

14 REPORT OF THE CHIEF OPERATING OFFICER

14.1 Monthly Financial Report - August 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.

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Summary

This report provides a year-to-date Statement of Financial Position and Income Statement for Council's various business activities at a consolidated level and by program/service. 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. Monitoring of the budget monthly enables timely financial management to effectively manage the resources available to Council to provide public services and amenities.

Policy

Local Government Act 1993

Local Government (General) Regulation 2021

Part 9, Division 3, Clause 203 (1) of the Local Government (General) Regulation 2021 legislates the preparation of this report. As such Kiama council complies with the legislation by preparation of this report.

Consultation (internal)

Chief Executive Officer

Chief Operating Officer

Chief Financial and Technology Officer

Directors & Department Managers

Management Accountants

Communication/Community engagement

N/A

Attachments

1 Monthly Financial Reports - August 2024 [↓](#)

Enclosures

Nil

Report of the Chief Operating Officer

14.1 Monthly Financial Report - August 2024 (cont)

RECOMMENDATION

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

Background

Recent years has seen significant improvement in financial systems and financial reporting. The upcoming Audited Financial Statements for 2024 report should provide an update on progress with systems and processes. The attached report reflects an update on the levels of reporting now occurring at a management level, Finance Advisory Committee level, and Council level with each level being able to receive high level consolidated or more operational detailed program information as required for their specific purposes.

The revised reporting structure better aligns with aspects of Kiama Council's Performance Improvement Order (PIO). Specifically, Council has been requested to "Restructure the presentation of the draft and published budgets to detail programs and activities compared to current and previous years..."

As a result, the following reports highlight the adopted budget and subsequent variances of each Program of Council. Further detail on the financial performance of the specific business operations services is highlighted by way of separate income statements for each service grouping within the Business Operations Program (Blue Haven, Holiday Parks, Pavilion, Commercial Waste and Hire Services and the Leisure Centre).

In addition, the consolidated cash flow statement is presented to highlight the associated movement in actual cash during the reporting period being presented. The cash flow presented can be reconciled to the statement of investments for the same period, providing further transparency and improving the suite of financial information available.

Executive Summary

The consolidated result year-to-date up to 31 August 2024 is \$22.4M compared to a budget of \$22.6M and a small unfavourable variance of \$200K.

Income from recurring operations is unfavourable by \$853K mainly due to overestimations in general rates and levies, waste disposal fees (both domestic and commercial) and holiday parks due to pro-longed planned maintenance and lower occupancy rates.

A \$1.6M overspend in operating expenditure has occurred mainly due to the conclusion of an ongoing legal case which was not included in the adopted budget in June 2024.

The receipt of the Betterment Funding grant of \$2.2M has effectively offset the unfavourable operational income and unbudgeted expenditure. Note though that the grant is restricted funds and while this provides an overall offset resulting in the unfavourable variance of \$200K, specifically the year to date result reflects an unrestricted funds loss of \$1.7M.

Report of the Chief Operating Officer

14.1 Monthly Financial Report - August 2024 (cont)

The following table provides an overview of key variances and whether the variance is timing or permanent in nature. These items will be considered for adjustment in the upcoming respective Quarterly Budget Review (QBR) cycle.

Table 1. This table provides further explanation of the material budget variances identified.

Financial Reporting Level Category	Material variance	Permanent / Timing	Comments
Rates, Levies & Annual Charges	\$513K (U)	Permanent	- overestimation of domestic waste and rates revenue (-\$400K – domestic waste; -\$113K – rates) Will be adjusted at QBR.
User charges and fees	\$327K (U)	Timing Timing Timing	- Holiday Parks (Seven Mile & Werri Beach) income impacted by planned closure of certain cabins for maintenance works which has extended beyond original time estimates. Additionally, poor weather conditions and other economic spending factors has led to lower occupancy rates (-\$168K). This impact is being broadly experienced on NSW South Coast. It is not known that this variance will be recouped during the year. Possible QBR adjustment required. - Pavilion income is slightly behind budget (-\$75K). This is a temporary variance. - Domestic waste disposal charges is unfavourable due to overestimation of expected revenue (-\$143K). This is timing variance. - Commercial waste disposal charges is unfavourable due to overestimation of expected revenue (-\$116K). Like above, this has been marginally offset by savings in commercial waste expenditure, but a possible QBR adjustment may be required. +\$175K total favourable variance across other services such as leisure centre, Blue Haven and Council rental income.
Employee Benefits	\$349K (U)	Permanent	- Undercapitalisation of wages of infrastructure team costs to capital projects(-\$200K) and other small variances across organisation. Pending further review but will be adjusted at QBR.
Materials & Contracts	\$1.19M (U)	Permanent	- Legal settlement costs (-\$1.1M). Will be adjusted at QBR.
Capital Grants & Contributions	\$2.29M (F)	Permanent	- \$2.2M Betterment Fund Grant, not included in original adopted budget as application for grant funding had not been approved at the time of budget preparation. QBR adjustment is required.
Total Variances explained (A)	\$89K (U)		Total of material variances listed above

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The variance can be further analysed between restricted and unrestricted funds as follows:

Total Variances explained (A)	\$89K (U)	Total of material variances listed above
Other Variances (B)	\$106K (U)	Total of other remaining immaterial variances
Total variance per Consolidated Income Statement (A+B)	\$195K (U)	
Unrestricted Fund Variance	\$1.7M (U)	Net impact on unrestricted cash position, including: -\$113K – rates income -\$116K – commercial waste +\$175K – user fees and charges leisure centre, Blue Haven, etc. -\$349K- employee benefits -\$1,190K – legal expenses -\$106K- other immaterial variances
Restricted Fund Variance	\$1.5M (F)	-\$400K – Domestic Waste charges -168K – Holiday parks fees and charges -\$75K- Pavilion fees and charges -\$143K – Domestic Waste Fees and Charges +\$2,290K – Betterment Grant funding.

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KIAMA MUNICIPAL COUNCIL Consolidated Income Statement

For the Period Ending 31 August 2024
Report Generated Date: 03 October 2024



	Year to Date				Full Year	
	Actual 24-25 \$'000	Adopted Budget 24-25 \$'000	Variance \$'000	%	Last Year Actual 23-24 \$'000	Adopted Budget 24-25 \$'000
Income from recurring operations						
Rates, Levies & Annual Charges	28,438	28,951	(513)	-2%	27,061	29,179
User Charges and fees	3,616	3,943	(327)	-8%	3,716	21,074
Interest & Investment Revenue	416	324	92	28%	221	1,839
Other Revenue	1,088	1,120	(33)	-3%	1,152	3,990
Grants, subsidies, contributions and donations - Operating	2,981	3,053	(71)	-2%	2,566	8,268
Other Income	-	-	-	0%	-	-
Total Income	36,539	37,392	(853)	-2%	34,716	64,351
Expenses from recurring operations						
Employee Benefits	7,349	7,001	(349)	-5%	6,289	29,934
Borrowing Costs	92	11	(81)	-747%	62	363
Materials & Contracts	7,510	6,320	(1,190)	-19%	5,393	29,087
Depreciation & Amortization	1,608	1,609	2	0%	2,206	9,656
Impairment	-	-	-	0%	421	-
Other Expenses	36	22	(14)	-63%	27	1,156
Total Expenses	16,596	14,963	(1,632)	-11%	13,977	70,196
Operating result from recurring operations	19,944	22,429	(2,485)	-11%	20,739	(5,845)
Capital Grants & Contributions	2,445	155	2,290	1482%	1,008	4,192
Net gain/ loss from the disposal of assets	-	-	-	0%	40	2,946
Operating result including capital grants & contributions	22,389	22,584	(195)	-1%	21,747	(1,653)
Operating result including capital grants & contributions & one-off sales	22,389	22,584	(195)	-1%	21,787	1,293

KIAMA MUNICIPAL COUNCIL

Blue Haven Income Statement

For the Period Ending 31 August 2024
 Report Generated Date: 03 October 2024



	Year to Date			Full Year	
	Actual 24-25 \$'000	Adopted Budget 24-25 \$'000	Variance 24-25 \$'000	Last Year Actual 23-24 \$'000	Adopted Budget 24-25 \$'000
Income from recurring operations					
User charges and fees	1,030	951	78	917	2,272
Interest & Investment Revenue	1	0	1	114	8
Other Revenue	794	815	(21)	838	2,906
Grants, subsidies, contributions and donations - Operating	2,493	2,707	(215)	2,201	4,087
Other Income	-	-	-	-	-
Internal Revenue	158	-	158	158	-
Total Income	4,475	4,474	1	4,229	9,266
Expenses from recurring operations					
Employee Benefits	2,057	2,186	128	2,226	3,734
Borrowing Costs	81	-	(81)	49	701
Materials & Contracts	1,377	1,413	36	1,515	2,816
Depreciation & Amortization	9	9	-	469	55
Impairment	-	-	-	-	-
Other Expenses	19	5	(13)	19	67
Internal Expenditure	625	437	(187)	565	1,175
Total Expenses	4,168	4,051	(117)	4,843	8,012
Operating result from recurring operations	307	424	(116)	(614)	1,254
Capital Grants & Contributions	-	-	-	-	-
Net gain/ loss from the disposal of assets	-	-	-	-	-
Operating result including capital grants & contributions	307	424	(116)	(614)	1,254
Operating result including capital grants & contributions & one-off sales	307	424	(116)	(614)	1,254

KIAMA MUNICIPAL COUNCIL

Holiday Parks Income Statement

For the Period Ending 31 August 2024
 Report Generated Date: 03 October 2024



	Year to Date				Full Year	
	Actual 24-25 \$'000	Adopted Budget 24-25 \$'000	Variance 24-25 \$'000	%	Last Year Actual 23-24 \$'000	Adopted Budget 24-25 \$'000
Income from recurring operations	1,275	1,448	(173)	-12%	10,878	11,212
User charges and fees	1	0	1	205%	9	2
Other Revenue	-	-	-	0%	83	-
Grants, subsidies, contributions and donations - Operating	5	-	5	0%	39	-
Internal Revenue	-	-	-	-	-	-
Total Income	1,281	1,449	(168)	-12%	11,010	11,214
Expenses from recurring operations						
Employee Benefits	58	68	10	14%	353	444
Borrowing Costs	10	10	-	0%	73	61
Materials & Contracts	985	1,026	41	4%	5,799	6,228
Depreciation & Amortization	97	97	(0)	0%	618	582
Other Expenses	-	-	-	0%	353	430
Internal Expenditure	183	181	(2)	-1%	822	841
Total Expenses	1,334	1,383	49	4%	8,019	8,587
Operating result from recurring operations	(53)	66	(119)	-181%	2,990	2,627
Capital Grants & Contributions	-	-	-	0%	-	-
Net gain/ loss from the disposal of assets	-	-	-	0%	-	-
Operating result including capital grants & contributions	(53)	66	(119)	-181%	2,990	2,627
Operating result including capital grants & contributions & one-off sales	(53)	66	(119)	-181%	2,990	2,627

KIAMA MUNICIPAL COUNCIL

The Pavilion Income Statement

For the Period Ending 31 August 2024
 Report Generated Date: 03 October 2024



	Year to Date				Full Year	
	Actual 24-25 \$'000	Adopted Budget 24-25 \$'000	Variance 24-25 \$'000	%	Last Year Actual 23-24 \$'000	Adopted Budget 24-25 \$'000
Income from recurring operations						
Rates and annual charges	-	-	-	0%	-	-
User charges and fees	91	166	(75)	-45%	725	800
Other revenue	-	-	-	0%	-	-
Grants and contributions provided for operating purposes	-	-	-	0%	-	-
Interest and investment income	-	-	-	0%	-	-
Other income	-	-	-	0%	-	-
Internal Revenue	6	-	6	0%	58	-
Total Income	97	166	(69)	-42%	783	800
Expenses from recurring operations						
Employee benefits and on-costs	36	47	11	22%	238	303
Materials and services	43	89	45	51%	420	443
Borrowing costs	-	-	-	0%	-	-
Depreciation, amortisation and impairment for non financial assets	24	24	(0)	0%	151	144
Other expenses	-	-	-	0%	-	-
Internal Expenditure	2	1	(1)	-148%	26	27
Total Expenses	106	160	55	34%	835	918
Operating result from recurring operations	(9)	5	(14)		(52)	(118)
Grants and contributions provided for capital purposes	-	-	-	0%	-	-
Net gain/(loss) from the disposal of assets	-	-	-	0%	(3)	-
Operating result including capital grants & contributions	(9)	5	(14)	-273%	(52)	(118)
Operating result including capital grants & contributions & one-off sales	(9)	5	(14)	-273%	(52)	(118)

KIAMA MUNICIPAL COUNCIL

Income Statement - Commercial Waste and Hire Services

For the Period Ending 31 August 2024
 Report Generated Date: 03 October 2024



	Year to Date				Full Year	
	Actual	Adopted Budget	Variance	Last Year Actual	Last Year Actual	Adopted Budget
	24-25	24-25	24-25	23-24	23-24	24-25
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Income from recurring operations						
Rates and annual charges	198	199	(1)	33	198	199
User charges and fees	253	440	(187)	22	1,644	1,940
Other revenue	17	81	(64)	-	117	85
Grants and contributions provided for operating purposes	-	-	-	-	-	-
Interest and investment income	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Internal Revenue	62	38	24	84	782	226
Total Income	530	758	(228)	139	2,741	2,450
Expenses from recurring operations						
Employee benefits and on-costs	149	181	32	140	1,075	1,163
Materials and services	-	-	-	92	234	245
Borrowing costs	-	-	-	-	-	-
Depreciation, amortisation and impairment for non financial assets	-	-	-	-	-	-
Other expenses	-	-	-	-	-	-
Internal Expenditure	391	391	(0)	5	1,340	2,347
Total Expenses	540	572	32	237	2,649	3,755
Operating result from recurring operations	(10)	186	(196)	(98)	92	(1,305)
Grants and contributions provided for capital purposes	-	-	-	-	-	-
Net gain/(loss) from the disposal of assets	-	-	-	-	-	-
Operating result including capital grants & contributions	(10)	186	(196)	(98)	92	(1,305)
Operating result including capital grants & contributions & one-off sales	(10)	186	(196)	(98)	92	(1,305)

KIAMA MUNICIPAL COUNCIL Leisure Centre Income Statement

For the Period Ending 31 August 2024
Report Generated Date: 03 October 2024



	Year to Date				Full Year	
	Actual 24-25 \$'000	Adopted Budget 24-25 \$'000	Variance 2023/24 \$'000	%	Last Year Actual 23-24 \$'000	Adopted Budget 24-25 \$'000
Income from recurring operations						
Rates and annual charges	-	-	-	0%	-	-
User charges and fees	453	414	40	10%	435	2,482
Other revenue	-	-	-	0%	61	-
Grants and contributions provided for operating purposes	-	-	-	0%	-	-
Interest and investment income	-	-	-	0%	-	-
Other income	-	-	-	0%	-	-
Internal Revenue	-	-	-	0%	-	-
Total Income	453	414	40	10%	435	2,482
Expenses from recurring operations						
Employee benefits and on-costs	325	331	6	2%	308	1,820
Materials and services	115	119	4	3%	85	759
Borrowing costs	(0)	-	0	0%	(0)	9
Depreciation, amortisation and impairment for non financial assets	-	-	-	0%	-	-
Other expenses	-	-	-	0%	(0)	-
Internal Expenditure	108	108	(0)	0%	5	685
Total Expenses	548	557	9	2%	399	3,273
Operating result from recurring operations	(95)	(144)	49	-34%	37	(792)
Grants and contributions provided for capital purposes	-	-	-	0%	-	-
Net gain/(loss) from the disposal of assets	-	-	-	0%	-	-
Operating result including capital grants & contributions	(95)	(144)	49	-34%	37	(792)
Operating result including capital grants & contributions & one-off sales	(95)	(144)	49	-34%	37	(792)

KIAMA MUNICIPAL COUNCIL

Income Statement by Program & Service

For the Period Ending 31 August 2024



PROGRAM & SERVICE	REVENUE			EXPENDITURE			OPERATING RESULT				
	Actual	Budget	Variance \$	Actual	Budget	Variance \$	Actual	Budget	Variance \$		
	24-25 \$'000	24-25 \$'000	24-25 \$'000	24-25 \$'000	24-25 \$'000	24-25 \$'000	24-25 \$'000	24-25 \$'000	24-25 \$'000		
Business Operations											
Kendalls Beach Holiday Park	323	311	11	231	217	(14)	92	94	(2)		
Kiama Harbour Cabins	187	180	7	168	207	38	19	(27)	45		
Seven Mile Beach Holiday Park	264	373	(109)	221	250	29	42	123	(81)		
Showground Camping Ground	-	-	-	1	-	(1)	(1)	-	(1)		
Surf Beach Holiday Park	283	289	(5)	271	225	(45)	12	63	(51)		
Werri Beach Holiday Park	220	295	(76)	250	205	(45)	(31)	90	(121)		
Leisure Centre	453	414	40	440	450	10	14	(36)	50		
The Pavilion	91	166	(75)	104	160	(56)	(13)	6	(19)		
Blue Haven RACF	2,633	2,633	0	2,458	2,548	90	175	85	90		
Blue Haven ILLU Bonaira	481	486	(5)	53	138	86	428	347	81		
Blue Haven Barroul House	19	12	6	59	74	15	(41)	(62)	21		
Blue Haven ILLU Terralong	535	561	(26)	263	44	(219)	272	517	(246)		
Blue Haven Community Program Management	1	1	(0)	60	64	4	(59)	(63)	4		
Blue Haven Corporate Management	-	-	-	70	170	99	(70)	(170)	99		
Blue Haven Community Programs	648	780	(132)	563	566	3	86	215	(129)		
Hire Services	231	301	(70)	116	130	14	114	171	(57)		
Commercial Waste Services	237	419	(182)	32	51	18	205	368	(164)		
Business Operations	6,606	7,222	(616)	5,362	5,499	138	1,244	1,723	(479)		
Core Council Administration	22,201	21,990	211	6,275	4,851	(1,424)	15,926	17,139	(1,213)		
Regulatory	406	404	2	907	658	(249)	(501)	(255)	(246)		
Public Services & Amenities	9,700	7,890	1,810	3,625	3,555	(70)	6,074	4,335	1,739		
Other Community Services	72	41	31	426	399	(27)	(354)	(358)	4		
Total Council	38,984	37,547	1,438	16,596	14,963	(1,632)	22,389	22,584	(195)		

Key:
Favourable
(Unfavourable)

*Details on the specific services contained under each program can be found on the following page.

KIAMA MUNICIPAL COUNCIL Programs & Services



Contained below is a list of Kiama Council's main programs and the associated services which are provided under each.

Core Council Administration	Business Operations	Regulatory	Public Services & Amenities	Other Community Services
Property Administration	Kendalls Beach Holiday Park	Lifeguards	Depreciation	Road Safety
Office of the CEO	Kiama Harbour Cabins	Internal Audit	Building Services & Maintenance	Community Development
Finance	Seven Mile Beach Holiday Park	Bushfire Services (RF5)	Construction & Works	Cultural Development
Corporate Savings	Showground Camping Ground	Building Development	Engineering & Works Administration	Youth Services
Training & Development	Surf Beach Holiday Park	Compliance	Design Project Contract Management	Tourism & Events
Rates & Charges	Werri Beach Holiday Park	Environmental Administration	Asset Management	Visitor Information Centre
Records Management	The Pavilion	Environmental Health	Engineering Assessment & Approvals	Economic Development
Fleet & Plant Administration	Blue Haven RACF	Strategic Planning	Parks Services	
Supply & Store	Blue Haven ILLU Bonaira		Tree Preservation & Management	
Communications	Blue Haven Barrourl House		Kiama Works Depot	
Civic Activities	Blue Haven ILLU Terralong		Library Services	
Information Technology	Blue Haven Community Program Management		Domestic Waste Services	
Geographic Information Systems	Blue Haven Corporate Management		Cleaning Services	
Customer Service	Blue Haven Community Programs			
Technology One Implementation and Maintenance	Hire Services			
Corporate Planning	Commercial Waste Services			
Governance	Leisure Centre			
Human Resources				
Organisational development				
Risk Management				
Operating Management				

KIAMA MUNICIPAL COUNCIL

Consolidated

Statement of Financial Position
For the Period Ended 31 August 2024
Report Generated Date: 03 October 2024



	Notes	YTD Actual	Last year Actual
		31 August 2024	31 August 2023
		24-25	23-24
		\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents	C1-1	11,544	7,353
Investments	C1-2	22,000	34,000
Receivables	C1-4	25,516	-447
Inventories	C1-5	354	376
Contract assets and contract cost assets	C1-6	1,488	871
Current assets classified as 'held for sale'	C1-7	95,138	5,461
Other		1,392	2,430
Total current assets		157,433	50,044
Non current assets			
Investments	C1-2	9,373	837
Receivables	C1-4	206	198
Infrastructure, property, plant and equipment	C1-8	551,677	586,216
Investment property	C1-9	80,200	124,950
Right of use assets	C2-1	396	122
Total non current assets		641,851	712,323
Total assets		799,284	762,367
LIABILITIES			
Current liabilities			
Payables	C3-1	139,210	135,159
Contract liabilities	C3-2	4,354	7,022
Lease liabilities	C2-1	114	36
Borrowings	C3-3	550	612
Employee benefit provisions	C3-4	6,656	6,504
Total current liabilities		150,884	149,333
Non current liabilities			
Payables	C3-1	22	18
Lease liabilities	C2-1	290	6
Borrowings	C3-3	19,844	20,494
Employee benefit provisions	C3-4	624	601
Total non current liabilities		20,779	21,119
Total Liabilities		171,663	170,452
Net Assets		627,621	591,915
EQUITY			
Retained earnings		167,052	176,921
Revaluation reserves		438,220	415,779
Current Year Net Earnings		22,349	-785
Total equity		627,621	591,915



KIAMA MUNICIPAL COUNCIL
Cash Flow Statement

For the Period Ending 31 August 2024
 Report Generated Date: 26 September 2024

Cash Flow Statement	25ACT Jul-24	25ACT Aug-24	25POCAR Sep-24	25POCAR Oct-24	25POCAR Nov-24	25POCAR Dec-24	25POCAR Jan-25	25POCAR Feb-25	25POCAR Mar-25	25POCAR Apr-25	25POCAR May-25	25POCAR Jun-25
Cash Flows from Operating Activities												
Receipts:												
Fees & Annual Charges	1,974,258	5,965,467	3,048,796	1,524,398	2,439,036	2,134,157	1,219,518	2,743,916	2,134,157	914,639	3,353,675	1,829,277
User Charges & Fees	1,806,713	1,933,091	2,028,777	1,703,001	1,659,730	1,671,230	1,606,971	1,604,371	1,609,360	1,616,018	1,600,160	1,599,661
Investment & Interest Revenue Received	3,117	63,906	165,239	152,463	155,119	167,996	151,187	155,504	153,102	137,550	143,024	134,037
Operating grants	975,590	1,703,529	1,647,087	267,789	321,769	393,750	267,789	267,789	279,789	277,789	267,789	267,789
Bonds & Deposits Received	3,320,831	0	1,262,444	1,262,444	1,262,444	1,262,444	1,262,444	1,262,444	1,262,444	1,262,444	1,262,444	1,262,444
Other	358,396	513,294	478,758	267,638	264,638	342,638	267,638	243,538	243,538	246,638	241,538	243,538
Payments:												
Employee Benefits & On-Costs	-4,228,986	-4,222,692	-2,769,054	-2,427,497	-2,228,544	-2,771,804	-2,497,746	-2,228,544	-2,770,054	-2,425,497	-2,231,544	-2,778,664
Materials & Contracts	-6,386,151	-5,388,501	-3,165,145	-1,536,695	-2,854,988	-1,504,428	-1,549,105	-1,533,716	-1,758,436	-1,554,817	-1,476,925	-1,510,646
Borrowing Costs	0	-197,637	-98,758	-5,323	-5,323	-24,105	-5,323	-5,323	-23,856	-5,323	-5,323	-23,606
Bonds & Deposits Refunded	0	-801,480	-85,138	-82,804	-79,054	-143,054	-102,804	-79,054	-79,054	-82,804	-79,054	-82,804
Other	-31,441	-4,572	-166,288	5,692								
Net movements in Debtors/Creditors												
Net Cash provided (or used in) Operating Activities	-2,373,961	-429,901	2,513,007	1,126,414	935,228	1,528,825	619,570	2,430,926	1,050,990	386,637	3,075,785	941,036
Cash Flows from Investing Activities												
Receipts:												
Capital grants	0	111,963	348,499	348,499	348,499	348,499	348,499	348,499	348,499	348,499	348,499	358,499
Sale of Infrastructure, Property, Plant & Equipment	0	89,412	97,850	97,850	97,850	15,097,850	97,850	97,850	97,850	97,850	97,850	5,419,850
Payments:												
Purchase of Infrastructure, Property, Plant & Equipment	-1,461,167	-2,171,683	0	0	0	0	0	0	0	0	0	-13,101,531
Net Cash provided (or used in) Investing Activities	-1,461,167	-1,970,309	446,349	446,349	446,349	15,446,349	446,349	446,349	446,349	446,349	446,349	-7,323,182
Cash Flows from Financing Activities												
Payments:												
Repayment of Borrowings & Advances	0	-125,000	-43,374	0	-125,000	-15,043,621	0	-125,000	-43,870	0	-125,000	-44,120
Other Financing Activity Payments	0	0										
Net Cash Flow provided (used in) Financing Activities	0	-125,000	-43,374	0	-125,000	-15,043,621	0	-125,000	-43,870	0	-125,000	-44,120
Net Increase/(Decrease) in Cash & Cash Equivalents	-3,835,128	-2,525,210	2,915,982.22	1,572,763.06	1,266,577.38	1,931,555.28	1,065,918.90	2,752,275.22	1,453,469.30	832,985.93	3,397,133.91	-6,426,265.47
Plus: Cash & Cash Equivalents - beginning of month	48,074,140	44,239,012	41,713,802	44,629,784	46,202,547	47,459,125	49,390,678	50,456,597	53,208,872	54,662,341	55,495,327	58,892,461
Cash & Cash Equivalents - end of the month	44,239,012	41,713,802	44,629,784	46,202,547	47,459,125	49,390,678	50,456,597	53,208,872	54,662,341	55,495,327	58,892,461	52,466,196

14.2 Statement of Investments - September 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.

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Summary

This report provides an overview of Council's cash and investment portfolio and investment performance as at 30 September 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 Operating Officer

Chief Financial and Technology Officer

Financial Manager

Senior Financial Accountant

Communication/Community engagement

N/A

Attachments

1 Kiama Monthly Report - September 2024 [↓](#)

Enclosures

Nil

RECOMMENDATION

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

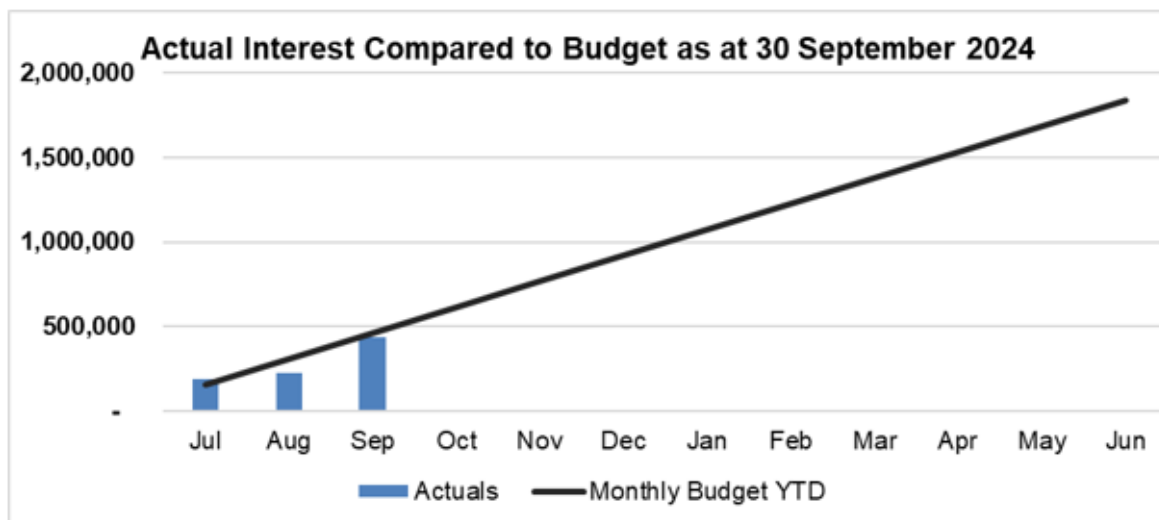
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Background

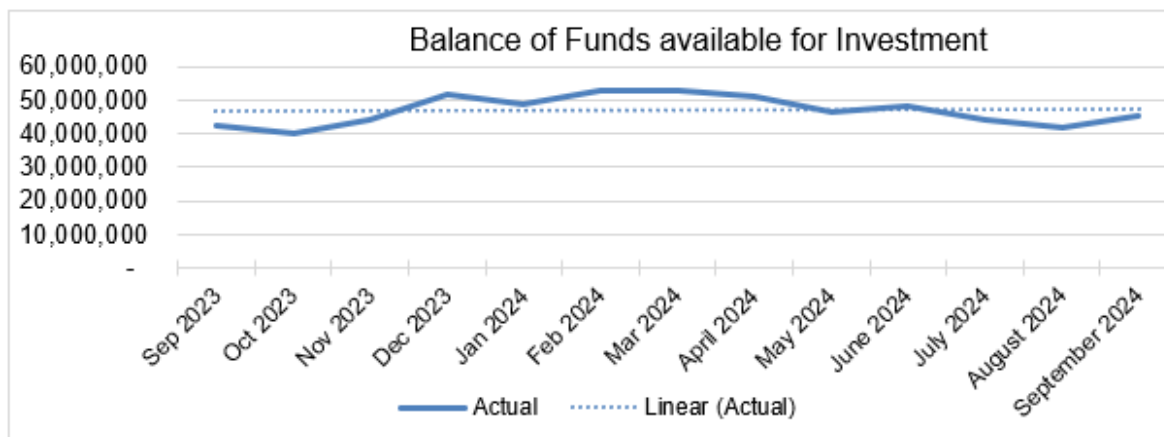
Council is required to invest its surplus funds in accordance with the Ministerial Investment Order and Office of Local Government guidelines. The Order reflects a conservative approach and restricts the investment types available to Council. Council’s Investment Policy provides a framework for the credit 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 September, excluding cash, the total portfolio provided a return of +0.44% (actual) or +5.43% p.a. (annualised), outperforming the benchmark AusBond Bank Bill Index return of +0.36% (actual) or +4.45% p.a. (annualised).



Movement in Investments



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Trades matured in September:

Issuer	Rating	Type	Interest	Purchase	Maturity	Rate %	Value
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
Total							1,750,000

New trades entered under delegation, during September:

Issuer	Rating	Type	Interest	Purchase	Maturity	Rate %	Value
NAB	AA-	TD	Annual	18/09/2024	16/04/2025	5.00	1,000,000
NAB	AA-	TD	At Maturity	26/09/2024	11/06/2025	5.01	1,000,000
Total							2,000,000

Portfolio compliance

As advised by external Investment Advisor

“As at the end of the September, apart from the slight overweight position with ING (A), Council is within compliance of the Policy limits. The slight overweight position with ING (31.8% actual exposure versus 30% limit) has been due to the fall in the total portfolio size in recent months (from \$51.98m in May to \$47.19m in September). This is an immaterial and temporary breach and is of no concern. This is easily rectified if the total portfolio size increases over the coming weeks/months, or by redeeming the next ING deposit maturing on 16th October 2024.”

As mentioned above, this will be resolved in October, as it is not financially viable to withdraw investments early.

Report of the Chief Operating Officer

14.2 Statement of Investments - September 2024 (cont)

Portfolio summary:

Issuer	Rating	Type	Interest	Purchase	Maturity	Rate %	Value
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	AA-	TD	At Maturity	21/11/2023	21/11/2024	5.40	1,000,000
Suncorp Bank	AA-	TD	At Maturity	28/11/2023	28/11/2024	5.50	2,000,000
Suncorp Bank	AA-	TD	At Maturity	04/12/2023	04/12/2024	5.35	1,000,000
Suncorp Bank	AA-	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	07/08/2024	12/02/2025	5.10	1,000,000
NAB	AA-	TD	At Maturity	26/02/2024	26/02/2025	5.08	2,000,000
Suncorp Bank	AA-	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
NAB	AA-	TD	Annual	18/09/2024	16/04/2025	5.00	1,000,000
NAB	AA-	TD	At Maturity	03/07/2024	28/05/2025	5.43	2,000,000
NAB	AA-	TD	At Maturity	26/09/2024	11/06/2025	5.01	1,000,000
NAB	AA-	TD	At Maturity	03/07/2024	02/07/2025	5.45	2,000,000
NAB	AA-	TD	At Maturity	10/07/2024	09/07/2025	5.45	2,000,000
ING Bank (Australia) Ltd	A	TD	At Maturity	22/11/2023	23/09/2025	5.35	1,000,000
Suncorp Bank	AA-	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	30/09/2024	30/09/2024	4.24	8,188,168
Total							47,188,168

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Report of the Chief Operating Officer

14.2 Statement of Investments - September 2024 (cont)

Restricted Funds Movements

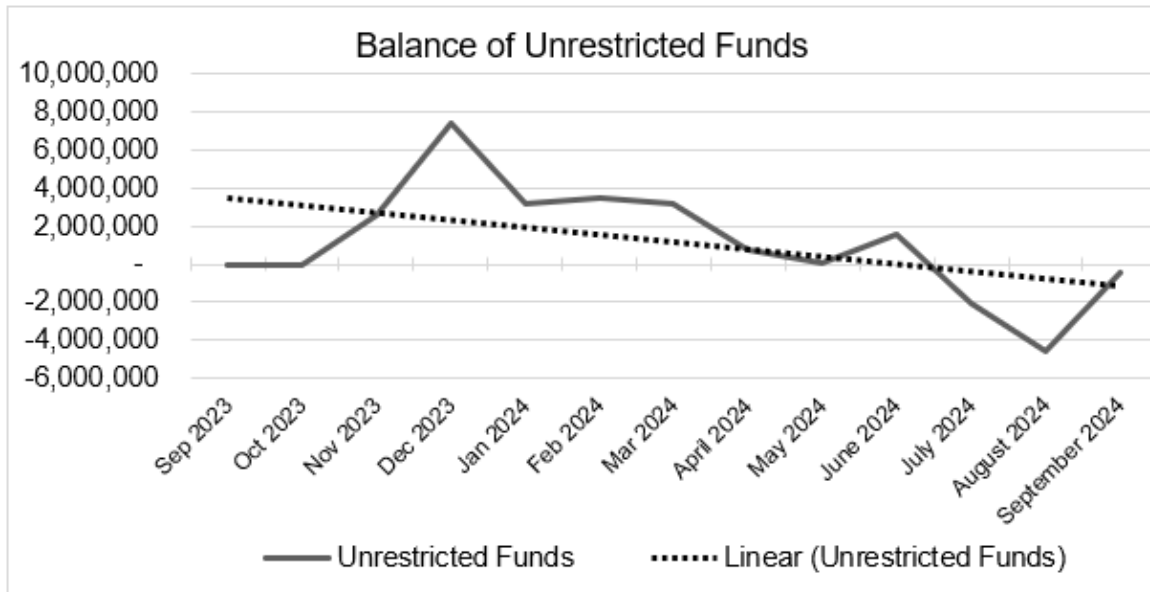
The restricted funds movement for this month and balances are presented in the table below. Note due to the break in Council meetings last month, the table below shows two months of movements.

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Cash and Investments Held	31/07/2024	Movement	31/08/2024	Movement	30/09/2024
Cash at Bank - Transactional Account	5,702,836	(1,302,728)	4,400,108	3,788,059	8,188,168
Other Cash and Investments	39,750,000	(1,000,000)	38,750,000	250,000	39,000,000
Total Portfolio Balance (agrees to Arlo Advisory report)	45,452,836	(2,302,728)	43,150,108	4,038,059	47,188,168
Cash on Hand	6,000	0	6,000	0	6,000
Bank Reconciliation items	(1,219,824)	(222,483)	(1,442,307)	(403,144)	(1,845,451)
Book Value of Cash and Investments	44,239,012	(2,525,211)	41,713,802	3,634,915	45,348,717
Specific purpose unexpended loans	500,000	(100,000)	400,000		400,000
Specific purpose unexpended grants - general fund	3,920,406	(778,432)	3,141,975		3,141,975
Developer contributions - general	13,716,756	199,988	13,916,744	238,178	14,154,921
Stormwater Levy Management	247,394	45,248	292,642		292,642
Security bonds, Deposits & Retentions	1,987,979	22,471	2,010,450	(82,709)	1,927,741
Crown Land	4,885,287	(276,549)	4,608,739	(350,701)	4,258,037
Blue Haven aged in-home care unspent client fund	115,272	(1,807)	113,465	5,323	118,788
Domestic waste management	7,334,716	914,489	8,249,206	882,360	9,131,566
Blue Haven - ILU Maintenance Levy carried forward surplus (Terralong)	1,749,910	(115,251)	1,634,659		1,634,659
Blue Haven - ILU Maintenance Levy carried forward surplus (Bonaira)	395,000		395,000		395,000
Blue Haven - Residential aged care prudential standards	4,900,000		4,900,000		4,900,000
External Restrictions	39,752,721	10,158	39,662,878	692,451	40,355,330
Council Elections	49,776	(49,776)	0		0
Employees leave entitlement	3,443,958		3,443,958		3,443,958
Land development	744,260	(4,872)	739,388		739,388
Temporary Funding of Disaster Recovery Funding Agreement Works	(4,925,000)		(4,925,000)	(874,734)	(5,799,734)
Blue Haven ILU Prudential Cover	4,100,000		4,100,000		4,100,000
Plant replacement	1,507,304	(397,609)	1,109,694	(847,698)	261,996
Risk Improvement Incentive	96,477		96,477	(37,445)	59,032
Waste Business Unit	1,423,488		1,423,488		1,423,488
Terralong ILU Capital Works	148,315	67,613	215,928	(4,725)	211,203
Internal Restrictions	6,588,578	(334,868)	6,203,934	(889,869)	4,439,331
Unrestricted Cash	(2,102,287)		(4,153,010)		554,056

The July 2024 reserve balances have been restated to reflect the actual 2023/24 closing reserve balances (subject to audit) and the actual July reserve movements.

Unrestricted Funds



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Council’s overall cash balance increased during September from \$41.7M to \$45.3M. This \$3.6M increase is a result of:

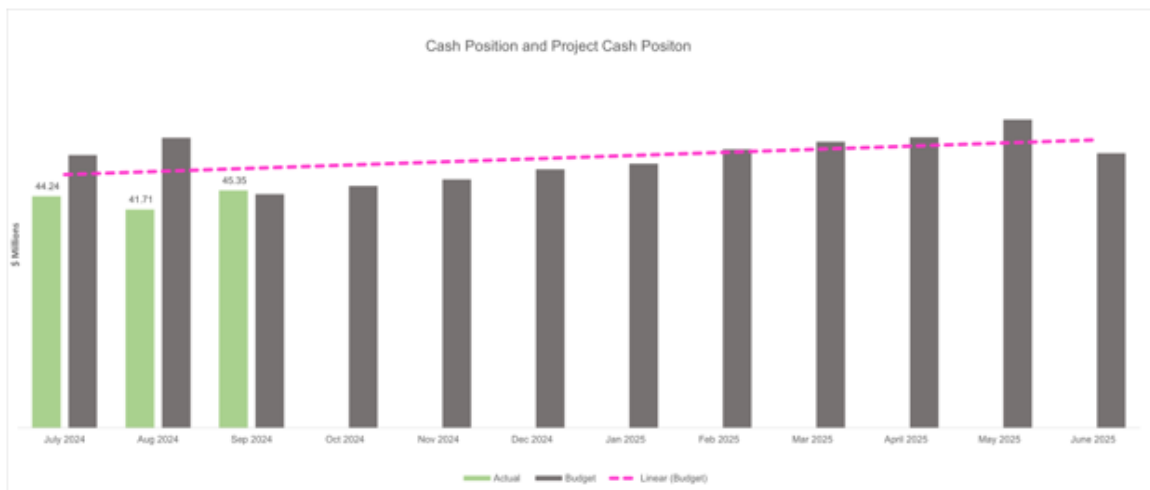
- The timing of Residential Accommodation Bonds (RAD’s) \$1.6M deposits received and no refunds processed in September.
- Natural Disaster & Recovery program grant funding being received (\$945K).
- The sale of 9 O’Connell Place Gerringong settled during September, with proceeds distributed between Housing Trust Illawarra and KMC as per the specified lease terms (\$487K was KMC’s apportionment).
- There were no major capital works payments or annual prepayments noted in September as compared to earlier months.

Consolidated Cash Position and Cash Flow Forecast

The below graph depicts the revised cash forecast for the 2024-25 financial year, whilst comparing the current cash reserve balance to the predicted cash reserve balance.

September’s cash position is slightly more than the projected cash balance, predominately due to the unpredictability of Residential Accommodation Deposit (RAD) receipts and refunds, ILU unit departures. Furthermore, as noted above, property settlement funds and grant funding were received during September which was not included in the original cash projections due to unknown timing of these transactions.

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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

04/10/2024



Monthly Investment Review



KIAMA MUNICIPAL COUNCIL
your council, your community

September 2024

Item 14.2

Attachment 1

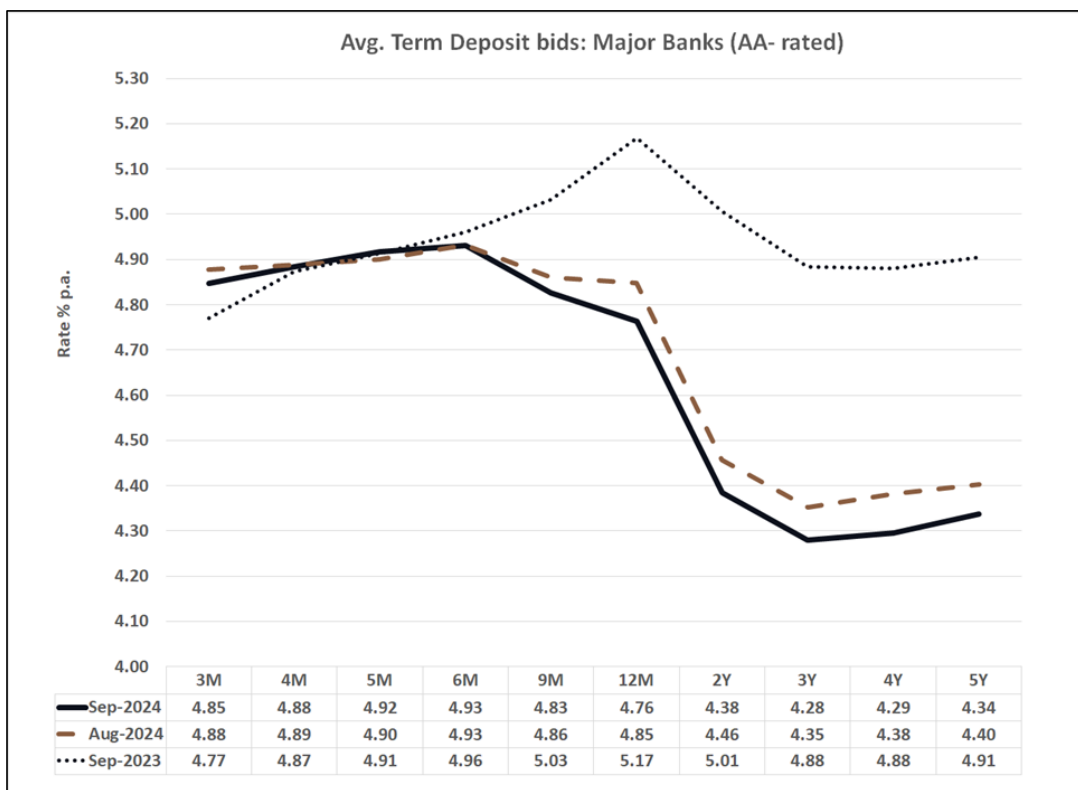
Arlo Advisory Pty Ltd
ABN: 55 668 191 795
Authorised Representative of InterPrac Financial Planning Pty Ltd
AFSL 246 638
Phone: +61 2 9053 2987
Email: michael.chandra@arloadvisory.com.au / melissa.villamin@arloadvisory.com.au
Level 3, Suite 304, 80 Elizabeth Street, Sydney NSW 2000



Market Update Summary

In September, risk markets continued their positive momentum, welcoming the US Federal Reserve’s decision to commence their easing cycle. Other developed central banks are poised to follow or continue in the same path over coming months.

In the deposit market, over September, the average deposit rates offered by the major banks remained below where they were the previous month (August) by around 5-10bp at the long-end of the curve. The overall deposit curve remains significantly inverse with rates now peaking at the 6 month term and then dropping across 1-5 year horizon (with the lowest rates offered in the 3 year tenor at around 4.30%), as the market aggressively factors in multiple rate cuts in 2025.



Source: Imperium Markets

With a global economic downturn and multiple interest rate cuts being priced in 2025, investors should consider diversifying and taking an ‘insurance policy’ against a potentially lower rate environment by investing across 1-5 year fixed deposits, targeting rates close to or above 4½% p.a. (small allocation only).



Kiama Municipal Council’s Portfolio & Compliance

Asset Allocation

The majority of the portfolio is directed to term deposits (83%), with the remainder in cash (17%).

Senior FRNs remain relatively attractive as spreads have generally widened over the past 3 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.

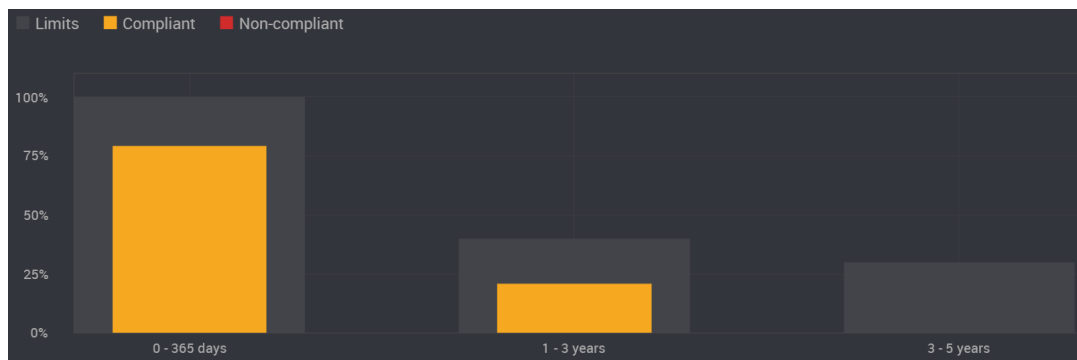
With multiple interest rate cuts and a global economic downturn being priced in coming years, investors can choose to allocate a small proportion of longer-term funds and undertake an insurance policy against any potential future rate cuts by investing across 1–5 year fixed deposits, locking in and targeting yields close to or above 4½% p.a. Should inflation remain within the RBA’s target band of 2–3% over the longer-term, returns around 4½% p.a. or higher should outperform benchmark.



Term to Maturity

The portfolio is highly liquid with the majority maturing within 1 year (~83%). 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	\$39,188,168	83.05%	0%	100%	\$6,643,728
✓	1 - 3 years	\$8,000,000	16.95%	0%	40%	\$9,031,539
✓	3 - 5 years	\$0	0.00%	0%	30%	\$11,756,450
✓	5 - 10 years	\$0	0.00%	0%	30%	\$11,756,450
		\$47,188,168	100.00%			

Counterparty

As at the end of the September, apart from the slight overweight position with ING (A), Council is within compliance of the Policy limits. The slight overweight position with ING (31.8% actual exposure versus 30% limit) has been due to the fall in the total portfolio size in recent months (from \$51.98m in May to \$47.19m in September). This is an immaterial and temporary breach and is of no concern. This should be easily rectified if 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 (\$)
✓	ANZ	AA-	\$8,000,000	16.95%	40%	\$10,875,267
✓	CBA	AA-	\$2,000,000	4.24%	40%	\$16,875,267
✓	Westpac	AA-	\$8,188,168	17.35%	40%	\$10,687,099
✓	NAB	AA-	\$11,000,000	23.31%	40%	\$7,875,267
X	ING	A	\$15,000,000	31.79%	30%	-\$843,550
✓	Bank of Us	BBB+	\$1,000,000	2.12%	15%	\$6,078,225
✓	BankVic	BBB+	\$2,000,000	4.24%	15%	\$5,078,225
			\$47,188,168	100.00%		

On 31st July 2024, ANZ’s takeover of Suncorp Bank was formalised, and ratings agency S&P upgraded Suncorp’s long-term credit rating to that of its parent company immediately (now rated AA-). Investor’s exposure to Suncorp is now reflected under the parent company being ANZ.



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 30/09/2024 (~\$47.19m), we can roughly estimate that ~94% 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
ANZ (inc. Suncorp)	AA-	Yes
CBA	AA-	Yes
WBC	AA-	Yes
NAB	AA-	Yes
ING	A	Yes
Bank of Us	BBB+	No
BankVIC	BBB+	No

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

Summary	Amount	Invested %
Yes	\$44,188,168	94%
No	\$3,000,000	6%
Total	\$47,188,168	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%	\$47,188,168
✓	AA Category	\$29,188,168	61.9%	100%	\$18,000,000
✓	A Category	\$15,000,000	31.8%	70%	\$18,031,717
✓	BBB Category	\$3,000,000	6.4%	30%	\$11,156,450
✓	Unrated Category	\$0	0.0%	0%	\$0
		\$47,188,168	100.0%		



Performance

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

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year
Official Cash Rate	0.35%	1.08%	2.16%	1.08%	4.34%
AusBond Bank Bill Index	0.36%	1.11%	2.21%	1.11%	4.41%
Council’s Portfolio[^]	0.44%	1.31%	2.60%	1.31%	5.21%
Outperformance	0.08%	0.20%	0.39%	0.20%	0.80%

[^]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%	4.35%	4.34%
AusBond Bank Bill Index	4.45%	4.50%	4.45%	4.50%	4.41%
Council’s Portfolio[^]	5.43%	5.31%	5.26%	5.31%	5.21%
Outperformance	0.97%	0.81%	0.81%	0.81%	0.80%

[^]Total portfolio performance excludes Council’s cash account holdings.

For the month of September, excluding cash, the total portfolio provided a return of +0.44% (actual) or +5.43% p.a. (annualised), outperforming the benchmark AusBond Bank Bill Index return of +0.36% (actual) or +4.45% p.a. (annualised). All time periods are now comfortably 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 multiple rate cuts and a global economic downturn is imminent and so locking in rates close to or above 4½% p.a. across 1-5 year tenors may provide some income protection against a lower rate environment.

As at the end of September 2024, Council's deposit portfolio was yielding around 5.25% p.a. (unchanged from the previous month), with a weighted average duration of 210 days (~7 months). ***We commend Council for extending its weighted average duration over the past ~ 6 months, reflective of investments in some 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 September, we see value in the following:

ADI	LT Credit Rating	Term	Rate % p.a.
Rabobank	A	5 years	4.70%
ING	A	5 years	4.51%
Westpac	AA-	5 years	4.50%
BoQ	A-	5 years	4.40%
Rabobank	A	4 years	4.55%
ING	A	4 years	4.42%
Westpac	AA-	4 years	4.40%
BoQ	A-	4 years	4.35%
Rabobank	A	3 years	4.40%
ING	A	3 years	4.36%
Westpac	AA-	3 years	4.35%
ING	A	2 years	4.43%
Westpac	AA-	2 years	4.42%
Hume Bank	BBB+	2 years	4.40%
NAB	AA-	2 years	4.35%
BoQ	A-	2 years	4.35%

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.
Arab Bank	Unrated	12 months	5.00%
ICBC	A	12 months	4.92%
NAB	AA-	12 months	4.90%
Bank of Sydney	Unrated	12 months	4.90%
Westpac	AA-	12 months	4.82%
Hume Bank	BBB+	12 months	4.78%
Arab Bank	Unrated	9 months	5.05%
ICBC	A	9 months	4.98%
NAB	AA-	9 months	4.95%
BoQ	A-	9 months	4.90%
Arab Bank	Unrated	6 months	5.10%
Suncorp	AA-	6 months	5.06%
NAB	AA-	6 months	5.05%
ICBC	A	6 months	5.04%
BoQ	A-	6 months	5.01%
Arab Bank	Unrated	3 months	5.10%
NAB	AA-	3 months	4.95%
Westpac	AA-	3 months	4.93%

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 can likely yield up to, on average, an extra ¼-½% p.a. higher compared to those investors that entirely invest in short-dated deposits (under 6-9 months).

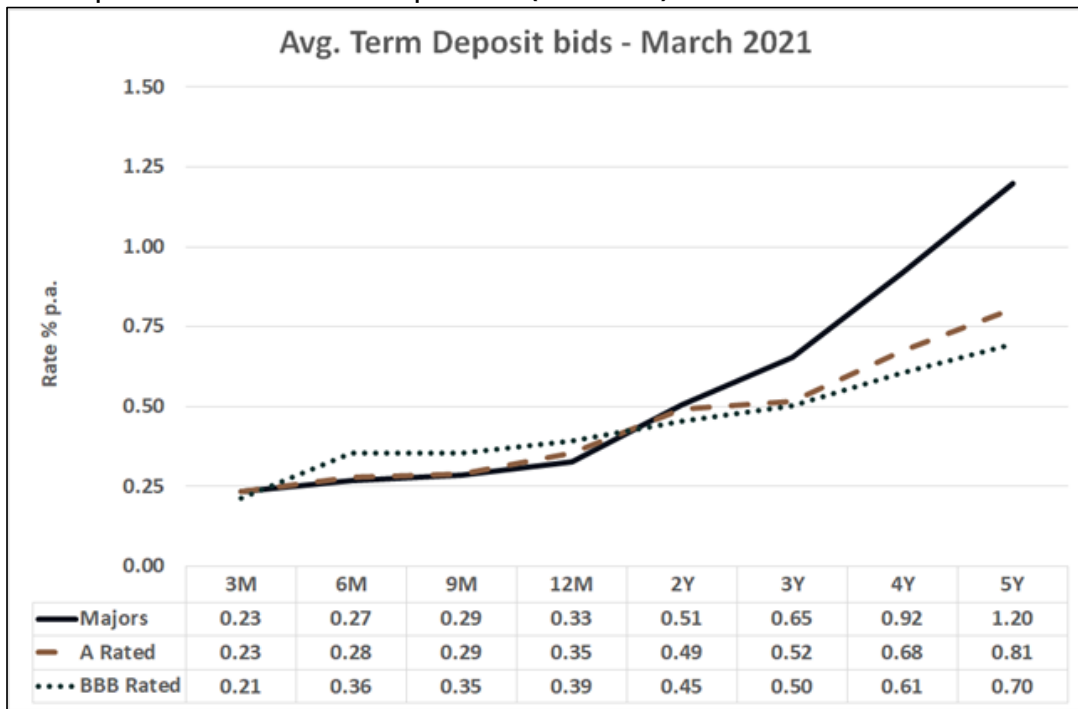
With a global economic slowdown and multiple interest rate cuts being priced over 2025, investors should strongly consider diversifying by allocating some longer term surplus funds and undertake an insurance policy by investing across 1-5 year fixed deposits and locking in rates above or close to 4½% p.a. This will provide some income protection with the RBA now potentially looking to cut rates in coming months.



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)



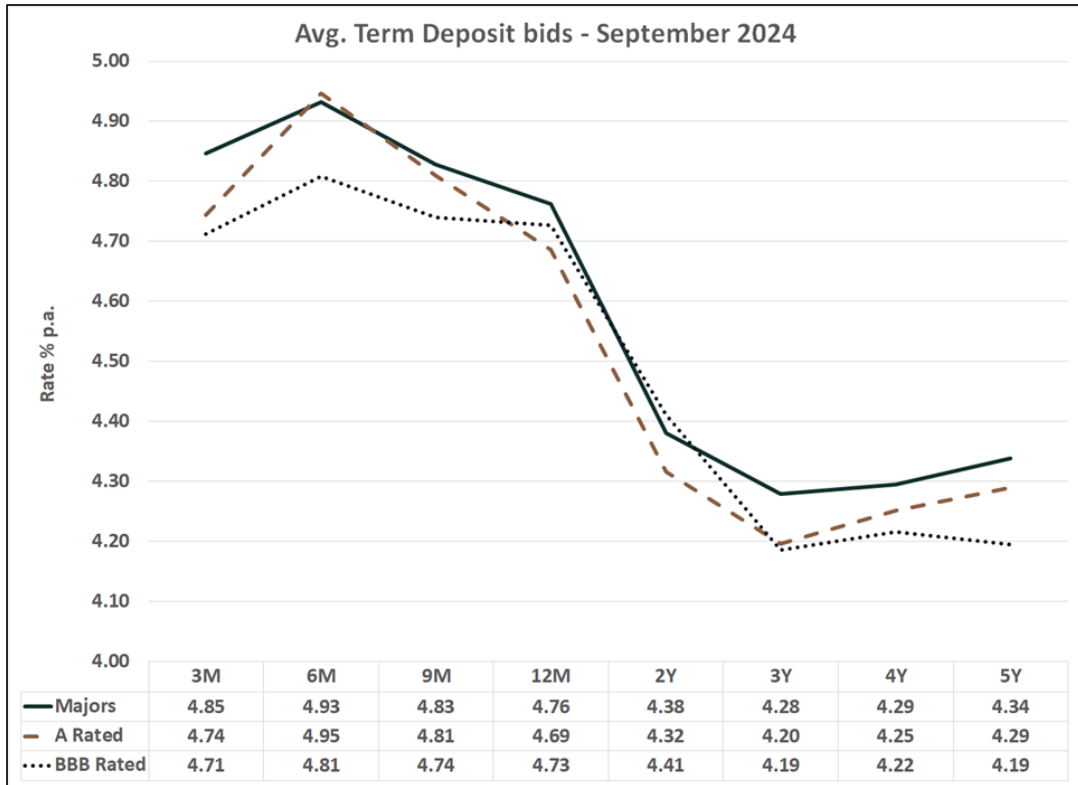
Source: Imperium Markets

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, although the major banks always seem to react more quickly than the rest of the market during periods of volatility:

Term Deposit Rates – Currently (September 2024)



Source: Imperium Markets

Regional & Unrated ADI Sector

Ratings agency S&P has commented that "mergers remain compelling for mutual 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.

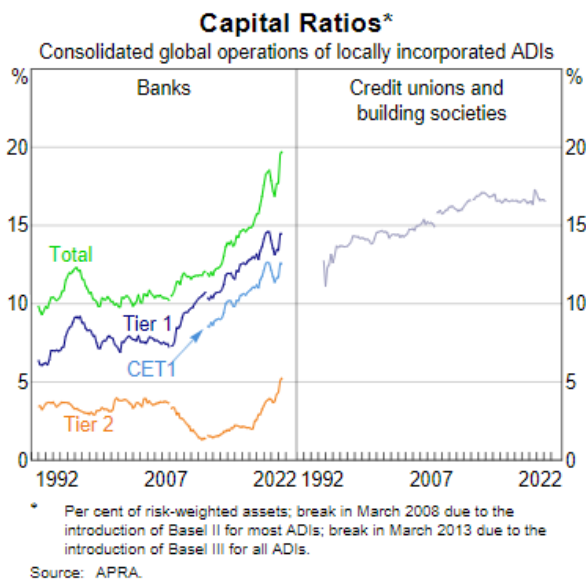
We remain supportive of the regional and unrated ADI sector (and have been even throughout the post-GFC period). They continue to remain solid, incorporate strong balance sheets, while exhibiting high levels of capital – typically, much higher compared to the higher rated ADIs. Some unrated ADIs have 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 than 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.

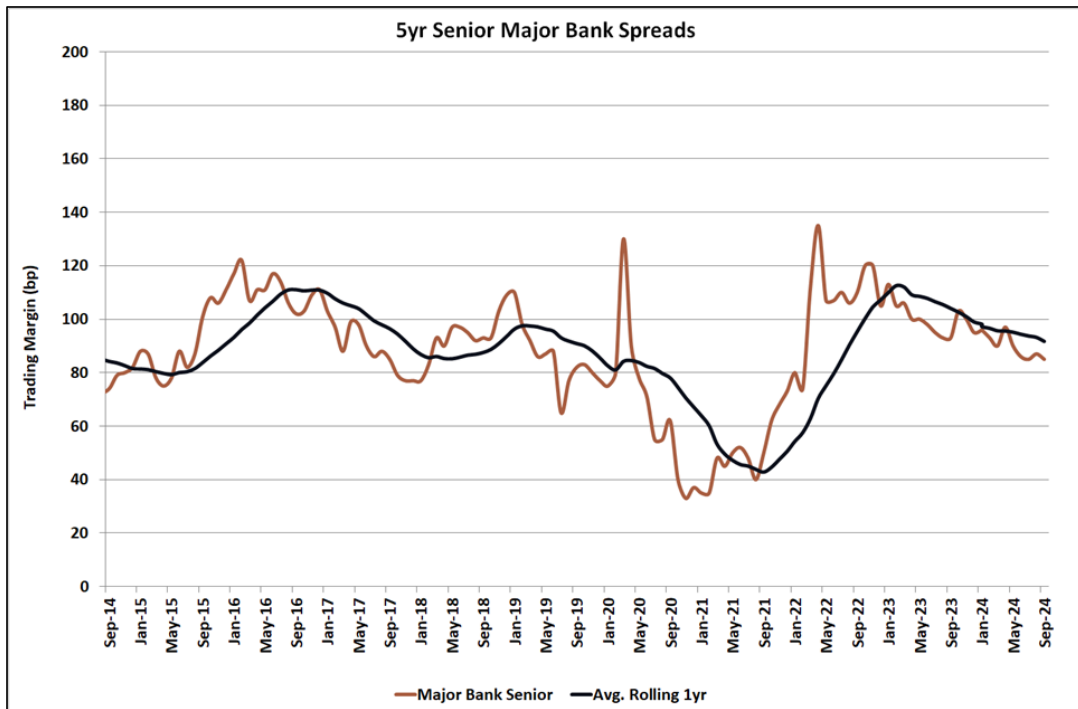
In the current environment of high regulation and scrutiny, all domestic (and international) ADIs continue to carry high levels of capital. There is minimal (if any) probability of any ADI defaulting on their deposits going forward – this was stress tested during the GFC and the pandemic period. APRA's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





Senior FRNs Market Review

Over September, amongst the senior major bank FRNs, physical credit securities remained relatively flat at the long-end of the curve. During the month, WBC (AA-) issued a 5 year senior deal at +85b, whilst Suncorp (AA-) issued a dual 3 & 5 year senior FRN at +74bp and +92bp 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:

- Auswide (BBB) 3 year senior FRN at +133bp
- AMP (BBB+) 3 year senior FRN at +127bp

Amongst the “A” and “BBB” rated sector, the securities marginally tightened at the longer-end of the curve. Overall, credit securities are looking more attractive given the widening of spreads over the past 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)	30/09/2024	30/08/2024
“AA” rated – 5yrs	+85bp	+87bp
“AA” rated – 3yrs	+66bp	+65bp
“A” rated – 5yrs	+102bp	+102bp
“A” rated – 3yrs	+82bp	+87bp
“BBB” rated – 3yrs	+127bp	+130bp

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 2026 for the “AA” rated ADIs (domestic major banks);
- On or before 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	1.41	1.1000%	4.35%
AU3CB0280030	BoQ	A-	Senior	06/05/2026	1.60	1.4000%	4.72%
AU3CB0299337	Bendigo	A-	Senior	15/05/2026	1.62	4.7000%	4.60%
AU3CB0296168	BoQ	A-	Senior	27/01/2027	2.33	4.7000%	4.64%
AU3CB0308955	BoQ	A-	Senior	30/04/2029	4.59	5.3580%	4.76%



Economic Commentary

International Market

In September, risk markets continued their positive momentum, welcoming the US Federal Reserve's decision to commence their easing cycle. Other developed central banks are poised to follow or continue in the same path over coming months.

Across equity markets, the S&P 500 Index rose +2.02% over the month, whilst the NASDAQ gained +2.68%. Europe's main indices were mixed, with positive returns in Germany's DAX (+2.21%) and France's CAC (+0.06%). UK's FTSE fell -1.67% for the month.

The US Fed opted for a 50bp rate cut, which was largely expected (and it's first cut since March 2020). Markets responded sharply, but then rowed back shortly afterwards as US Fed Chair Jerome Powell tried to downplay the significance of the move at the ensuing press conference, saying this was not a new pace, just a recalibration of policy.

The US economy added 142k jobs in August, slightly below the 163k forecast by economists. The unemployment rate was 4.2% in August, down from 4.3% in July.

US headline inflation rate was +0.2% m/m for August as expected, while core inflation came in slightly higher than expected at +0.3% m/m. The inflation rate was +2.5% y/y in August (down from +2.9% y/y in July), marking the slowest pace since February 2021.

The European Central Bank (ECB) cut rates by another 25bp to 3.50% as widely expected. An additional rate cut is expected in Q4.

The Bank of England (BoE) held rates steady at 5.00% as expected. Services inflation for August was up +0.4% to +5.6% y/y and core inflation was up +0.3% to +3.6% y/y.

Sweden's Riksbank cut rates by 25bp as expected. The statement said that *"if the outlook for inflation and economic activity remains unchanged, the policy rate may also be cut at the two remaining monetary policy meetings this year"*.

China consumer prices rose by +0.6% y/y in August, which was below expectations as transportation, home goods prices and rents declined. On a monthly basis, CPI grew +0.4% in August, slightly lower than the +0.5% recorded in July.

The MSCI World ex-Aus Index rose +1.64% for the month of September:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	+2.02%	+5.53%	+34.38%	+10.19%	+14.12%	+11.32%
MSCI World ex-AUS	+1.64%	+5.94%	+30.56%	+7.46%	+11.44%	+8.32%
S&P ASX 200 Accum. Index	+2.97%	+7.79%	+21.77%	+8.45%	+8.38%	+8.93%

Source: S&P, MSCI



Domestic Market

The RBA kept rates on hold at 4.35% as expected. The post-Meeting Statement was broadly in line with the Governor’s recent remarks where Ms Bullock again pushed back on market pricing for near-term cuts. The Statement also noted that “headline inflation will decline for a time, [but] underlying inflation is more indicative of inflation momentum, and it remains too high”.

The Monthly CPI Indicator fell to +2.7% y/y from +3.5% y/y as expected on fuel base effects and electricity subsidies. Services inflation remained elevated at +4.2% y/y, while goods and non-tradables inflation fell, also driven by electricity.

The unemployment rate remained at 4.2% (falling from 4.24% to 4.16% at the second decimal place). Employment growth was a strong +47k. With trend employment growth steady near +40k, the labour market has been ably absorbing strong supply growth amid high participation and elevated population growth.

GDP rose by +0.2% q/q (+1.0% y/y), which was in line with consensus. Consumption was weaker than expected, while the other components were largely in line with the partials – business and dwelling investment made no contribution while net exports and public demand were key supports.

Export values rose +0.8% to \$43.8bn in July, remaining comfortably higher than pre-pandemic peak of \$36 billion, but are now well below the peak of \$55bn in June 2022 that was driven by the short-lived surge in coal export values.

Dwelling approvals bounced +10.4% higher in June (consensus +3% m/m). That more than unwinds the 6.4% fall in June.

The Australian dollar gained another +1.85%, finishing the month at US69.32 cents (from US68.06 cents the previous month).

Credit Market

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

Index	September 2024	August 2024
CDX North American 5yr CDS	53bp	50bp
iTraxx Europe 5yr CDS	59bp	52bp
iTraxx Australia 5yr CDS	63bp	64bp

Source: Markit



Fixed Interest Review

Benchmark Index Returns

Index	September 2024	August 2024
Bloomberg AusBond Bank Bill Index (0+YR)	+0.36%	+0.38%
Bloomberg AusBond Composite Bond Index (0+YR)	+0.31%	+1.21%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.43%	+0.43%
Bloomberg AusBond Credit Index (0+YR)	+0.54%	+0.93%
Bloomberg AusBond Treasury Index (0+YR)	+0.24%	+1.16%
Bloomberg AusBond Inflation Gov't Index (0+YR)	+0.63%	+0.57%

Source: Bloomberg

Other Key Rates

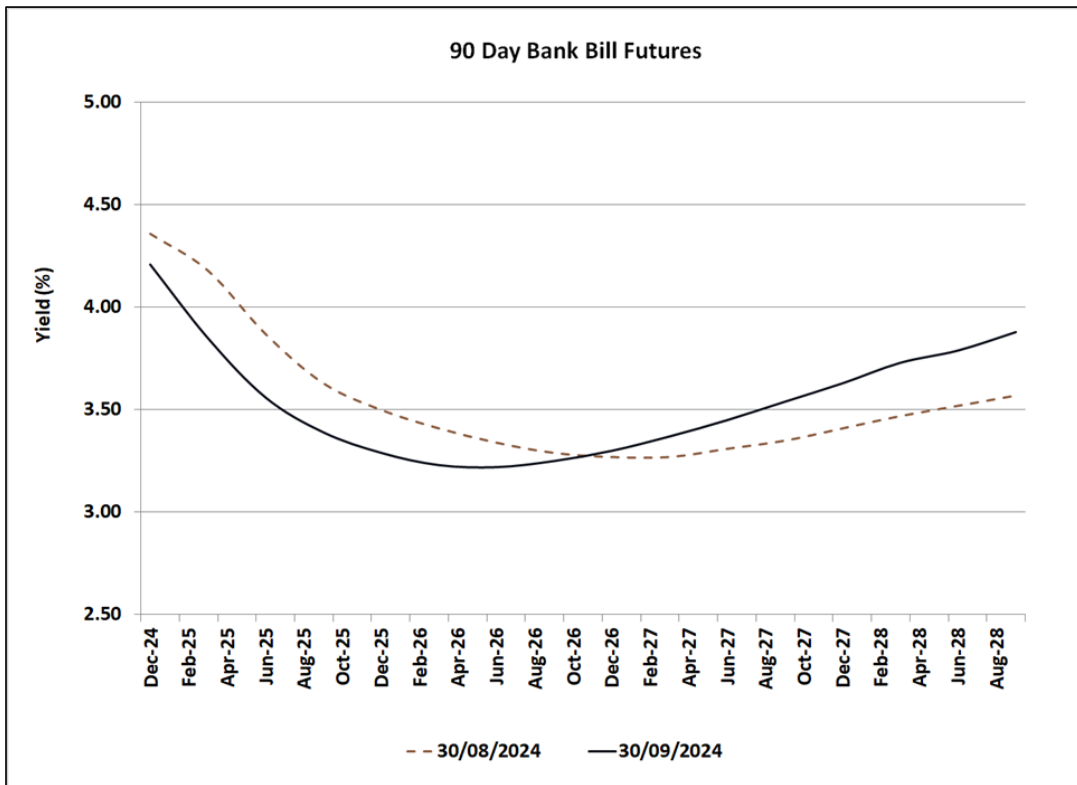
Index	September 2024	August 2024
RBA Official Cash Rate	4.35%	4.35%
90 Day (3 month) BBSW Rate	4.43%	4.39%
3yr Australian Government Bonds	3.53%	3.54%
10yr Australian Government Bonds	3.99%	3.93%
US Fed Funds Rate	4.75%-5.00%	5.25%-5.50%
2yr US Treasury Bonds	3.66%	3.91%
10yr US Treasury Bonds	3.81%	3.91%

Source: RBA, ASX, US Department of Treasury



90 Day Bill Futures

Bill futures fell at the short-end this month in response to expectations of impending interest rate cuts in early 2025.



Source: ASX

Item 14.2
Attachment 1

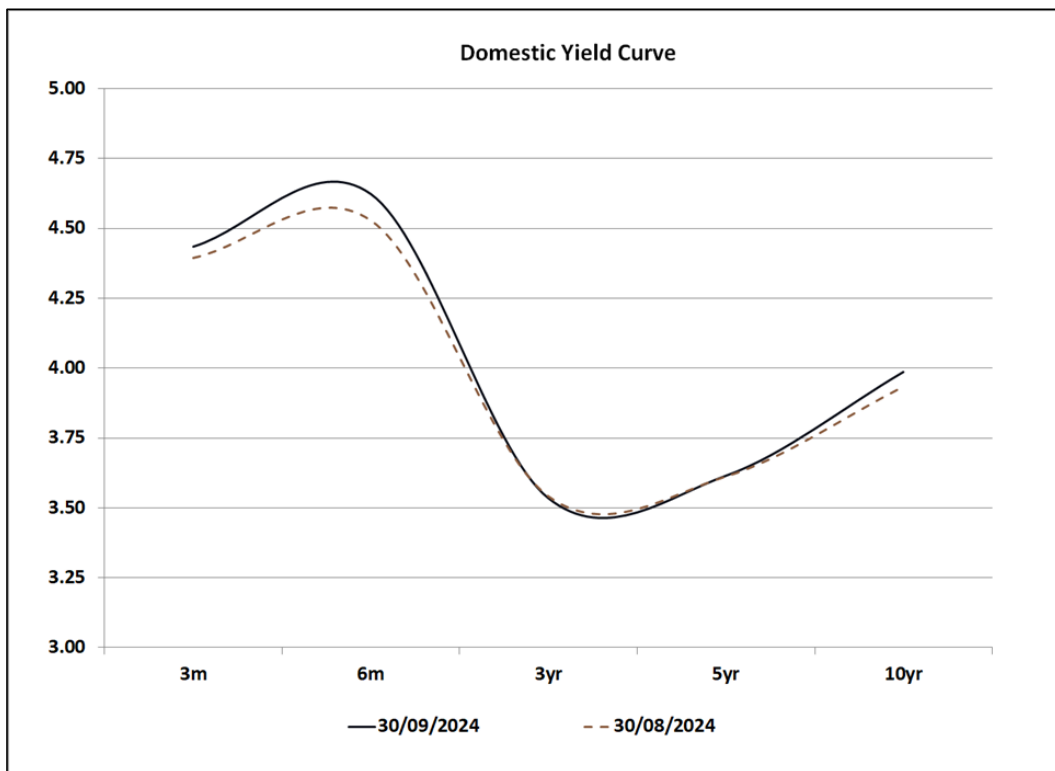


Fixed Interest Outlook

The updated US Fed dot plot shows a median rate of 4.375% by the end of 2024, implying a further 50bp of cuts out of the remaining two meetings of the year. For 2025, the median dot is for a further 100bp of cuts (to 3.375%), then a further 50bp in 2026 (to 2.875%) in 2026. This 2.875% level is also now the new Fed estimate of the 'long run' or neutral rate.

The RBA continues to push back on any immediate talks of rate cuts. Governor Bullock reiterated that official rates are not as restrictive in Australia as offshore: *"Most of those countries had official interest rates up around five or over 5% so in our judgment, we look at how restrictive some of those countries are relative to us...we're restrictive, but we think they're more restrictive than us"*.

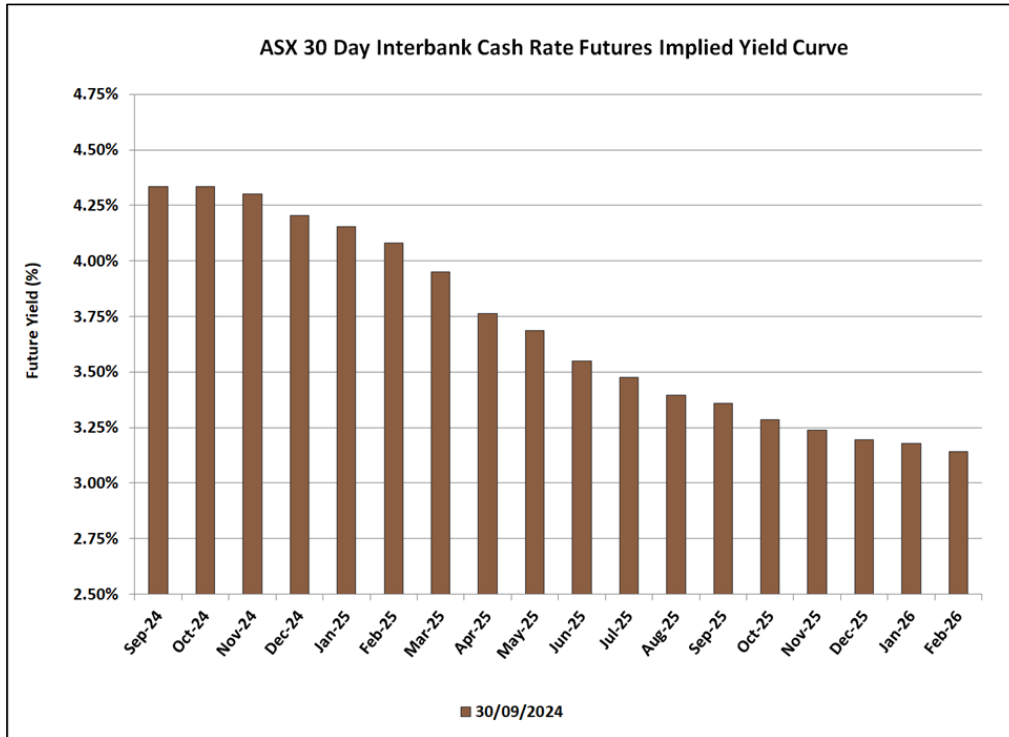
Over the month, longer-term yields remained relatively flat at the very long end of the curve (but remains an inverse yield curve):



Source: ASX, RBA



Financial markets have pushed forward their expectations of rate cuts, with the first cut pencilled in by Q1 2025, with 100-125bp of cuts priced by the end of 2025.



Source: ASX

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