**49,116,329**
Cash on Hand	6,110		6,110
Bank Reconciliation items	(5,420,834)	4,372,535	(1,048,299)
Book Value of Cash and Investments	**46,567,984**	**1,506,156**	**48,074,140**
Developer Contributions	12,777,315	71,362	12,848,677
Unexpended Grants	2,677,144		2,677,144
Domestic Waste	5,727,549		5,727,549
Blue Haven Terralong ILU Maintenance Levy	2,023,322		2,023,322
Blue Haven Bonaira ILU Maintenance Levy	395,562		395,562
Blue Haven RAC Prudential Liquidity Management	5,000,000		5,000,000
Blue Haven Community Transport Vehicle	315,000		315,000
Blue Haven Home Care Client credit Balance	193,817		193,817
Crown Holiday parks	4,693,895	(260,403)	4,433,493
Roads Reserve	-		-
Leisure Centre Unspent Loan Funding	500,000		500,000
Stormwater Levy	228,947	637	229,584
Security bonds, Deposits & Retentions	1,991,128	193,633	2,184,760
Externally Restricted	**36,523,679**	**5,229**	**36,528,908**
Council Elections	49,776		49,776
Employee Leave Liabilities	3,367,000		3,367,000
Land development	746,565		746,565
Plant replacement	-		-
Risk Improvement Incentive	99,097		99,097
Waste Business Unit	865,308		865,308
Waste and Sustainability	558,180		558,180
Blue Haven ILU Prudential Cover	4,300,000		4,300,000
Internally Restricted	**9,985,926**	**0**	**9,985,926**
Unrestricted Funds	**58,379**	**1,500,927**	**1,559,306**

June reserve movements include:

- An increase in the Developer Contribution reserve of $71K
- A decrease in the Crown Holiday Parks reserve of $260K
- An increase in the Security and Bonds, Deposits and Retentions reserve of $194K

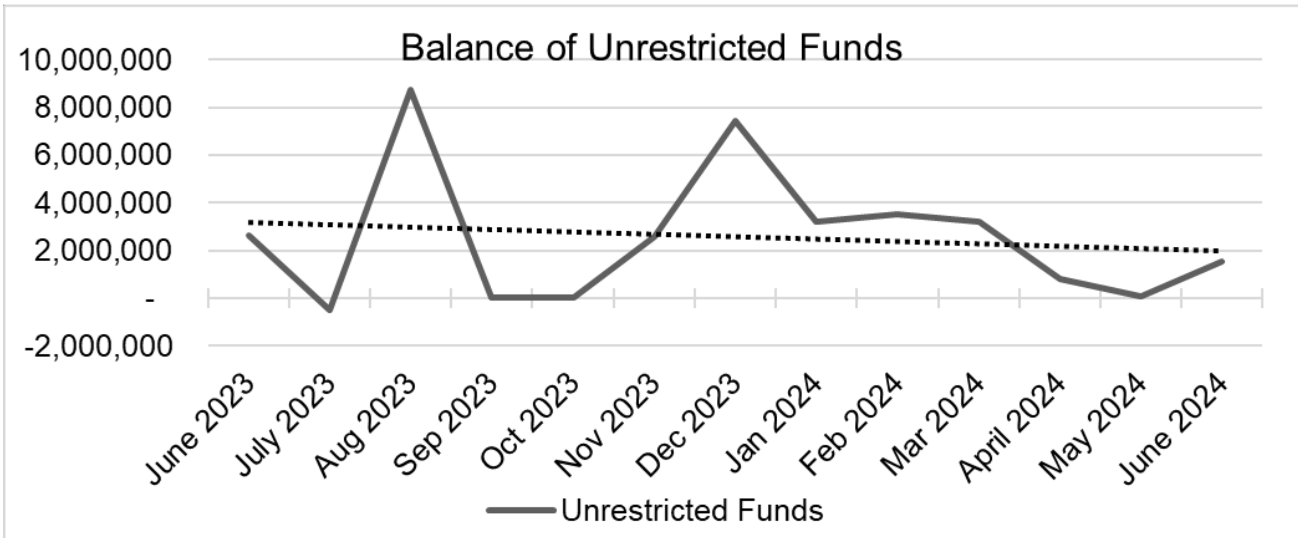
Overall increase in cash is explained in the unrestricted cash section of this report.

The RAC Prudential Liquidity Management and ILU Prudential Cover will be adjusted next month post the consideration of the annual update to both these items in this month's Council papers.

Restricted Funds Policy

The draft Restricted Funds Policy was presented to Council at the 21 May 2024 meeting. The policy was displayed on Council's website for the exhibition period of 28 days as per the Council resolution. No submissions were received, therefore under the Council resolution 24/001OC, Council has adopted the policy.

Unrestricted Funds



Council's overall cash balance increased during June from $46.6M to $48.1M. This $1.5M increase is mainly associated with business-as-usual operations. There were no significant Residential Accommodation Deposits in the month of June. These are timing matters based on resident departure and probate processes.

Capital expenditure equated to approximately $1.8M during the month of June, offsetting the rate instalment receipts and 2024-25 advance payment of the Financial Assistance Grant ($2M).

The unrestricted funds balance as at 30 June increased from $58K to $1.6M mainly due to end of year Financial Assistance Grant payment.

The summary of transfers from internal reserves in order to replenish unrestricted cash as per previous Council resolutions is summarised below:

Reference	Date Effective	Reserve	Amount	Reason
23/126OC	30/04/2023	Land Development Reserve	-5,000,000	Insufficient unrestricted cash balance
23/195OC	31/07/2023	Land Development Reserve	-500,000	Insufficient unrestricted cash balance
23/256OC	31/08/2023	Land Development Reserve	-1,800,000	Insufficient unrestricted cash balance
23/329OC	31/10/2023	Land Development Reserve	-2,174,773	Insufficient unrestricted cash balance
23/365OC	30/11/2023	Land Development Reserve	2,000,000	Transfer to increase reserve
24/018OC	29/02/2024	Land Development Reserve	1,000,000	Transfer to increase reserve
24/002OC	31/05/2024	Land Development Reserve	-3,900,000	Insufficient unrestricted cash balance
	Total:		**-10,374,773**	

Consolidated Cash Position and Cash Flow Forecast

Council's Forecasted Cashflow was reviewed, updated, and presented to the Financial Advisory Committee in early June.

The below graph depicts the revised cash forecast for the coming 12 months, whilst comparing the current cash reserve balance to the predicted cash reserve balance.

June's cash position is less than the projected cash balance, which is due to the unpredictability of Residential Accommodation Deposit receipts and refunds, ILU unit departures and timing of capital grants. These are timing in nature and should align in coming months.

Certification – Responsible Accounting Officer

I hereby certify that the investments listed in this report have been made in accordance with Section 625 of the *Local Government Act 1993*, clause 212 of the Local Government (General) Regulation 2021 and Council’s Investment Policy.

Olena Tulubinska
Chief Financial Officer

03/07/2024

Monthly Investment Review

KIAMA MUNICIPAL COUNCIL
your council, your community

June 2024

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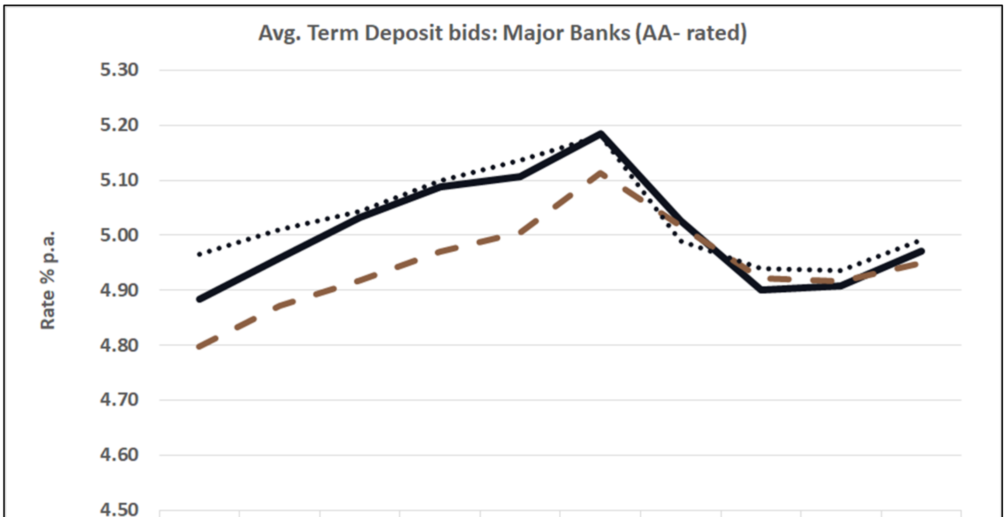
Market Update Summary

In June, financial markets continue to reprice the time of rate cuts across several developed countries. Domestically, the market is now actually forecasting the small chance of a hike in coming months in response to ongoing inflationary pressures.

In the deposit market, over June, the average deposit rates offered by the major banks at the short-end (up to 12 months) rose between 8-11bp following the higher than expected monthly inflation figure. In the medium-longer term (2-5 years), the average bids from the major banks remained relatively flat, reflective of the market still factoring rate cuts in future years. The deposit curve is largely back to where it was 6 months ago (Dec 2023).



	3M	4M	5M	6M	9M	12M	2Y	3Y	4Y	5Y
Jun-2024	4.88	4.96	5.03	5.09	5.11	5.19	5.03	4.90	4.91	4.97
May-2024	4.80	4.87	4.92	4.97	5.01	5.11	5.02	4.92	4.92	4.95
Dec-2023	4.97	5.01	5.04	5.10	5.14	5.18	4.99	4.94	4.94	4.99

Source: Imperium Markets

With a global economic downturn and interest rate cuts still being priced over the next 18-24 months, investors should consider diversifying and taking an 'insurance policy' against a potentially lower rate environment by investing across 2-5 year fixed deposits, targeting rates above 5% p.a. (small allocation only).

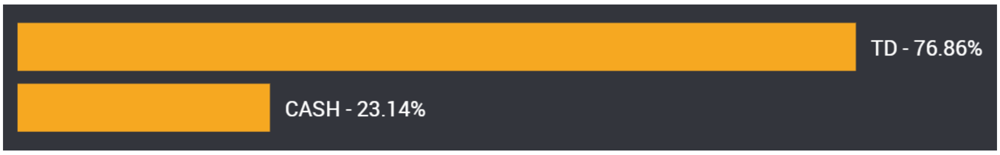
Kiama Municipal Council's Portfolio & Compliance

Asset Allocation

The majority of the portfolio is directed to term deposits (76.9%), with the remainder in cash (23.1%).

Senior FRNs remain relatively attractive as spreads have generally widened over the past 2 years. New issuances may now be considered again on a case by case scenario. In the interim, staggering a mix of fixed deposits between 9-12 months to 2 years remains a more optimal strategy to maximise returns over a longer-term cycle.

With interest rate cuts and a global economic downturn being priced in coming years, investors can choose to allocate a small proportion of longer-term funds and undertake an insurance policy against any potential future rate cuts by investing across 2-5 year fixed deposits, locking in and targeting yields above 5% p.a.



Term to Maturity

The portfolio is highly liquid with the majority maturing within 1 year (~82%). We recommend a more diversified maturity profile to optimise the overall returns of the portfolio in the long-run.

All the maturity policy allocations are compliant, with substantial capacity to invest in 1-3 year terms particularly amongst the higher rated ADIs. Where ongoing liquidity requirements permit, we recommend Council to invest a higher proportion in deposits with a minimum term of 9-12 months, with a smaller allocation to 2-3 year deposits.

Compliant	Horizon	Invested ($)	Invested (%)	Min. Limit (%)	Max. Limit (%)	Available ($)
✓	0 - 365 days	$40,116,329	81.68%	0%	100%	$7,350,854
✓	1 - 3 years	$9,000,000	18.32%	0%	40%	$8,695,678
✓	3 - 5 years	$0	0.00%	0%	30%	$12,034,899
✓	5 - 10 years	$0	0.00%	0%	30%	$12,034,899
		$49,116,329	**100.00%**			

Counterparty

As at the end of the June, aside from the slight overweight position with ING (A), Council is within compliance of the Policy limits. This slight overweight position with ING (30.5% actual exposure versus 30% limit) was due to the fall in the total portfolio size from $51.98m in May to $49.12m in June. This can easily be rectified when the total portfolio size increases over the coming weeks/months, or by redeeming the next ING deposit maturing on 16th October 2024.

Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	CBA	AA-	$2,000,000	4.07%	40%	$17,646,532
✓	Westpac	AA-	$11,366,329	23.14%	40%	$8,280,203
✓	NAB	AA-	$6,000,000	12.22%	40%	$13,646,532
✓	Suncorp	A+	$10,000,000	20.36%	30%	$4,734,899
X	ING	A	$15,000,000	30.54%	30%	-$265,101
✓	BoQ	A-	$1,000,000	2.04%	30%	$13,734,899
✓	AMP	BBB+	$750,000	1.53%	15%	$6,617,449
✓	Bank of Us	BBB+	$1,000,000	2.04%	15%	$6,367,449
✓	BankVic	BBB+	$2,000,000	4.07%	15%	$5,367,449
			$49,116,329	**100.00%**		

In February 2024, ANZ's takeover of Suncorp was given the green light by the Australian Competition Tribunal (ACT), six months after the Australian Competition and Consumer Commission (ACCC) blocked the deal on the grounds that it could lessen competition in the mortgage market. As such, Suncorp's assets are likely to be upgraded to AA- in the near future by S&P, potentially within 6 months (but also, they may be flagged as an ADI lending to the fossil fuel industry in future).

In early April 2024, BoQ was upgraded by S&P from BBB+ to A-. Separately, several other regional banks were upgraded from BBB to BBB+ (including AMP). This has resulted in increased capacity to invest in some of these individual institutions from a counterparty perspective, as well as the aggregate "BBB" rated category (see "Credit Quality" section).

Fossil Fuel Investments

What is Council's current exposure to institutions that fund fossil fuels?

Using the following link http://www.marketforces.org.au/banks/compare, based on the Council's investment portfolio balance as at 30/06/2024 (~$49.12m), we can roughly estimate that ~71% of the institutions invested have some form of exposure. Note this is purely based on the institution/counterparty and not the actual underlying investments themselves.

Council's exposure is summarised as follows:

Counterparty	Rating	Funding Fossil Fuel
CBA	AA-	Yes
WBC	AA-	Yes
NAB	AA-	Yes
Suncorp	A+	No
ING	A	Yes
BoQ	A-	No
AMP Bank	BBB+	Yes
Bank of Us	BBB+	No
BankVIC	BBB+	No

Source: https://www.marketforces.org.au/info/compare-bank-table/

Summary	Amount	Invested %
Yes	$35,116,329	71%
No	$14,000,000	29%
	$49,116,329	**100%**

Transition to investments without major exposure to fossil fuels

Council has not made a formal decision to divest from the current portfolio of investments which have exposure to fossil fuels. To do so would have unfavourable implications to the credit quality, rating and interest income forecasts.

However, where possible, and within the ministerial and policy guidelines, Council will continue to favour newly issued fossil fuel free investment products, providing it does not compromise the risk and return profile.

In time, it is Councils intention to move to a more balanced portfolio which has less exposure to fossil fuels, providing it is prudent to do so.

What would be implications on our portfolio credit rating?

By adopting a free fossil fuel policy or an active divestment strategy, this would eliminate the major banks rated "AA-" as well as some other potential "A" rated banks (e.g. Macquarie and ING). Council would be left with a smaller sub-sector of banks to choose to invest with.

What would be risks and implications on Council's portfolio performance?

Some implications include:

- High concentration risk – limiting Council to a selected number of banks;
- Increased credit/counterparty risk;
- May lead to a reduction in performance (e.g. should Council choose to invest in securities, most of the senior FRN issues are with the higher rated ADIs);
- Underperformance compared to other Councils which could result in a significant loss of income generated – could be in excess of hundreds of thousands of dollars per annum.

It may actually be contrary to Council's primary objective to preserve capital as the investment portfolio's risk would increase (all things being equal). Council may not be maximising its returns – this is one of the primary objectives written in the Investment Policy.

Credit Quality

The portfolio is diversified from a credit ratings perspective, with exposure down to the BBB category. All ratings categories are within the Policy limits:

Compliant	Credit Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	AAA Category	$0	0.0%	100%	$49,116,329
✓	AA Category	$19,366,329	39.4%	100%	$29,750,000
✓	A Category	$26,000,000	52.9%	70%	$8,381,430
✓	BBB Category	$3,750,000	7.6%	30%	$10,984,899
✓	Unrated Category	$0	0.0%	0%	$0
		$49,116,329	**100.0%**		

There is now much higher capacity to invest with the "BBB" rated ADIs following the recent ratings upgrade for BoQ (moved up from BBB to A category range). From a ratings perspective, the "BBB" rated banks still generally dominate the number of ADIs issuing deposits within the investment grade space. There has been some signs of appetite growing in the wholesale deposit market as additional lower rated ("BBB" and unrated) ADIs have come to market to raise 'new' money.

Performance

Council's performance (excluding cash holdings) for the month ending June 2024 is summarised as follows:

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year
Official Cash Rate	0.35%	1.07%	2.15%	4.28%	4.28%
AusBond Bank Bill Index	0.35%	1.08%	2.18%	4.37%	4.37%
Council's Portfolio^	**0.43%**	**1.29%**	**2.58%**	**5.01%**	**5.01%**
Outperformance	**0.08%**	**0.21%**	**0.40%**	**0.63%**	**0.63%**

^Total portfolio performance excludes Council's cash account holdings.

Performance (Annualised)	1 month	3 months	6 months	FYTD	1 year
Official Cash Rate	4.35%	4.35%	4.35%	4.27%	4.28%
AusBond Bank Bill Index	4.35%	4.41%	4.42%	4.36%	4.37%
Council's Portfolio^	**5.39%**	**5.26%**	**5.24%**	**4.99%**	**5.01%**
Outperformance	**1.04%**	**0.86%**	**0.83%**	**0.63%**	**0.63%**

^Total portfolio performance excludes Council's cash account holdings.

For the month of June, excluding cash, the total portfolio provided a return of +0.43% (actual) or +5.39% p.a. (annualised), outperforming the benchmark AusBond Bank Bill Index return of +0.35% (actual) or +4.35% p.a. (annualised). All time periods are now above benchmark returns up to 1 year as the previously held low yielding deposits coming out of the pandemic period have all matured and been reinvested at higher prevailing rates.

Recommendations for Council

Term Deposits

Going forward, Council may consider altering its longer-term strategy by placing a slightly larger proportion of deposits and stagger investments across 12-24 months terms. Over a cycle and in a normal market environment, this may earn up to ¼-½% p.a. higher compared to purely investing in shorter tenors. There is growing belief that interest rate cuts and a global economic downturn is forthcoming and so locking in rates above 5% p.a. across 1-5 year tenors may provide some income protection against a lower rate environment.

As at the end of June 2024, Council's deposit portfolio was yielding around 5.22% p.a. (up 2bp from the previous month), with a weighted average duration of 241 days (~8 months). ***We commend Council for improving its weighted average duration in recent months reflective of investments in high yielding term deposits in 1 and 2 year tenors. We continue to recommend Council to increase the portfolio's duration closer to 9 months incrementally over the current financial year (with a view to extending closer to 12 months in the medium-term).***

Please refer to the section below for further details on the Term Deposit market.

Securities

Primary (new) **FRNs** (with maturities between 3-5 years) continue to be appealing (particularly for those investors with portfolios skewed towards fixed assets) and should be considered on a case by case scenario.

Please refer to the section below for further details on the FRN market.

Term Deposit Market Review

Current Term Deposits Rates

As at the end of June, we see value in the following:

ADI	LT Credit Rating	Term	Rate % p.a.
ING	A	5 years	5.38%
BoQ	A-	5 years	5.20%
ING	A	4 years	5.32%
BoQ	A-	4 years	5.20%
ING	A	3 years	5.29%
BoQ	A-	3 years	5.10%
ING	A	2 years	5.35%
BoQ	A-	2 years	5.20%
Bank of Us	BBB+	2 years	5.20%
NAB	AA-	2 years	5.10%

The above deposits are suitable for investors looking to maintain diversification and lock-in a slight premium compared to purely investing short-term.

For terms under 12 months, we believe the strongest value is currently being offered by the following ADIs (*we stress that rates are indicative, dependent on daily funding requirements and different for industry segments*):

ADI	LT Credit Rating	Term	Rate % p.a.
Bank of Sydney	Unrated	12 months	5.47%
NAB	AA-	12 months	5.45%
ING	A	12 months	5.43%
ICBC	A	12 months	5.33%
Bank of Us	BBB+	12 months	5.31%
NAB	AA-	9 months	5.35%
Police CU	Unrated	9 months	5.35%
BoQ	A-	9 months	5.30%
NAB	AA-	6 months	5.30%
Suncorp	A+	6 months	5.23%
ICBC	A	6 months	5.20%
NAB	AA-	3 months	5.15%
ICBC	A	3 months	5.10%

If Council does not require high levels of liquidity and can stagger a proportion of its investments across the longer term horizons (1-5 years), it will be rewarded over a longer-term cycle. Investing a spread of 12 months to 3 year horizons is likely to yield, on average, up to ¼-½% p.a. higher compared to those investors that entirely invest in short-dated deposits (under 6-9 months).

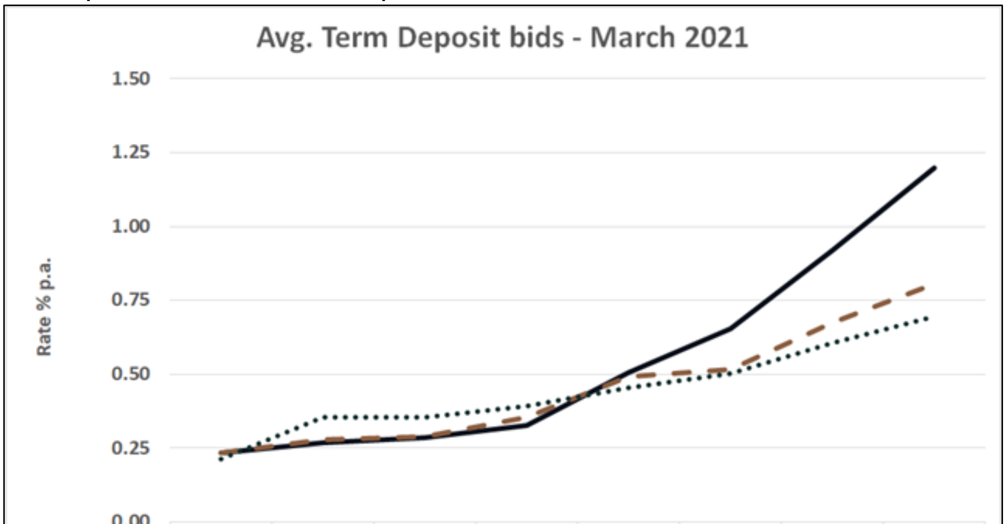
With a global economic slowdown and interest rate cuts being priced over the next few years, investors should strongly consider diversifying by allocating some longer term surplus funds and undertake an insurance policy by investing across 2-5 year fixed deposits and locking in rates above 5% p.a. This will provide some income protection with central banks now potentially looking to cut rates in 2025.

Arlo Advisory

Term Deposits Analysis

Pre-pandemic (March 2020), a 'normal' marketplace meant the lower rated ADIs (i.e. BBB category) were offering higher rates on term deposits compared to the higher rated ADIs (i.e. A or AA rated). But due to the cheap funding available provided by the RBA via their Term Funding Facility (TFF) during mid-2020, allowing the ADIs to borrow as low as 0.10% p.a. fixed for 3 years, those lower rated ADIs (BBB rated) did not require deposit funding from the wholesale deposit. Given the higher rated banks had more capacity to lend (as they have a greater pool of mortgage borrowers), they subsequently were offering higher deposit rates. In fact, some of the lower rated banks were not even offering deposit rates at all. As a result, most investors placed a higher proportion of their deposit investments with the higher rated (A or AA) ADIs over the past three years.

Term Deposit Rates – 12 months after pandemic (March 2021)



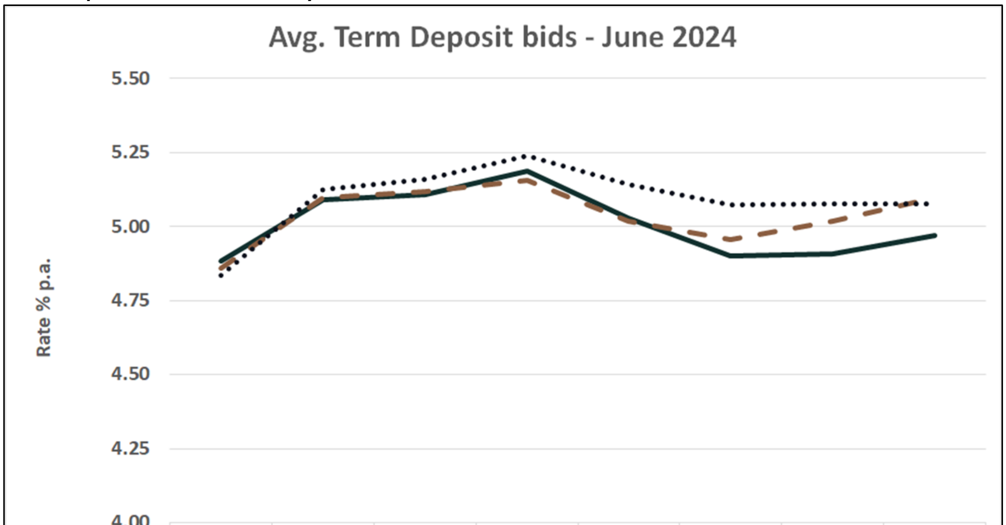
	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	0.23	0.27	0.29	0.33	0.51	0.65	0.92	1.20
A Rated	0.23	0.28	0.29	0.35	0.49	0.52	0.68	0.81
BBB Rated	0.21	0.36	0.35	0.39	0.45	0.50	0.61	0.70

Source: Imperium Markets

The abnormal marketplace experienced during the pandemic is starting to reverse as the competition for deposits slowly increases, partially driven by the RBA's term funding facility coming to an end. In recent months, we have started to periodically see some of the lower rated ADIs ("A" and "BBB" rated) offering slightly higher rates compared to the domestic major banks ("AA" rated) on different parts of the curve (i.e. pre-pandemic environment). Some of this has been attributed to lags in adjusting their deposit rates as some banks (mainly the lower rated ADIs) simply set their rates for the week.

Going forward, Council should have a larger opportunity to invest a higher proportion of its funds with the lower rated institutions (up to Policy limits), from which the majority are not lending to the Fossil Fuel industry or considered 'ethical'. We are slowly seeing this trend emerge (as was the case this month), although the major banks always seem to react more quickly than the rest of the market during periods of volatility:

Term Deposit Rates – Currently (June 2024)



	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	4.88	5.09	5.11	5.19	5.03	4.90	4.91	4.97
A Rated	4.86	5.10	5.12	5.16	5.02	4.96	5.02	5.10
BBB Rated	4.84	5.13	5.16	5.24	5.14	5.07	5.08	5.08

Source: Imperium Markets

Regional & Unrated ADI Sector

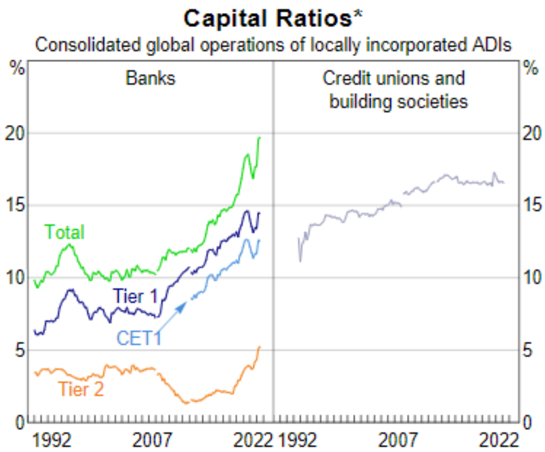
Ratings agency S&P has commented that "*mergers remain compelling for mutuals lenders*" in providing smaller lenders greater economies of scale and assisting them in being able to price competitively and will see "*the banking landscape will settle with a small number of larger mutual players*". S&P expects that consolidation to continue over the next two years.

We remain supportive of the regional and unrated ADI sector (and have been even throughout the post-GFC period). They continue to remain solid, incorporate strong balance sheets, while exhibiting high levels of capital – typically, much higher compared to the higher rated ADIs. Some unrated ADIs have up to 25-40% more capital than the domestic major banks, and well above the Basel III requirements.

Overall, the lower rated ADIs (BBB and unrated) are generally now in a better financial position then they have been historically (see the Capital Ratio figure below). The financial regulator, APRA has noted that the Common Equity Tier 1 capital of Australian banks now exceeds a quarter of a trillion dollars. It has increased by $110 billion, or more than 70%, over the past decade. Over the same time, banks' assets have grown by 44%. Some of the extra capital is supporting growth in the banking system itself but clearly, there has been a strengthening in overall resilience and leverage in the system is lower.

We believe that deposit investments with the lower rated ADIs should be considered going forward, particularly when they offer 'above market' specials. Not only would it diversify the investment portfolio and reduce credit risk, it would also improve the portfolio's overall returns. The lower rated entities are generally deemed to be the more 'ethical' ADIs compared to the higher rated ADIs.

In the current environment of high regulation and scrutiny, all domestic (and international) ADIs continue to carry high levels of capital. There is minimal (if any) probability of any ADI defaulting on their deposits going forward – this was stress tested during the GFC and the pandemic period. APRA's mandate is to "*protect depositors*" and provide "*financial stability*".

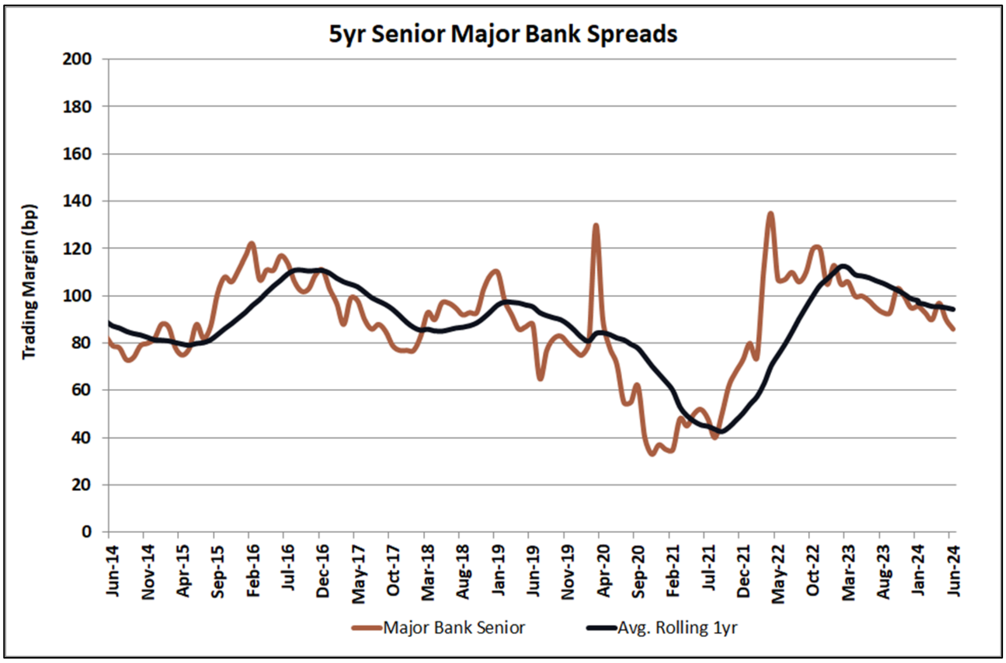


* Per cent of risk-weighted assets; break in March 2008 due to the introduction of Basel II for most ADIs; break in March 2013 due to the introduction of Basel III for all ADIs.

Source: APRA.

Senior FRNs Market Review

Over June, amongst the senior major bank FRNs, physical credit securities tightened by around 4bp at the 5 year part of the curve. During the month, ANZ (AA-) issued a dual 3 & 5 year senior deal at +70bp and +86bp respectively. Major bank senior securities remain at fair value on a historical basis although looking fairly expensive if the 5yr margin tightens to +80bp in the near future.



Source: IBS Capital

There was minimal issuance again during the month apart from:

- Bendigo-Adelaide (A-) 1 year senior FRN at +60bp
- Teachers Mutual (BBB+) 3 year senior FRN at +130bp

Amongst the "A" rated sector, the securities remained flat at the longer-end of the curve, whilst the "BBB" rated sector tightened around 30bp at the 3 year part of the curve due to Teacher's Mutual deal. Overall, credit securities are looking more attractive given the widening of spreads over the past 2-3 years. FRNs will continue to play a role in investors' portfolios mainly on the basis of their liquidity and the ability to roll down the curve and gross up returns over ensuing years (in a relatively stable credit environment), whilst also providing some diversification to those investors skewed towards fixed assets.

Senior FRNs (ADIs)	28/06/2024	31/05/2024
"AA" rated – 5yrs	+86bp	+90bp
"AA" rated – 3yrs	+71bp	+68bp
"A" rated – 5yrs	+105bp	+105bp
"A" rated – 3yrs	+82bp	+85bp
"BBB" rated – 3yrs	+130bp	+160bp

Source: IBS Capital

We now generally recommend switches ('benchmark' issues only) into new primary issues, out of the following senior FRNs that are maturing:

- On or before mid-2026 for the "AA" rated ADIs (domestic major banks);
- On or before mid-2025 for the "A" rated ADIs; and
- Within 6-9 months for the "BBB" rated ADIs (consider case by case).

Investors holding onto the above senior FRNs ('benchmark' issues only) in their last few years are now generally holding sub optimal investments and are not maximising returns by foregoing realised capital gains. In the current challenging economic environment, any boost in overall returns should be locked in when it is advantageous to do so, particularly as switch opportunities become available.

Senior Fixed Bonds – ADIs (Secondary Market)

With global inflation still high by historical standards, this has seen a significant lift in longer-term bond yields over the past 2-3 years (valuations have fallen) as markets have reacted sharply.

This has resulted in some opportunities in the secondary market. We currently see value in the following fixed bond lines, with the majority now being marked at a significant discount to par (please note supply in the secondary market may be limited on any day):

ISIN	Issuer	Rating	Capital Structure	Maturity Date	~Remain. Term (yrs)	Fixed Coupon	Indicative Yield
AU3CB0278174	UBS	A+	Senior	26/02/2026	1.67	1.1000%	5.25%
AU3CB0280030	BoQ	A-	Senior	06/05/2026	1.86	1.4000%	5.47%
AU3CB0299337	Bendigo	A-	Senior	15/05/2026	1.88	4.7000%	5.37%
AU3CB0296168	BoQ	A-	Senior	27/01/2027	2.59	4.7000%	5.46%
AU3CB0308955	BoQ	A-	Senior	30/04/2029	4.84	5.3580%	5.54%

Economic Commentary

International Market

In June, risk assets traded in a relatively narrow range despite further evidence of sticky inflation pushing back expectations of rate cuts across several advanced economies.

Across equity markets, the S&P 500 Index rose +3.47% over the month, whilst the NASDAQ surged +5.91%. In contrast, Europe's main indices fell across the board, led by France's CAC (-6.42%), Germany's DAX (-1.42%), and UK's FTSE (-1.34%).

The US unemployment rate increased to 4.0% from 3.9%, the highest level in over two years.

US headline CPI came in cooler than expected at +0.0% m/m vs. +0.1% expected (annual terms at +3.3% versus +3.4% expected). The core CPI also came in below expectations at +3.4% y/y versus +3.5% y/y.

Canadian CPI in May was +2.9% y/y from +2.7% (expected +2.6%). The average of the median and trim core measures rose 0.1% to +2.85%. The lift came from services inflation at +4.6% y/y from +4.2% and driven by health.

Eurozone CPI suggested the same goods vs. sticky services dynamic of the US. Core CPI printed at +2.9% y/y vs. +2.7% expected.

Canada became the second G10 nation, after Sweden, to initiate a monetary policy easing cycle. They cut rates by 25bp to 4.75% as expected, whilst signalling more easing ahead. The ECB then followed by easing monetary policy, dropping all key rates by 25bp and taking the Deposit Rate to 3.75%.

The Swiss National Bank lowered its policy rate for a second consecutive time, down 25bp to 1.25%. The central bank believes the policy rate is now balanced and it also had lowered its inflation forecasts.

The Bank of England kept its policy rate steady at 5.25% despite the slowdown in UK inflation to +2.0% y/y in May. The BoE signalled a rate reduction is possible at its next meeting in August.

The MSCI World ex-Aus Index rose +1.93% for the month of June:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	+3.47%	+3.92%	+22.70%	+8.31%	+13.17%	+10.79%
MSCI World ex-AUS	+1.93%	+2.18%	+18.55%	+5.32%	+10.20%	+7.44%
S&P ASX 200 Accum. Index	+1.01%	-1.05%	+12.10%	+6.37%	+7.26%	+8.06%

Source: S&P, MSCI

Domestic Market

The RBA left the cash rate on hold at 4.35% as widely expected. The Board reiterated that all options are still on the table in its fight against inflation. The Board "*did discuss the case*" for a possible rate hike at its June meeting, but ultimately decided to keep the policy rate unchanged. RBA Governor Bullock added, "*I wouldn't say that the case for a rate rise is increasing*", but *"…there's been a few things that have made the Board alert to the upside risks*".

The Monthly CPI Indicator surged by 0.4% to +4.0% y/y in May from +3.6%. The ex-volatiles and travel reading did marginally slow, from +4.1% to +4.0% and key services categories remain too strong but do show some cooling.

The unemployment rate fell 0.1% to 4.0% from 4.1%. That fallback was expected because there was an unusually elevated number of unemployed people waiting to start a new job in April that moved into employment in May.

GDP rose by +0.1% q/q (+1.1% y/y), slightly weaker than consensus and the RBA's average quarterly expectation for H1. Overall, aggregate GDP growth continued to soften in both annual and quarterly terms (and is still falling in per capita terms).

The April trade balance widened to $6.5bn, back to around its February level after a surge in imports in March saw the surplus dip to its lowest since November 2020. In the month, exports fell -2.5%, while good imports fell -7.5% m/m.

The Australian dollar fell -0.20%, finishing the month at US66.24 cents (from US66.37 cents the previous month).

Credit Market

The global credit indices finally widened across the board in June. They remain at their levels in early 2022 (prior to the rate hike cycle from most central banks):

Index	June 2024	May 2024
CDX North American 5yr CDS	54bp	51bp
iTraxx Europe 5yr CDS	62bp	52bp
iTraxx Australia 5yr CDS	71bp	65bp

Source: Markit

Fixed Interest Review

Benchmark Index Returns

Index	June 2024	May 2024
Bloomberg AusBond Bank Bill Index (0+YR)	+0.35%	+0.37%
Bloomberg AusBond Composite Bond Index (0+YR)	+0.77%	+0.39%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.41%	+0.50%
Bloomberg AusBond Credit Index (0+YR)	+0.44%	+0.70%
Bloomberg AusBond Treasury Index (0+YR)	+0.69%	+0.35%
Bloomberg AusBond Inflation Gov't Index (0+YR)	+0.55%	-0.30%

Source: Bloomberg

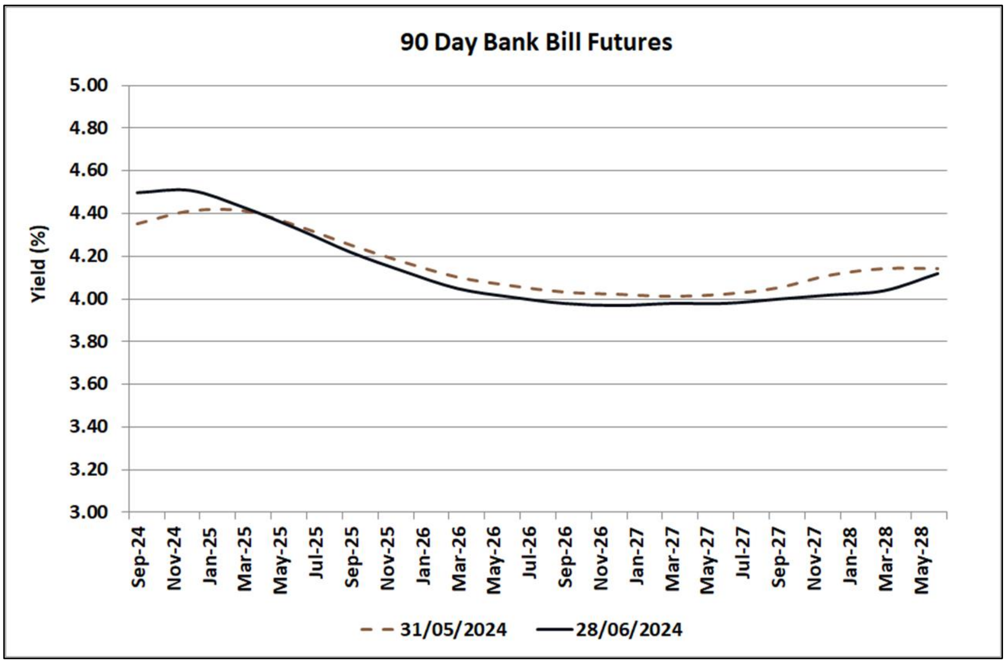
Other Key Rates

Index	June 2024	May 2024
RBA Official Cash Rate	4.35%	4.35%
90 Day (3 month) BBSW Rate	4.45%	4.35%
3yr Australian Government Bonds	4.07%	4.05%
10yr Australian Government Bonds	4.31%	4.41%
US Fed Funds Rate	5.25%-5.50%	5.25%-5.50%
2yr US Treasury Bonds	4.71%	4.89%
10yr US Treasury Bonds	4.36%	4.51%

Source: RBA, ASX, US Department of Treasury

90 Day Bill Futures

Bill futures remained relatively flat at the long-end this month, despite ongoing evidence of sticky inflation. Markets continue to push back their expectations of when the first rate cut will be delivered, resulting in a flattening of the curve.



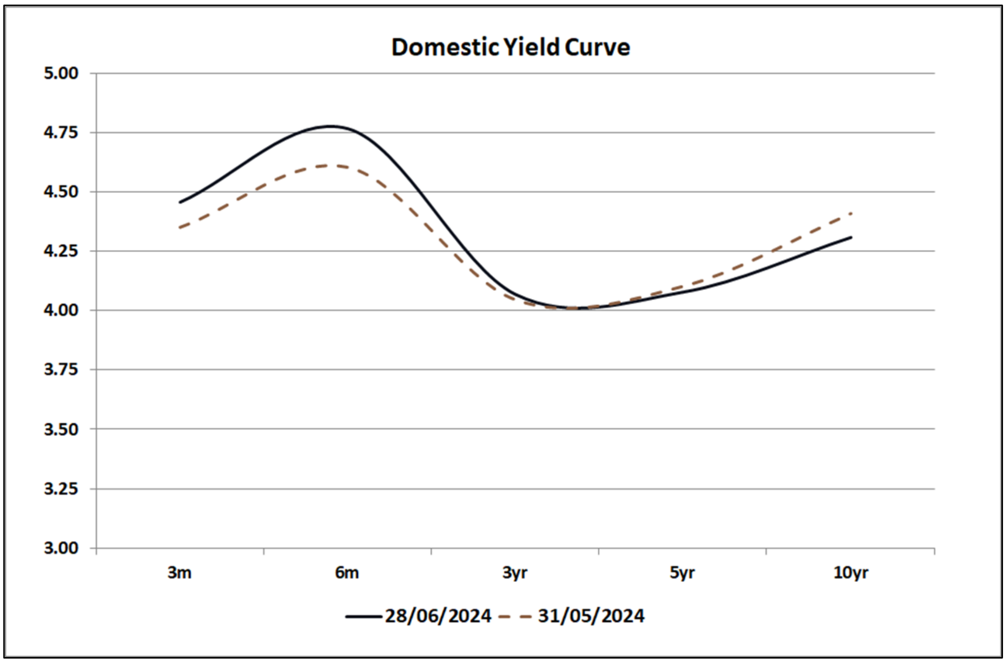
Source: ASX

Fixed Interest Outlook

US Federal Reserve officials again highlighted the importance of waiting for further progress in bringing inflation back to the Fed's 2% target before cutting rates. Policymakers currently expect the policy rate would be cut by just a single 25bp this year, down from at least three reductions earlier this year. The longer-run median US Fed dot plot is currently around 2.80%. US Fed Chair Powell commented that officials were "*coming to the view that rates are less likely to go down to their pre pandemic level*".

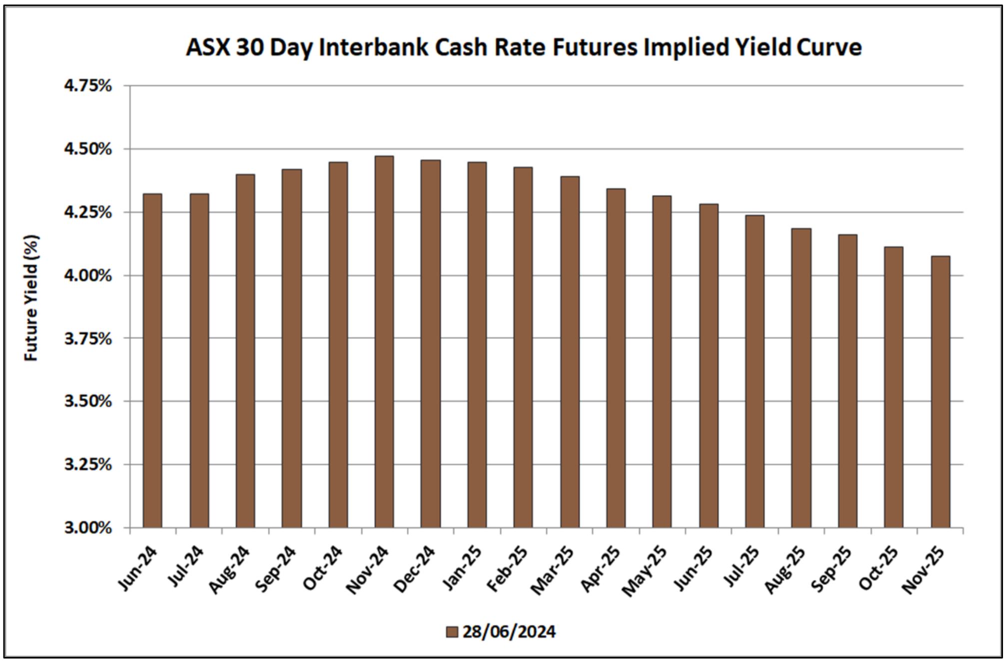
Domestically, the RBA kept the cash rate unchanged at its June meeting, with the central bank emphasising, "*The board is not ruling anything in or out…we still think we're on the narrow path, [but] it does appear to be getting a bit narrower.*" As is the case with most central banks at the moment, the RBA is waiting for current economic data to show a clear trend before taking any decisive action. The June quarter inflation data will be published on 31 July and will therefore give the RBA a comprehensive view of what is happening with inflation prior to its next policy meeting on 6 August.

Over the month, longer-term yields fell around 10bp at the very long end of the curve (remains an inverse yield curve):



Source: ASX, RBA

The market is now factoring the potential of another rate hike later this year with inflation seemingly remaining sticky. Financial markets have pushed back their expectations of rate cuts, with the first cut pencilled in for mid-late 2025.



Source: ASX

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