

Ordinary Meeting

Meeting Date: Tuesday, 26 September, 2017

Location: Council Chambers, City Administrative Building, Bridge Road, Nowra

Addendum Attachments (Under Separate Cover)

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Monthly Report

Shoalhaven City Council

August 2017

CL17.271 - Attachment 1



Market

We refer to our more detailed *Economic Commentary* for the month.

International Markets

The Dow Jones and S&P500 gained +0.65% and +0.31% respectively, and the NASDAQ Composite +1.43% - all setting records. The MSCI World ex-AUS gained +0.14% and the MSCI Emerging Markets Index +2.11% (both in local currency). US 10-year yields finished -18bps lower at 2.12% but Australia underperformed with a +3bp rise to 2.66%. High yield spreads widened on a new Tesla bond.

Treasury Secretary Mnuchin flagged a push for tax cuts, aiming for 2017 delivery. The debt ceiling is reached by mid-September - with a shutdown possible. The USA's first Cat 3+ hurricane since 2005 will test rescue readiness, as Harvey brought substantial loss of life and record flooding.

More missile and nuclear tests from North Korea led to talk of further sanctions and potentially a first strike – Beijing flagged that it would defend DPRK but not if they bombed foreign soil. Pres Trump also increased the troop commitment to Afghanistan.

Q2 US GDP was revised up to +3%, with a similar Q3 forecast. Another +200k nonfarm payrolls indicated reasonable momentum for late cycle. Unemployment eased to 4.3%, under 7m persons for a quarter now. US CPI was +1.7% (+0.1%), led by energy, food, medical care, commodities and transportation.

ECB head Draghi flagged policy remaining extraordinarily easy until productivity accelerates. However, with the revision of Q2 to +0.6%, GDP matches the US at +2.2% YoY. EU unemployment was steady at 9.1% with youth unemployment rising to 19.1%. July CPI shocked with -0.5%, but the year was +1.5%.

The EU's Brexit talks with the UK were hostile with little common ground.

Domestic

The Commonwealth Bank admitted systemic failure to comply with anti money laundering laws, facing a theoretical maximum fine of \$921bn and a lawsuit.

The ASX200 finished just +0.71% up, despite strong gains in Resources. Smallcaps outperformed. The cash rate remained 1.5% in August; RBA minutes were more confident about jobs but notes household debt. Their CPI forecast is 2% for 2018, the bottom of the target band. Inflation was +1.9%. Wages grew just +1.6% (+1.8% for fulltime). Retail sales rose +0.3%.

Total employment rose +27.9k vs +20k (revised); unemployment fell to 5.6% from 5.7% (revised) as participation increased. While full-time jobs contracted, this reflected an abnormally high July reading.

Credit grew by +0.5% for the month (+5.3% YoY, moderating from +6.0%). Housing credit growth was unchanged at +6.6%. Business credit grew by +4.2% YoY, +0.5% in July. Q2 real capex surprised with +0.8%; FY18 estimates are -3.6%.

Construction work jumped +9.3% in Q2, a rise of \$4.4bn, or 1.1% of GDP- well above expectations. But leading indicator building approvals dived. Unit approvals were -6.7% in July, and -29.5% YoY. Overall dwelling approvals fell -1.7%, to be -13.9% YoY. The trade surplus contracted to \$856m (from \$2.0bn).

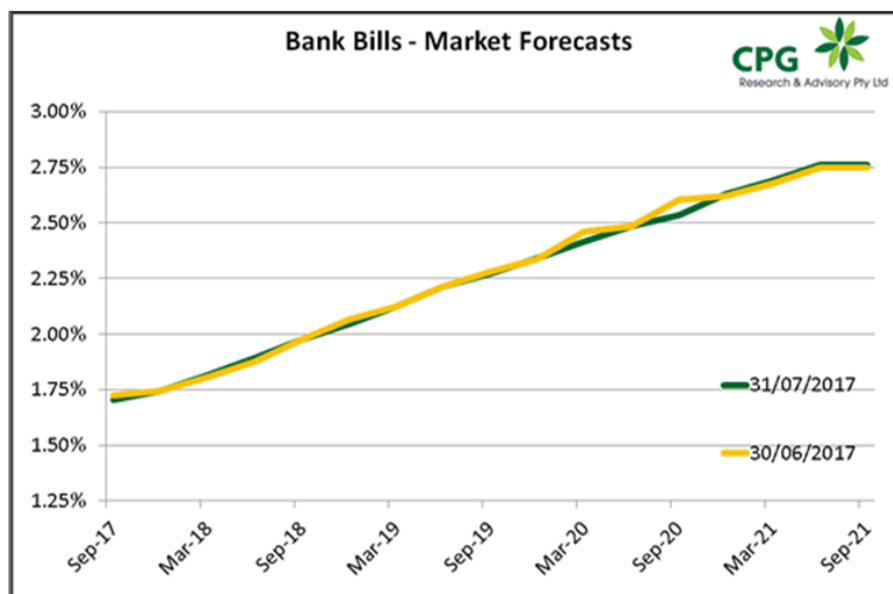
Other Markets

WTI oil pulled back from its month-end spike to \$50, closing \$47.35/bbl (-4.52%). Gold rose to US\$1,324 (+4.6%). The \$A slid a cent to US79c.

Iron Ore continued rallying to \$76.5 (+9.3%). Base metals also soared, with Zinc (+14%), Nickel (+17.4%), Copper (+7.5%) and Aluminium (+11.3%) all sharply higher on both war and hurricane news.



Bill futures were forecasting marginally higher rates in August as bonds ignored positive offshore leads. Soaring commodity prices particularly benefit the local economy:



The RBA faces the dilemma of **wanting to normalise interest rates**, having attempted to prepare the market for that, but **not wanting the stronger \$A that tends to accompany higher rates**. Q2 GDP coming in above trend worsens their dilemma.

The market is positioned for 100bp of increases in the distant future, taking over 4 years; this leaves considerable possibility for bonds to disappoint with a faster interest rate path.

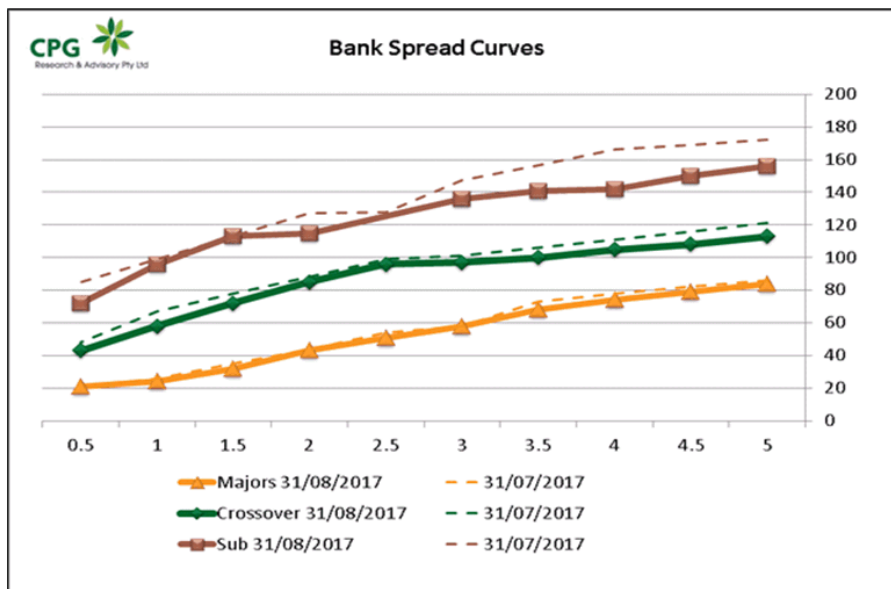
Credit Market

The iTraxx Australia tightened by 6bp, while the iTraxx European and CDX IG North American widened marginally. High yield CDS moved only slightly, although the physical indices were wider after a large Tesla issue traded poorly after issue.

Credit Indices	31 Aug 17	31 Jul 17	31 Aug 16
iTraxx Australia 5 Yr CDS	71bp	77bp	100bp
iTraxx European 5 Yr CDS	55bp	53bp	68bp
CDX IG North American 5 Yr CDS	58bp	57bp	73bp
CDX HY North American 5 Yr CDS	326bp	321bp	393bp

Source: Markit

Major bank FRNs tightened marginally, with larger moves in sub debt and the split-rated banks:

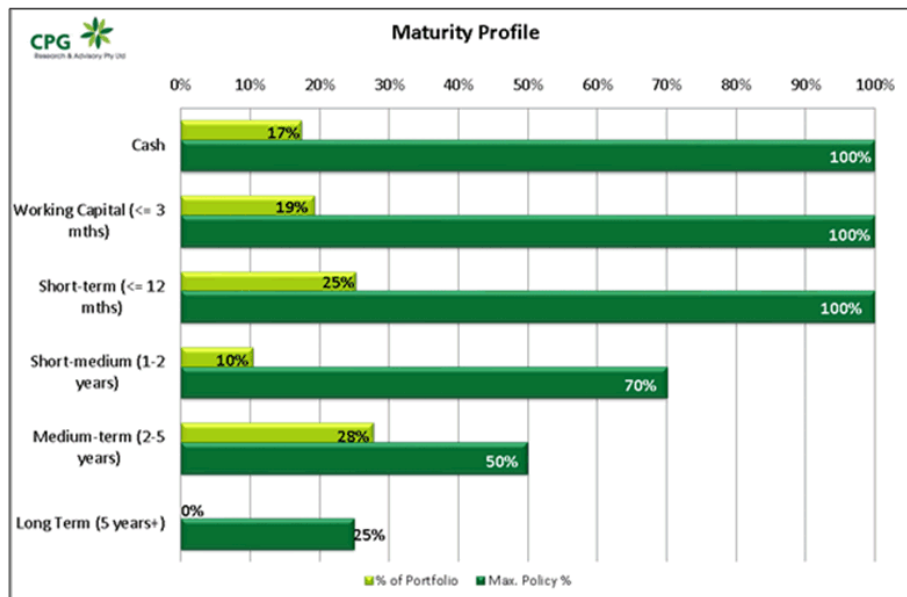


CL17.271 - Attachment 1



Council's Portfolio

The portfolio has reasonable liquidity, with 17% of investments available at-call and a further 19% of assets maturing within 3 months. Council has a reasonable allocation to securities and Macquarie fund, for additional liquidity requirements.



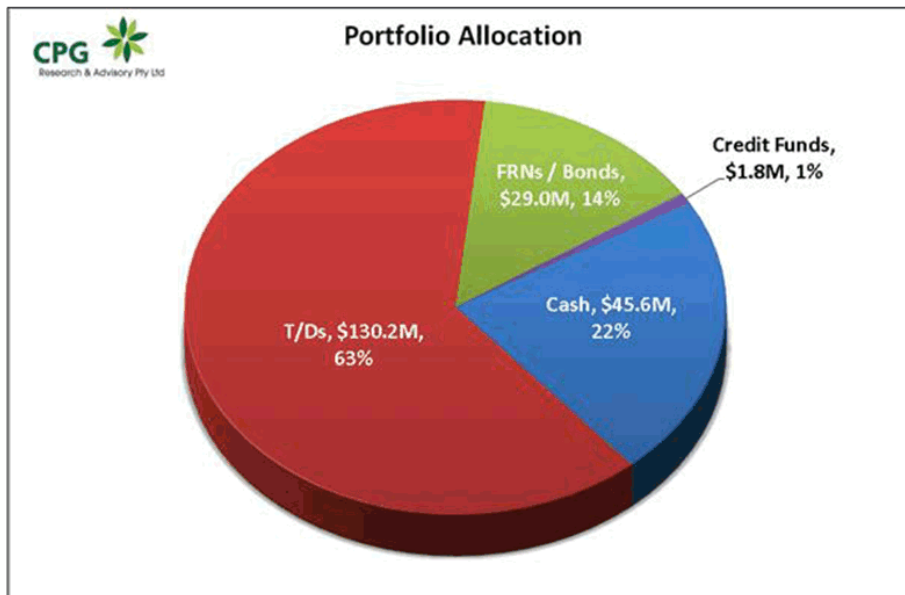
The portfolio is well spread across maturities and council is strategically increasing allocation towards medium term assets, with sufficient capacity to utilise for further investments, addressing rollover risk.

Lower rated ADI show around +105bp margins (-12bp lower) for a 4 to 5 year deposit, with Westpac's 5-year floating or structured deposits the standout higher rated offering, at +100bp.

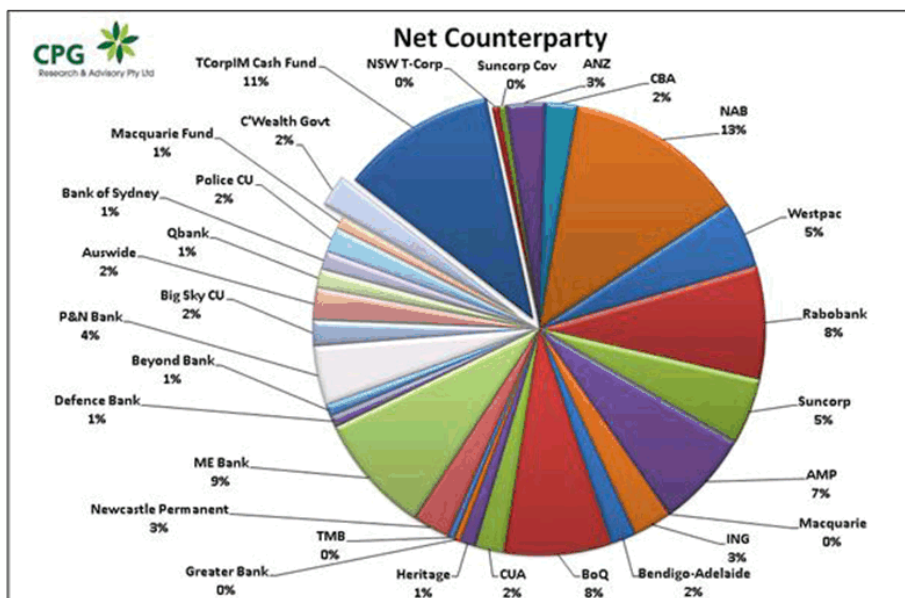
Rates generally tracked bond yields higher around mid-year; they have been drifting lower since.

A "horizon-based" approach to FRNs renders most assets "short-medium" intended holding period, and quite a few FRNs approaching their sale point as short-term. In the near term, we also seek to take profits on the rally in credit markets, looking to sell major bank FRNs (at least out to the medium term)

Council's portfolio is mainly directed towards deposits at 63% of the total assets, with the rest in liquid securities and cash.



The investment portfolio is well diversified in complying assets across the entire credit spectrum; with NAB prominent (inclusive of NAB at-call balance).

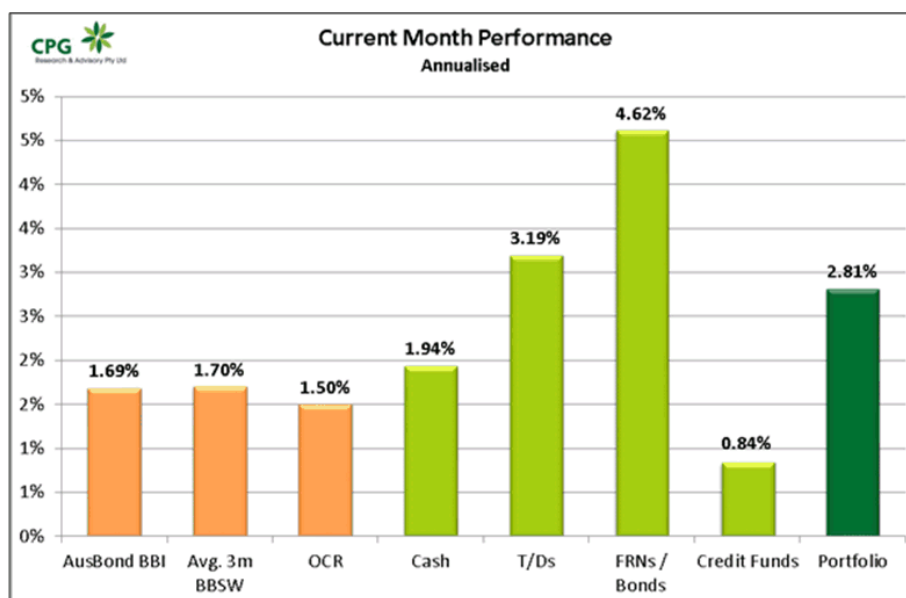




Returns - Accrual

Actual	1 month	3 months	6 months	FYTD	1 year	2 years	3 years	4 years	5 years
Official Cash Rate	0.13%	0.38%	0.75%	0.25%	1.50%	1.70%	1.89%	2.04%	2.23%
Avg. 3m BBSW	0.14%	0.43%	0.87%	0.29%	1.75%	1.95%	2.11%	2.24%	2.39%
AusBond Bank Bill Index	0.14%	0.43%	0.88%	0.29%	1.76%	1.99%	2.16%	2.29%	2.46%
Council Cash	0.16%	0.53%	1.10%	0.35%	2.17%	2.33%	2.54%	2.63%	2.75%
Council T/Ds	0.27%	0.83%	1.72%	0.55%	3.47%	3.59%	3.72%	3.75%	3.89%
Council FRNs / Bonds	0.38%	0.87%	1.64%	0.63%	3.16%	3.24%	3.40%	-	-
Council Credit Funds	0.07%	0.91%	2.56%	0.61%	4.28%	3.77%	3.08%	3.49%	4.40%
Council Total Portfolio	0.24%	0.72%	1.48%	0.48%	3.06%	3.27%	3.44%	3.53%	3.71%
Annualised	1 month	3 months	6 months	FYTD	1 year	2 years	3 years	4 years	5 years
Official Cash Rate	1.50%	1.50%	1.50%	1.50%	1.50%	1.70%	1.89%	2.04%	2.23%
Avg. 3m BBSW	1.70%	1.71%	1.73%	1.70%	1.75%	1.95%	2.11%	2.24%	2.39%
AusBond Bank Bill Index	1.69%	1.72%	1.76%	1.71%	1.76%	1.99%	2.16%	2.29%	2.46%
Council Cash	1.94%	2.13%	2.20%	2.05%	2.17%	2.33%	2.54%	2.63%	2.75%
Council T/Ds	3.19%	3.35%	3.45%	3.28%	3.47%	3.59%	3.72%	3.75%	3.89%
Council FRNs / Bonds	4.62%	3.50%	3.29%	3.77%	3.16%	3.24%	3.40%	-	-
Council Credit Funds	0.84%	3.67%	5.14%	3.67%	4.28%	3.77%	3.08%	3.49%	4.40%
Council Total Portfolio	2.81%	2.88%	2.96%	2.86%	3.06%	3.27%	3.44%	3.53%	3.71%

The Investment portfolio returned a strong 2.81% p.a. for the month of August, exceeding the benchmark AusBond Bank Bill Index (1.69% p.a.) by +112bp.



Credit had a flat month, underperforming for the first time in around 18 months.

Conversely, significant profits were realised on direct credit – while bank spreads outperformed corporate credit, most of the annualised return came from realising prior months' gains.



Credit Quality

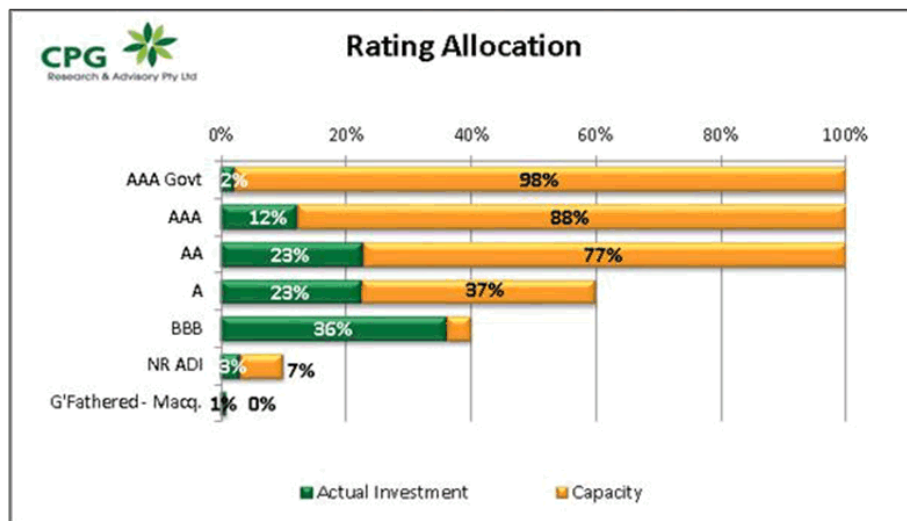
Based on the newly adopted policy in Aug 2017, Council's current position is as follows:

All ADIs comply with the policy requirements.

Rating Category	Actual	Per C/Party	Aggregate	Rating Category	Actual Investment	Capacity
AAA Govt	2%	100%	100%	AAA Govt	2%	98%
AAA	12%	40%	100%	AAA	12%	88%
AA	23%	30%	100%	AA	23%	77%
A	23%	15%	60%	A	23%	37%
BBB	36%	10%	40%	BBB	36%	4%
NR ADI	3%	5%	10%	NR ADI	3%	7%
G'Fathered - Macq.	1%	1%	1%	G'Fathered - Macq.	1%	0%

Credit quality is mostly directed towards the higher rated ADIs, with opportunistic exposure towards investment grade BBB rated.

We understand that the lower rated ADIs increasingly offer higher spreads in comparison to the higher rated – however, we believe some of the recent proposition from Westpac floating rate deposit and major bank FRNs can be looked at.





Other Compliance

We have tested the portfolio provided against Council's current investment policy and report the following:

All counterparties comply **and no overweight towards any single ADI**.

Counterparties	Exposure \$M	FCS	Net	Rating	Policy Limit	Actual	Capacity
TCorpIM Cash Fund	\$22.95M	\$0.00M	\$22.95M	AAA	40%	11%	\$59.69M
NSW T-Corp	\$1.03M	\$0.00M	\$1.03M	AAA	40%	0%	\$81.61M
Suncorp Cov	\$1.00M	\$0.00M	\$1.00M	AAA	35%	0%	\$71.89M
ANZ	\$6.00M	\$0.25M	\$5.75M	AA-	30%	3%	\$56.23M
CBA	\$5.00M	\$0.25M	\$4.75M	AA-	30%	2%	\$57.23M
NAB	\$27.24M	\$0.25M	\$26.99M	AA-	30%	13%	\$34.99M
Westpac	\$10.00M	\$0.25M	\$9.75M	AA-	30%	5%	\$52.23M
Rabobank	\$17.00M	\$0.25M	\$16.75M	A+	15%	8%	\$14.24M
Suncorp	\$10.00M	\$0.25M	\$9.75M	A+	15%	5%	\$21.24M
AMP	\$14.56M	\$0.25M	\$14.31M	A	15%	7%	\$16.68M
Macquarie	\$0.00M	\$0.00M	\$0.00M	A	15%	0%	\$30.99M
ING	\$6.00M	\$0.25M	\$5.75M	A	15%	3%	\$25.24M
Bendigo-Adelaide	\$4.00M	\$0.25M	\$3.75M	BBB+	10%	2%	\$16.91M
BoQ	\$16.00M	\$0.25M	\$15.75M	BBB+	10%	8%	\$4.91M
CUA	\$4.25M	\$0.00M	\$4.25M	BBB+	10%	2%	\$16.41M
Heritage	\$2.25M	\$0.00M	\$2.25M	BBB+	10%	1%	\$18.41M
Police Bank	\$0.00M	\$0.00M	\$0.00M	BBB+	10%	0%	\$20.66M
Greater Bank	\$1.00M	\$0.00M	\$1.00M	BBB+	10%	0%	\$19.66M
TMB	\$1.00M	\$0.00M	\$1.00M	BBB+	10%	0%	\$19.66M
Newcastle Permanent	\$5.50M	\$0.00M	\$5.50M	BBB	10%	3%	\$15.16M
ME Bank	\$18.00M	\$0.25M	\$17.75M	BBB	10%	9%	\$2.91M
Defence Bank	\$2.00M	\$0.25M	\$1.75M	BBB	10%	1%	\$18.91M
Beyond Bank	\$2.00M	\$0.25M	\$1.75M	BBB	10%	1%	\$18.91M
P&N Bank	\$9.00M	\$0.25M	\$8.75M	BBB	10%	4%	\$11.91M
Big Sky CU	\$4.00M	\$0.25M	\$3.75M	BBB	10%	2%	\$16.91M
Auswide	\$5.00M	\$0.25M	\$4.75M	BBB-	10%	2%	\$15.91M
Qbank	\$3.00M	\$0.25M	\$2.75M	BBB-	10%	1%	\$17.91M
Bank of Sydney	\$3.00M	\$0.25M	\$2.75M	NR	5%	1%	\$7.58M
Police CU	\$4.00M	\$0.25M	\$3.75M	NR	5%	2%	\$6.58M
Macquarie Fund	\$1.82M	\$0.00M	\$1.82M	NR	1%	1%	\$0.00M
	\$206.60M		\$201.85M			98%	
C'wealth Govt		\$4.8M	\$4.75M	AAA	100%	2%	
Total	\$206.60M		\$206.60M			100%	



Term Deposits

At month-end, deposits accounted for approximately 63% of the total investment portfolio. The weighted average duration of the deposit portfolio is approximately **1.5 years, slightly lower from previous month but lengthened ahead of interest rate fall.**

Maintaining a longer duration will provide protection to Council's budgeted income for the new FY18. The current average yield of **3.09% remains above any deposit up to 3 years in today's market**, around +120bp over bank bills.

Relevant portfolio data follows:

Term Deposit Statistics

Percentage of total portfolio	63%
Weighted Average Yield	3.09%
Weighted Average Duration	1.5 yrs

Credit Quality of Deposits

AAA^	1%
AA	28%
A	22%
BBB	45%
Unrated ADI	5%
Total	100%

[^] Calculation excludes the Financial Claims Scheme (FCS)

At the longer end, rates were little changed despite slightly higher swap rates, squeezing deposit margins lower – the 5 year rate reached 3.55%.

We refer to the detailed analysis in our August **Fixed Interest Analytics**. It is important to note the increased uncertainty – central banks appear to have moved beyond the decade of easy policy.

Domestically, the RBA left the cash rate unchanged at 1.5%, minutes (and September comments) shows a clear lift in confidence around the labour market but emphasis on household debt risks. They appear disinclined to spook the market at this point, as any more "hawkish" comments tend to drive up the \$A.

We suggest floating rate T/Ds are worth consideration – e.g. Westpac 5-year floating at ~+100bp is good value and we have continued to recommend it.



FRNs & Fixed Bonds

Major bank credit rallied slightly, mostly in the middle of the curve, tightening by up to 3bp. CBA's latest issue at +88bp from late July is marked around +84bp. This is near post-GFC tightness, which reached around +80bp in 2010.

For most of their life, there is little excess return in prospect from FRNs, although there is a small new issue premium.

More important is their role in:

- Maintaining target returns in an environment of few A rated institutions; a rolling FRN strategy should at least keep up with medium-term deposits of lesser rating.
- Liquidity
- The potential for a rising interest rate environment

The curve is relatively flat, with the expectation of deposit-like returns. Anything maturing in the 2019 area is now sub-economic, and even the 2020s are only accruing in line with deposits of equivalent term.

Major bank spreads are likely to issue around mid-80's for future issues.

Council sold \$8.6M worth FRNs last month realising a capital gain of around \$45k.

We continue to recommend gradual sell down of FRN portfolio, considering specific new issues where the yield is satisfactory in combination with longer deposits.

We are working with Council to identify sale opportunities which would further assist in reducing the allocation to fossil fuel lenders.



ESG and Divestment

Council has introduced a “soft divestment” instruction which looks to identify, and preferentially direct investment away from, lenders to fossil fuels.

As at August 2017, the institutions totalled 44% of Council’s investment portfolio, including TCorpIM Cash fund, down from 48% in July and 50% at commencement of the divestment process.

The highlighted list is as follows:

Fossil Fuel Counterparties	Exposure \$M	FCS	Net	Rating	Policy Limit	Gross	Invested in Fossils
ANZ	\$6.00M	\$0.25M	\$5.75M	AA-	30%	3%	Yes
CBA	\$5.00M	\$0.25M	\$4.75M	AA-	30%	2%	Yes
NAB	\$27.24M	\$0.25M	\$26.99M	AA-	30%	13%	Yes
Westpac	\$10.00M	\$0.25M	\$9.75M	AA-	30%	5%	Yes
AMP	\$14.56M	\$0.25M	\$14.31M	A	15%	7%	Yes*
Macquarie	\$0.00M	\$0.00M	\$0.00M	A	15%	0.0%	Yes
ING	\$6.00M	\$0.25M	\$5.75M	Split A	15%	3%	Yes
TCorpIM Cash Fund	\$22.95M	\$0.00M	\$22.95M	AAA	40%	11%	Yes
	\$91.75M		\$90.25M			44%	
Total	\$206.60M		\$206.60M				

* Note also AMP Life, AMP Capital have investments in coal and gas companies

Issues we raised at a recent workshop include:

- The effect of divesting effective all of the A or AA banks, and that a greater BBB limit would assist with transition over time.
- Inclusion of TCorpIM – it was concluded that the funds are significantly directed to assets that directly participate (major banks, the NSW government)
- Whether it is appropriate to look through AMP Capital (which includes index funds) when assessing AMP Bank
- The treatment of a bank that ceased lending to fossil fuel industries, during the period over which loans are being run off (whether the objective of the Policy was in fact to get banks to stop lending or wait until all loans have run off)
- The effectiveness of dialogue, forcing fossil fuel lenders to engage with Council’s objections, escalate and respond officially
- There was no desire by Council to differentiate “coal free” from “fossil-fuel free”
- There was the intention to differentiate between the general investment products, vs Green Bonds (which are hypothecated to new environmental initiatives) and Covered Bonds (which securitise only residential mortgages, and do not reference corporate loans that will contain fossil fuel components).

An amended Policy draft was provided, and on final resolution and adoption we will amend reports and take note in day-to-day strategy.



Portfolio Listing

Shoalhaven City Council as at 31/08/2017						
Authorised Deposit-Taking Institution (ADI)	ST Rating	Security Type	Principal/ Current MF Value	Term	Interest Rate	Maturity Date
Rabobank	A1+	TD	\$3,000,000.00	32	1.85%	4-Sep-17
National Australia Bank	A1+	TD	\$4,000,000.00	92	2.46%	13-Sep-17
Police and Nurses Bank	A2	TD	\$2,000,000.00	1096	4.00%	18-Sep-17
National Australia Bank	A1+	TD	\$5,000,000.00	55	2.15%	27-Sep-17
ING Bank (Australia) Ltd	A2	TD	\$3,000,000.00	189	2.70%	27-Sep-17
State Insurance Regulatory Authority	A1+	TD	\$1,026,000.00	365	2.72%	4-Oct-17
Suncorp Metway Ltd Bank	A1	TD	\$2,000,000.00	155	2.60%	15-Nov-17
National Australia Bank	A1+	TD	\$2,000,000.00	217	2.55%	29-Nov-17
ING Bank (Australia) Ltd	A2	TD	\$3,000,000.00	204	2.60%	20-Dec-17
National Australia Bank	A1+	TD	\$75,000.00	365	2.55%	23-Dec-17
Suncorp Metway Ltd Bank	A1	TD	\$3,000,000.00	214	2.60%	30-Dec-17
National Australia Bank	A1+	TD	\$2,000,000.00	161	2.46%	17-Jan-18
National Australia Bank	A1+	TD	\$3,000,000.00	166	2.47%	24-Jan-18
Suncorp Metway Ltd Bank	A1	TD	\$2,000,000.00	233	2.60%	24-Jan-18
Bank of Sydney	NR	TD	\$3,000,000.00	194	2.60%	21-Feb-18
Members Equity Bank	A2	TD	\$2,000,000.00	182	2.55%	21-Feb-18
Members Equity Bank	A2	TD	\$1,000,000.00	367	2.62%	5-Mar-18
Members Equity Bank	A2	TD	\$2,000,000.00	201	2.55%	14-Mar-18
Members Equity Bank	A2	TD	\$2,000,000.00	215	2.55%	28-Mar-18
Members Equity Bank	A2	TD	\$2,000,000.00	217	2.55%	28-Mar-18
Members Equity Bank	A2	TD	\$2,000,000.00	223	2.52%	11-Apr-18
Members Equity Bank	A2	TD	\$3,000,000.00	237	2.57%	25-Apr-18
Qbank	NR	TD	\$2,000,000.00	365	2.75%	18-May-18
Rabobank	A1+	TD	\$2,000,000.00	1463	4.25%	6-Jun-18
Police Credit Union Ltd (SA)	NR	TD	\$2,000,000.00	372	2.90%	20-Jun-18
National Australia Bank	A1+	TD	\$81,146.23	357	2.79%	29-Jun-18
Qbank	NR	TD	\$1,000,000.00	364	2.68%	16-Aug-18
Rabobank	A1+	TD	\$2,000,000.00	1461	4.10%	21-Aug-18
Newcastle Permanent Building Society	A2	TD	\$2,000,000.00	1091	3.20%	22-May-19
Members Equity Bank	A2	TD	\$2,000,000.00	1827	4.66%	29-May-19
Police Credit Union Ltd (SA)	NR	TD	\$2,000,000.00	1827	4.75%	30-May-19
Rabobank	A1+	TD	\$2,000,000.00	1826	4.52%	19-Jun-19
National Australia Bank	A1+	TD	\$2,000,000.00	1822	4.11%	29-Aug-19
Rabobank	A1+	TD	\$2,000,000.00	1462	3.30%	2-Sep-19
Rabobank	A1+	TD	\$2,000,000.00	1826	4.10%	2-Sep-19
Police and Nurses Bank	A2	TD	\$2,000,000.00	1459	3.50%	18-Dec-20
Rabobank	A1+	TD	\$2,000,000.00	1464	3.00%	16-Jun-21
Police and Nurses Bank	A2	TD	\$5,000,000.00	1825	3.74%	22-Feb-22
Westpac Bank	A1+	TD	\$6,000,000.00	1826	3.00%	2-Mar-22
Westpac Bank	A1+	TD	\$2,000,000.00	1826	2.74%	24-Aug-22
Westpac Bank	A1+	TD	\$2,000,000.00	1826	3.00%	24-Aug-22
Total Term Deposits			\$130,182,146.23			

Shoalhaven City Council as at 31/08/2017						
Authorised Deposit-Taking Institution (ADI)	ST Rating	Security Type	Principal/ Current MF Value	Term	Interest Rate	Maturity Date
Credit Union Australia	A2	FRN	\$2,000,000.00	1187	2.92%	22-Dec-17
Members Equity Bank	A2	FRN	\$1,000,000.00	1461	3.07%	17-Apr-18
Heritage Bank	A3	FRN	\$1,000,000.00	1096	2.84%	7-May-18
Newcastle Permanent Building Society	A2	FRN	\$1,000,000.00	1095	3.32%	22-Mar-19
Greater Bank Limited	A2	FRN	\$1,000,000.00	1095	3.34%	7-Jun-19
Suncorp Metway Ltd Bank	A1	FRN	\$1,000,000.00	1826	2.63%	20-Aug-19
Bendigo Bank	A2	FRN	\$1,000,000.00	1826	2.65%	17-Sep-19
Teachers Mutual Bank Limited	A3	FRN	\$1,000,000.00	1095	3.15%	28-Oct-19
Bank of Qld	A2	FRN	\$1,000,000.00	1826	2.81%	6-Nov-19
Credit Union Australia	A2	FRN	\$2,250,000.00	1096	3.02%	20-Mar-20
Members Equity Bank	A2	FRN	\$1,000,000.00	1096	2.90%	6-Apr-20
Newcastle Permanent Building Society	A2	FRN	\$500,000.00	1064	3.14%	7-Apr-20
Newcastle Permanent Building Society	A2	FRN	\$2,000,000.00	1827	3.14%	7-Apr-20
Heritage Bank	A3	FRN	\$1,250,000.00	1096	3.00%	4-May-20
Bendigo Bank	A2	FRN	\$1,000,000.00	1827	2.84%	18-Aug-20
Suncorp Metway Ltd Bank	A1	FRN	\$2,000,000.00	1827	3.00%	20-Oct-20
Bank of Qld	A2	FRN	\$1,000,000.00	1461	2.92%	26-Oct-20
Rabobank	A1+	FRN	\$2,000,000.00	1826	3.23%	4-Mar-21
National Australia Bank	A1+	FRN	\$1,000,000.00	1826	2.86%	12-May-21
Bank of Qld	A2	FRN	\$1,000,000.00	1826	3.22%	18-May-21
Suncorp Metway Ltd Bank	A1	FRN	\$1,000,000.00	1826	2.82%	22-Jun-21
Commonwealth Bank Australia	A1+	FRN	\$1,000,000.00	1826	2.98%	12-Jul-21
ANZ	A1+	FRN	\$1,000,000.00	1826	2.87%	16-Aug-21
ANZ	A1+	FRN	\$1,000,000.00	1826	2.79%	7-Mar-22
Total Senior Securities			\$29,000,000.00			
Shoalhaven City Council as at 31/08/2017						
Grandfathered	ST Rating	Security Type	Current Valuation			Maturity Date
Macquarie Global Income Opportunities	NR	MF	\$1,820,892.46			T+3
TCorpIM Cash Fund	AAAm	MF	\$22,953,442.88			T+0
			\$24,774,335.34			
Product	ST Rating	Security Type	Current Valuation			Maturity Date
AMP At Call	A1	Cash	\$4,860,514.25			At-Call
AMP Notice Account	A1	Cash	\$9,703,320.53			31 Days
NAB Transaction Account	A1+	Cash	\$8,081,440.94			At-Call
			\$22,645,275.72			
Total Investment Portfolio			\$206,601,757.29			



Fixed Interest Market Background

US 10-year bond yields finished -18bps lower at 2.12%. The German yield closed -18bp lower at 0.36%. ECB policy, Korean war fears, and Hurricane Harvey contributed to a flight to bonds globally.

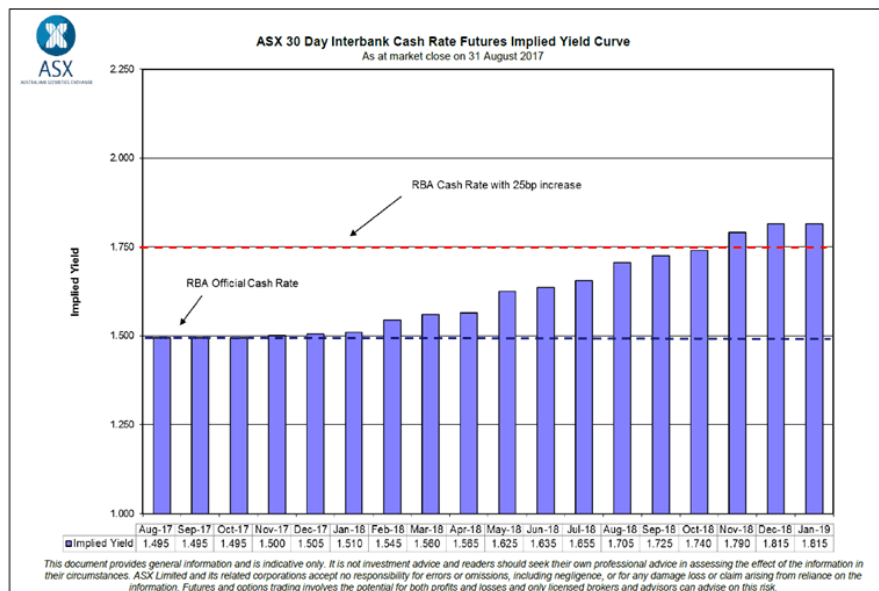
US PMI rose to 58.8 in August, the highest since April 2011, boosted by rises in production, employment and inventories. US unemployment was +4.3% in July (-0.1%), and CPI ticked up to 1.7% (+0.1%) although it was below market forecasts.

The BarCap Global Agg rallied, gaining +96bp in August (in \$A hedged). **A bond boom during a commodity shock should be regarded with suspicion.**

Australian bonds weakened against the global trend, as a major beneficiary of sharply higher commodity prices in the month.

Domestically, unemployment fell from 5.7% to 5.6% with +27,900 jobs. While fulltime employment and hours were down, this was in response to extraordinarily strong data the month prior. We consider a strong employment period intact, although are reluctant to extrapolate it as the RBA does (especially given woeful building approvals data suggesting the east coast construction boom will end).

The RBA left the cash rate unchanged at 1.5%, minutes (and September comments) shows a clear lift in confidence around the labour market but emphasis on household debt risks. **They appear disinclined to spook the market at this point**, as any more “hawkish” comments tend to drive up the \$A.



Source: SFE / ASX



Disclaimer

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All information and recommendations expressed herein constitute judgements as of the date of this report and may change without notice. Staff and associates may hold positions in the investments discussed, and these could change without notice.

Councillor Briefing – Resourcing 24 August 2017



Our people

Council is a (community) service organisation – the engagement, passion and development of our employees is a critical success factor



The changing environment & workforce/ resource challenges

- Increasing community expectations
- Growing local economy - increased development
- Ageing workforce
- Competitiveness - ability to attract and retain the right people
- Resources – how we compare to industry benchmarks
- What our staff are saying - staff survey 2017
- Scanning and planning for the future



Benchmark Data – the evidence

- LG Professionals & PWC ‘Local Government Performance Excellence Program’:
 - Annual benchmarking survey - 15/16 survey results
 - 134 Councils participate: NSW – 69; WA - 35; NZ - 30 NZ
- TCorp Local Govt Economic Commentary for July 2017
- Mastertek – Remuneration Benchmarking 2015/2016
- Internal metrics
- Resourcing Strategy - Workforce Plan
- Community Survey 2017
- Staff Survey 2017

Increasing Expectations



Increasing Community Expectations – Customer Enquiries

	FY 13/14	FY 14/15	FY 15/16	FY 16/17
No. of Counter enquiries/ payments – Nowra	Not measured	Not measured	From Feb 2016: 11,000 Est F/Y 26,400	28,719
No. of Customer Calls – Nowra * (through main number - 3111)	Not measured	Not measured	109,000	120,702
Volume correspondence – Nowra (Records Unit)	75,695	89,078	95,370	92,114
MERIT (CRM) Requests	20,389	20,064	22,484	20,353

20% increase in written correspondence
10% increase in phone and face to face customer interactions

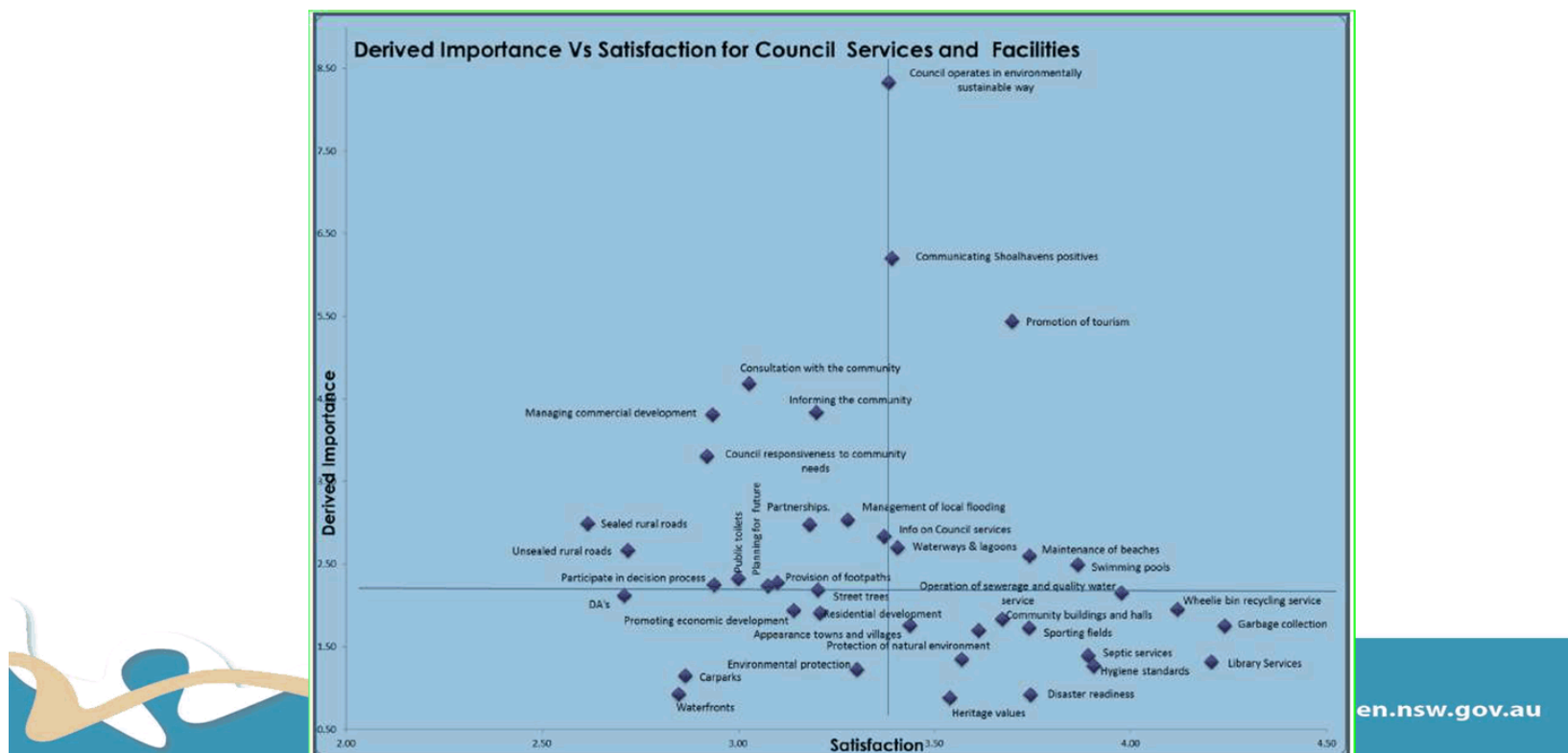
Increasing Community Expectations – Customer Enquiries

	FY 13/14	FY 14/15	FY 15/16	FY 16/17
No. of GIPA applications				
Formal	32	34	34	22
Informal	272	275	336	357
Subpoena	11	15	16	11
	315	324	386	390
No. of Property Searches P&EDS – measured calendar year	2014 cal yr 1,063	2015 Cal yr 1,117	2016 Cal yr 971	2017 ytd 562 970
No. of Complaints – Public Officer	38	43	51	88

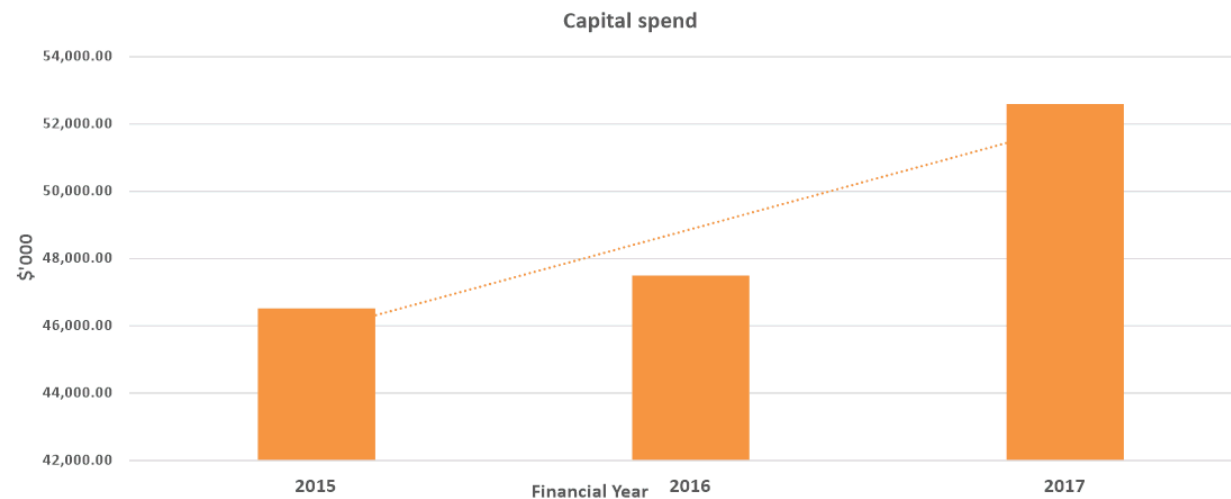
Additional requirement going forward
to provide internal drainage diagrams
so search requests will potentially
increase significantly



Community Feedback – Survey results (2016)



Increasing Community Expectations – Capital Works



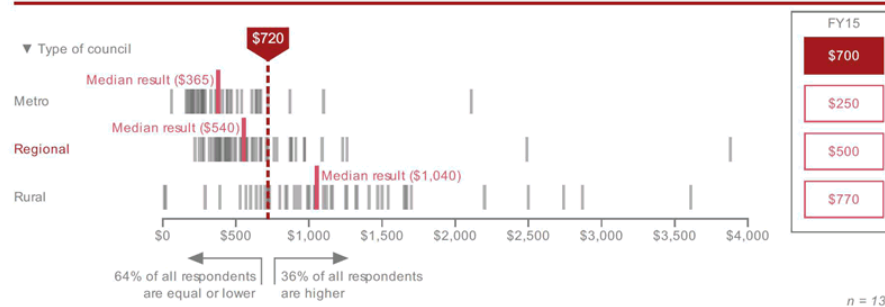
Increasing Community Expectations – Capital Works

	General Fund \$'000								
	Adopted Budget	Revote	Budget adjustments	Total Budget	total WIP from prior year *	Total Actual spend	Revote/Carry Forward	Balance	
2015/16	69,688	28,406	-	13,980	84,114	14,421	47,498	20,657	49,036
2016/17	60,320	20,659		12,292	93,271		52,599	35,364	5,308
*please note - the actual spend in 2015/16 includes WIP. This is not the case in 16/17									



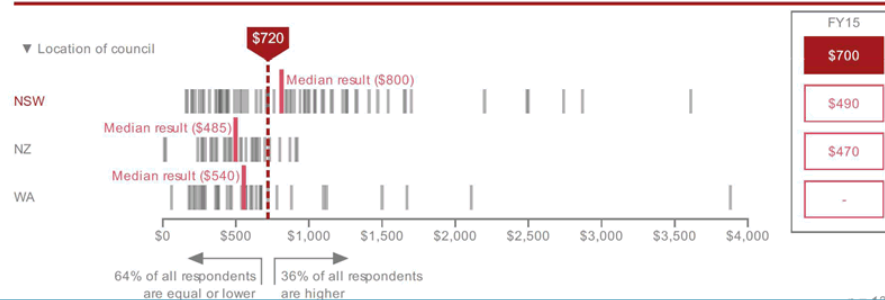
Capital Works – Spend Compared to other Councils

Figure 2.17: Total capital expenditure per resident (A\$) by type of council



**33% higher
spend per
resident on
capital works**

Figure 2.18: Total capital expenditure per resident (A\$) by location of council

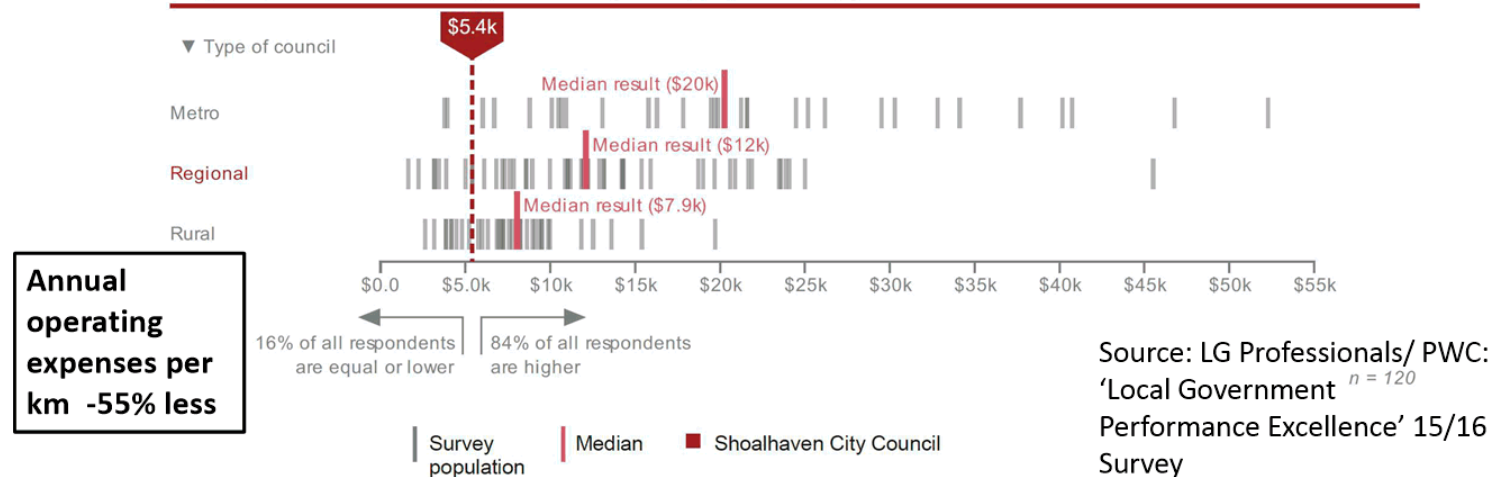


Source: LG Professionals/ PWC:
'Local Government
Performance Excellence' 15/16
Survey

www.shoalhaven.nsw.gov.au

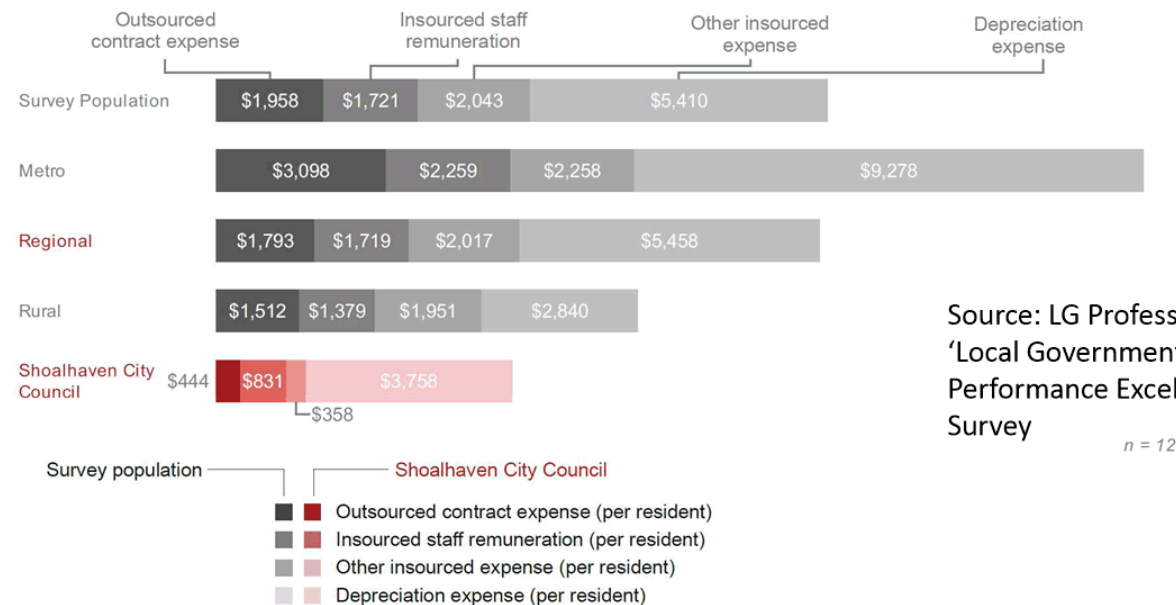
Roads & Bridges Works – Spend Compared to other Councils

Figure 4.18: Roads and bridges annual operating expense (A\$) per kilometre



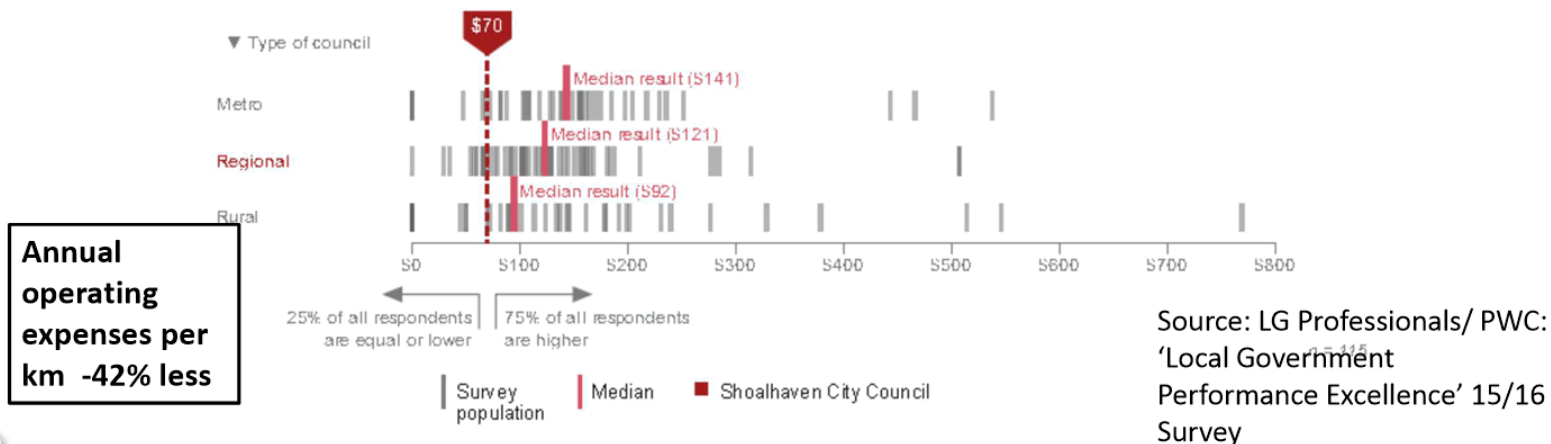
Roads & Bridges Works – Spend Compared to other Councils

Figure 4.19: Breakdown of roads and bridges annual operating expense (A\$) per kilometre



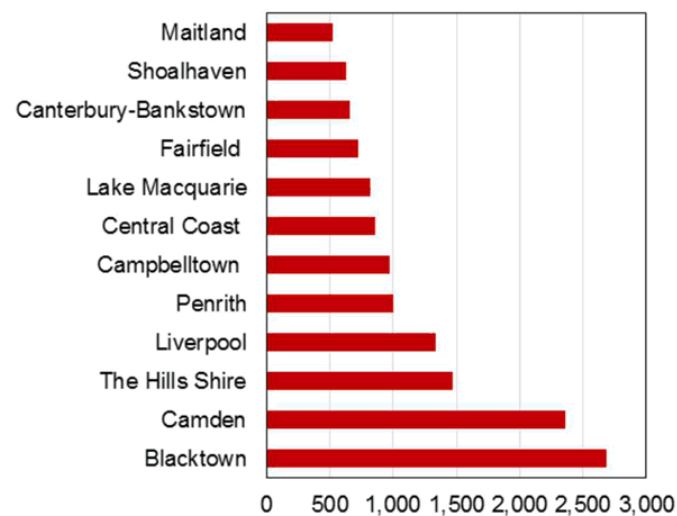
Spend on Parks, Gardens and Sporting Grounds Compared to Other Councils

Figure 4.23: Parks, gardens and sporting grounds annual operating expense (A\$) per kilometre



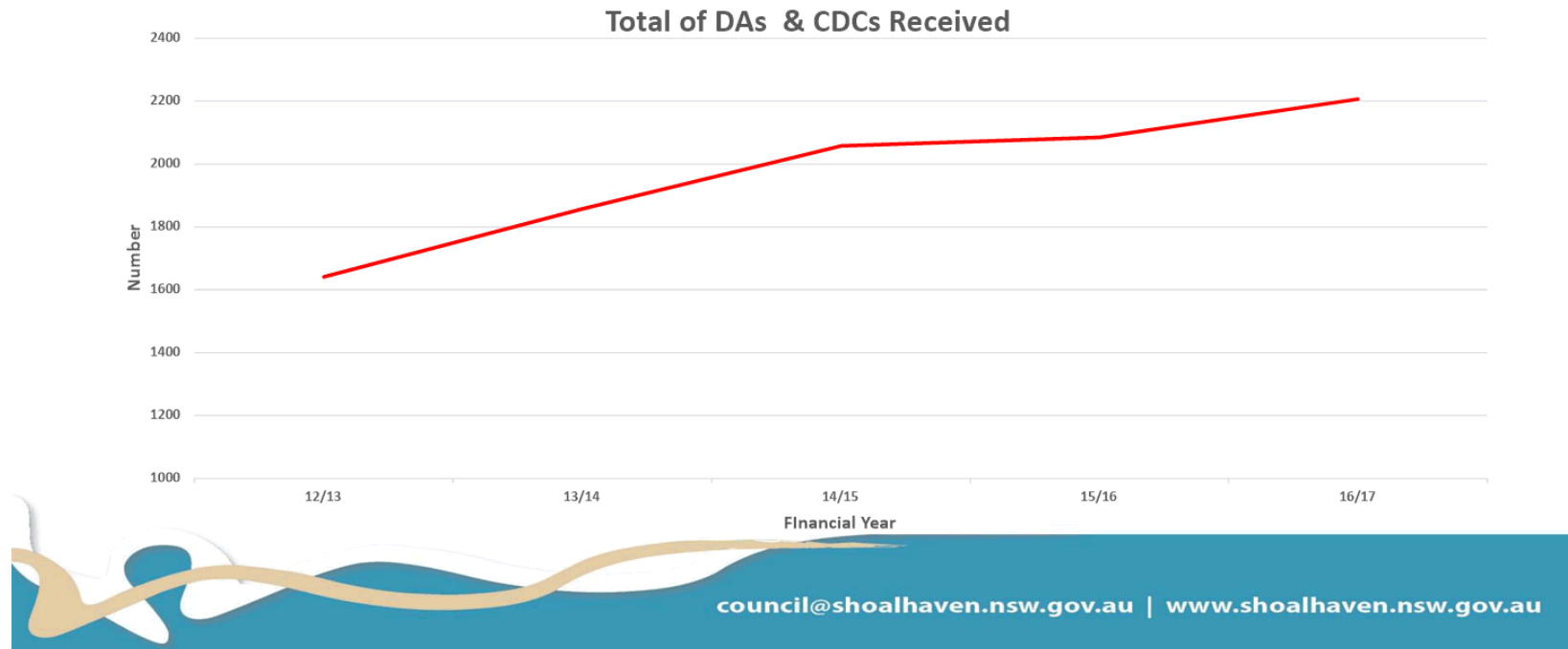
Growing Local Economy – House Approvals

House Approvals in 2016-17



Source: Tcorp Local
Government Services
Economic Commentary July
2017

Growing Local Economy – Development Applications



Growing Local Economy – Development Applications

- Increasing complexity in assessing DAs:
 - Bushfire Protection
 - Threatened Species
 - Coastal Hazards
 - Flooding
- ➡ takes more time to assess DAs – impact on resources
- Impact on Customer Service volumes
- Flow on effect of referrals on resources:
 - Traffic Unit, Shoalhaven Water

Workload Indicators – Council & Committee Meetings; Community Meetings

	FY 13/14	FY 14/15	FY 15/16	FY 16/17
No. Council and Core Committee Meetings #	52	54	42	45
No. Advisory Committee Meetings#	85	75	67	90
No. Council Resolutions (<i>Average per meeting for Jan – June</i>)	59	86	60	54
No. of Councillor Briefings			117	134

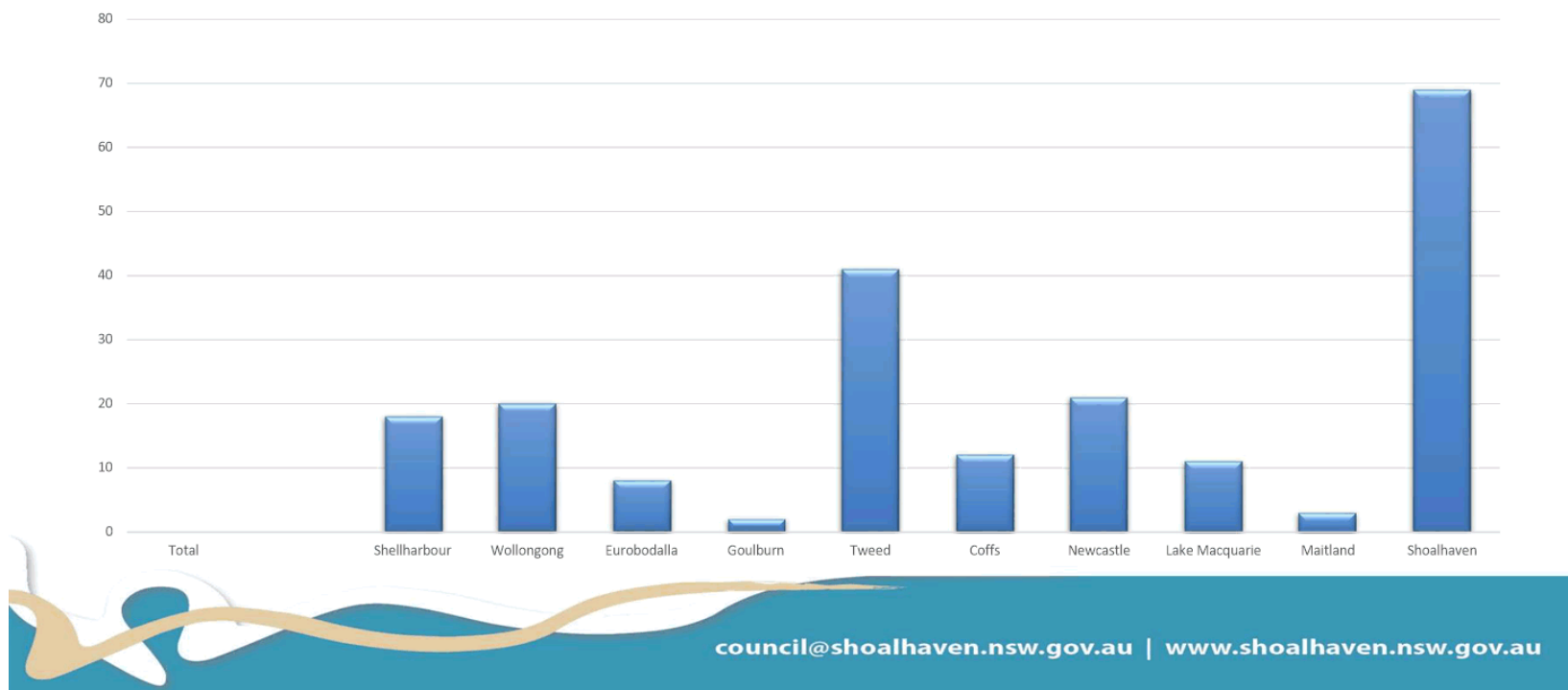
Reduction in no. of core committees

#: Numbers measured on political cycle – between Core Reports.



Workload Indicators – Council & Committee Meetings; Community Meetings

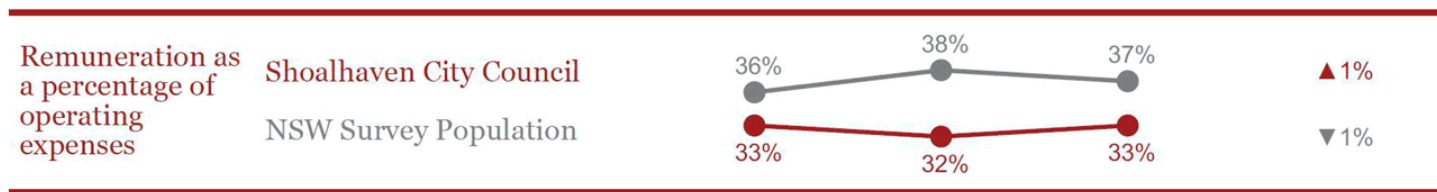
Notices of Motion : Jan 2017 - July 2017



Our resourcing compared to industry



Resources – how we compare to industry benchmarks



Based on SCC operating expenses of 15/16 of –
\$203m – **difference of \$8m** spend on staff

Source: LG Professionals/ PWC:
'Local Government Performance Excellence'
15/16 Survey

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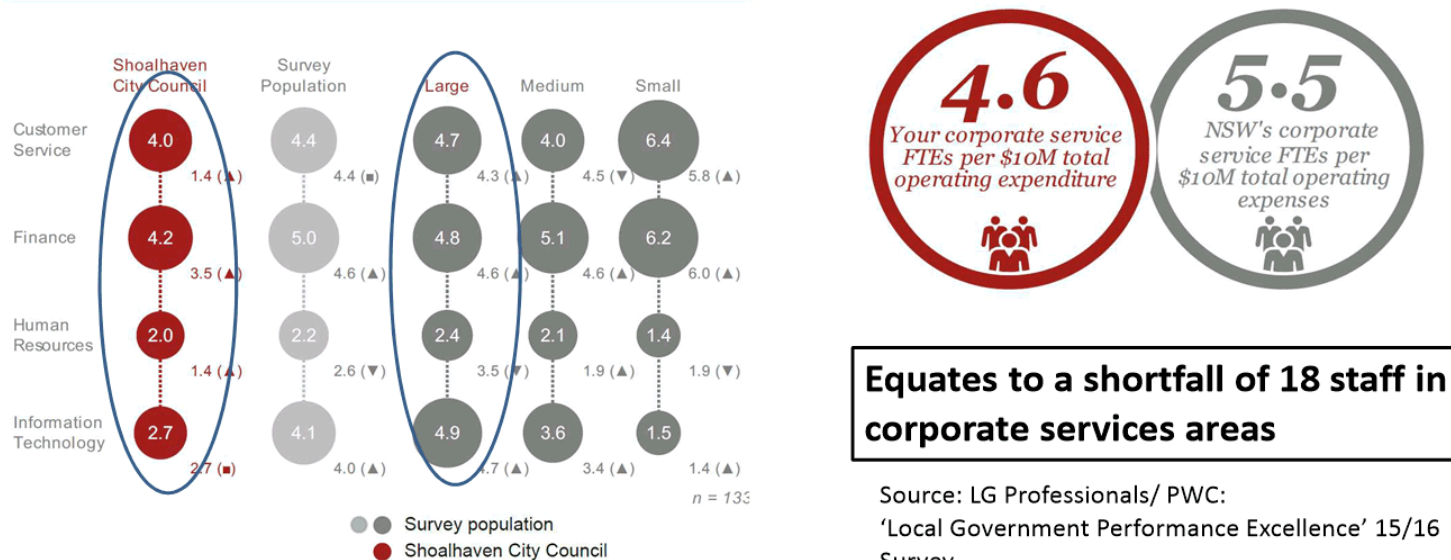
Resources – how we compare to industry benchmarks



Source: LG Professionals/ PWC:
'Local Government Performance Excellence'
15/16 Survey

Resources – how we compare to industry benchmarks – corporate services

Figure 3.2: Breakdown of corporate service staff per 100 employees



Resources – how we compare to industry benchmarks

Council	Equivalent Full Time Staff / Population	Metre Road Length per '000 capita	Open Public Space	Number of Public Swimming Pools	Number of Public Halls	
Coffs Harbour City Council	165	12.1	1,809.0	4	14	Source: Local Government Comparative Data 14/15 – Category 5 Councils
Lake Macquarie City Council	217	6.6	1,664.5	17	36	
Newcastle City Council	185	5.5	10,395.0	8	17	
Port Macquarie-Hastings Council	157	17.1	982.5	6	19	
Shoalhaven City Council	131	17.5	5,157.6	12	32	
Tweed Shire Council	135	13.6	955.0	3	19	
Wollongong City Council	205	4.9	2,458.0	18	35	

Growing Local Economy – DA Determinations/ Full time Equivalent (FTE) Staff

Year	DA Determinations	FTE Staff number	Average/FTE	Wollongong Avg/FTE
2013/14	1430	19	75	70
2014/15	1608	17	94	70
2015/16	1631	16	102	Figures not available
2016/17	2207	16	138	



Indicative workloads – increasing recruitment

- Increasing levels of recruitment (external & internal):
 - 13/14: 125
 - 14/15: 173
 - 15/16: 158
 - 16/17 & to date: 225
- Higher staff turnover in first 12 months
- Increasing recruitment in the future with ageing workforce



Workforce priorities & challenges



Ageing workforce

- only 17% of workers aged under 30 excluding HVTG trainees

- 41% of staff are aged 50 or older
- 11% are at retirement age (65) or will be eligible for retirement within the next five years

Age	Total	General Manager's Office	Finance, Corporate & Community Services	Shoalhaven Water	Assets & Works	Planning Environment & Development Services
16 – 19	2.8%	0%	6.9%	0%	0.3%	0.6%
20 – 29	14.0%	0%	17.4%	16.8%	9.8%	12.4%
30 – 39	17.0%	30.0%	16.5%	20.4%	15.1%	16.0%
40 – 49	25.7%	30.0%	22.1%	23.1%	27.8%	33.7%
50 – 59	29.6%	20.0%	26.4%	28.3%	34.9%	29.0%
60 – 69	10.5%	10.0%	9.9%	11.0%	12.1%	8.3%
70+	0.4%	0%	0.9%	0.5%	0%	0%

Workforce Plan - Table 3. Age Distribution

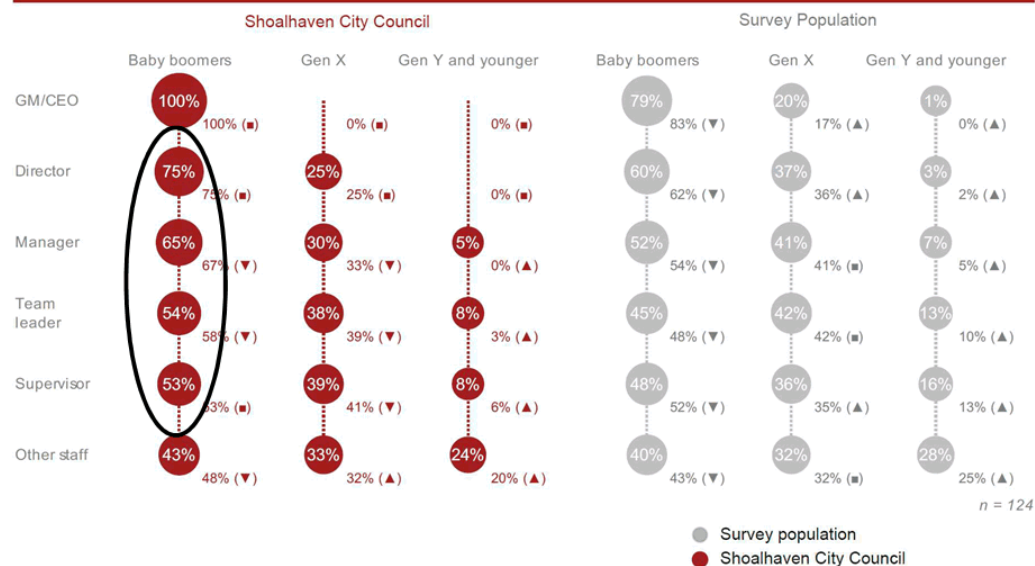
Workforce – Trainees & Apprentices (Hunter Valley Training Group)

Calendar Year	No. Apprentices	No. Trainees	Total Placements
2017	5	25	30
2016	4	26	30
2015	6	28	34
2014		15	15
2013	2	16	18
2012	2	24	26
2011	4	24	28
Total	23	158	181



Ageing workforce

Figure 1.36: Generational staff level mix



Baby Boomers: 1943 – 1966
Gen X: 1967 – 1980
Gen Y: post 1980

Source: LG Professionals/ PWC:
'Local Government Performance Excellence'
15/16 Survey

Ageing workforce

Presents the following significant challenges/ risks to the organisation:

- **Retention of corporate knowledge** as older workers who have been with the organisation for a long period of time exit the workforce.
- **Having a cohort of leaders ready to step up** into management positions as older workers retire.
- **Attracting and retaining the right people** for the right roles - given lack of professional staff locally and the ability to attract from outside the LGA - competitive pressures on remuneration offerings



Ageing workforce

- Ensuring staff capability and capacity to harness innovations in technology to improve operational efficiency.
- Developing a resilient and agile workforce to meet the ever-changing environment.

Right People Right Skills Right Time Right Plan Right Cost

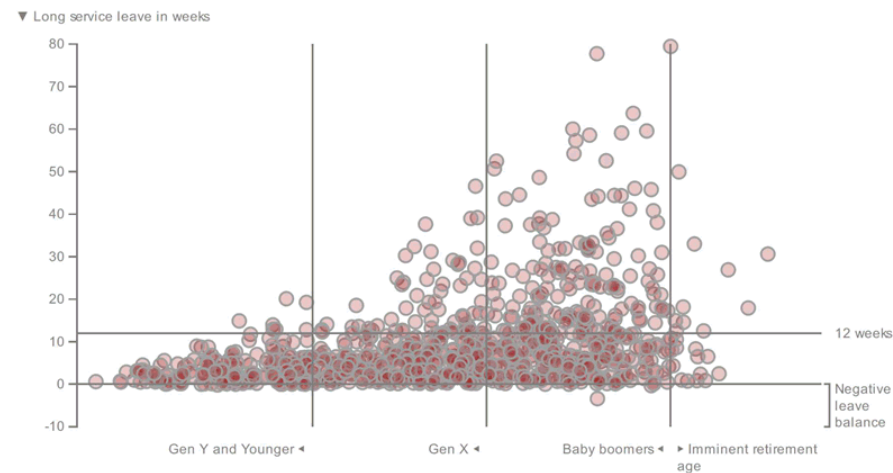


Parallel Employment Group

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Challenge to Manage Increasing Leave Liabilities with current resourcing

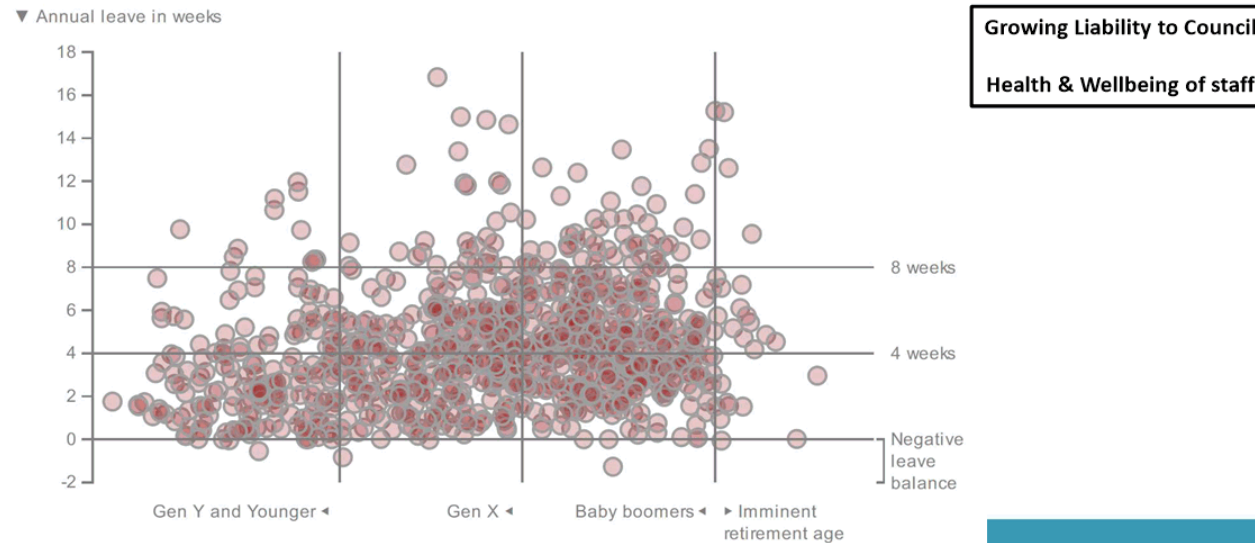
Figure 1.41: Employee long service leave balance



Growing Liability to Council
Health & Wellbeing of staff

Challenge to Manage Increasing Leave Liabilities with current resourcing

Figure 1.40: Employee annual leave balance



Competitiveness – Ability to attract and retain employees

- Increasing pressure on remuneration offerings due to:
 - Road improvements – closer to larger regional areas and City – competing with
 - Increasing local house prices – not as affordable
 - Competing with private sector – development and compliance staff; project management & engineers; other professional staff
 - HR, IT etc

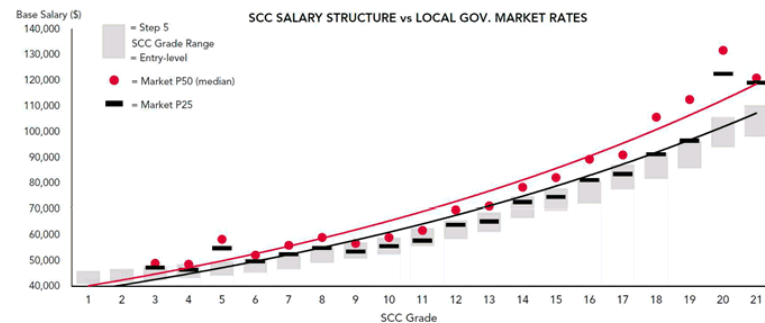


Competitiveness - Remuneration Review

SALARY BENCHMARKING REVIEW SALARY STRUCTURE BENCHMARKING.

SCC currently has in place a salary structure made up of 21 grades, with each grade consisting of an entry-level plus 5 steps (refer page 23 for further details on the structure).

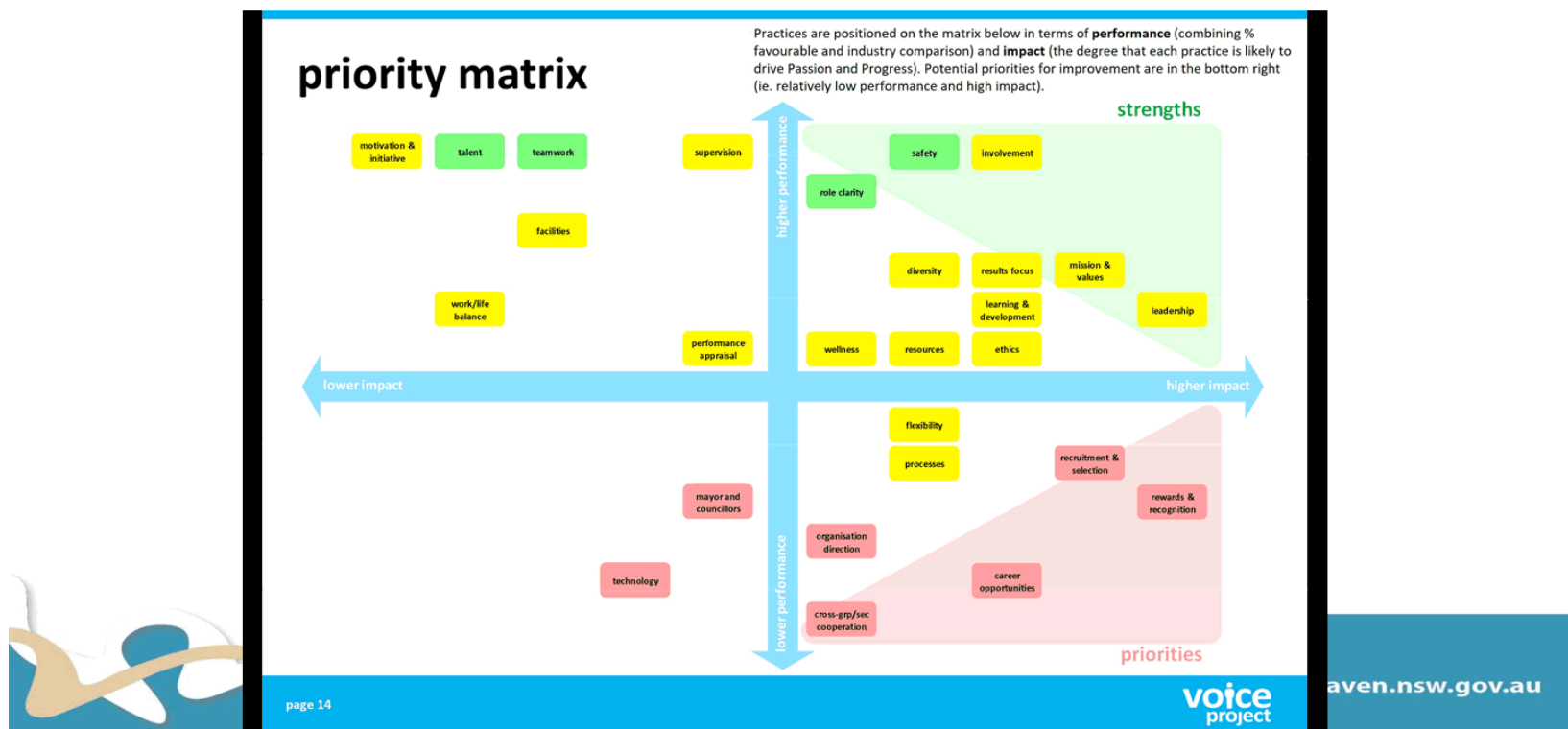
When this structure is set against market data plot points, it is evident that generally, the 25th percentile of the market can be placed within the top half of each grade range (i.e. either at step 3, 4 or 5). The 50th percentile (median) of the market is beyond the upper limit of the SCC grade ranges in most cases.



Prepared by MASTERTEK PTY LTD

Page 5

What our staff are saying – Staff Survey

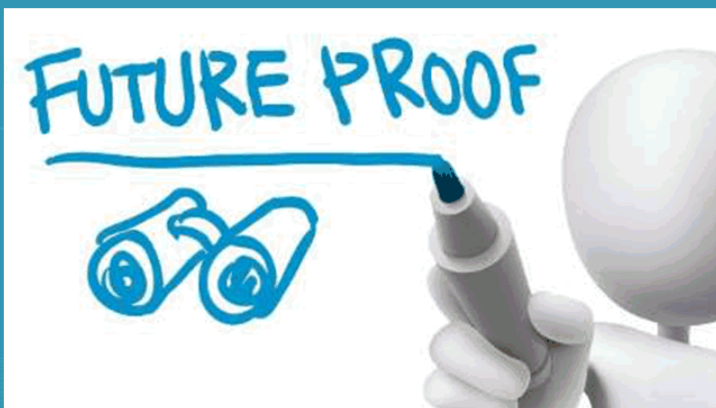


Staff Survey – Priorities & How they are being addressed

- **Rewards & Recognition** – Remuneration and Rewards Review Project – currently in progress
- **Recruitment & Selection** – Workforce Plan – next section
- **Career Opportunities** – Workforce Plan – next section



Risks to the Organisation & Future Proofing the Organisation



What are the risks if we do nothing?

- Low staff morale & higher absenteeism
- Higher staff turnover – loss of corporate knowledge & productivity; increased recruitment costs
- Inability to attract and retain key staff
- Lack of leaders to lead the business into the future



Inability to deliver current services and meet changing and increasing needs of the community into the future –threat to ongoing sustainability of the organisation



What is needed to future proof the organisation

- Need to resource the implementation of key strategic priorities of the adopted Workforce Plan including:
 - Ongoing forecasting of resourcing needs
 - Succession planning processes
 - Capability Framework developed to identify skills gaps and ongoing development program for staff
 - Leadership Development Program
 - Attraction and retention of staff strategies
 - Effective utilisation of technology
 - Enhanced knowledge management systems
 - Expanded traineeship program
 - Values and culture initiatives



What is needed to future proof the organisation

- Salary system review – ensure competitive in the market to attract and retain staff
- Capacity to scan & plan for the future



Immediate resourcing needs

Unit	Position and/or other resource	Funding Required (pa)
Art Centre	Increase following P/T positions to Full-time: Public Programs Officer Admin Assistant Gallery Officer	\$59,000
	Add new position for Public Programs & Digital Media Asst	\$42,000
Community Development	Additional Council Funding to cover loss of FACS funding ceasing June 2018 & June 2020	\$51,200
Corporate	Fees/ Pricing Liaison Position	Fund from revenue if agree to F&C Review
Corporate	Grants Coordinator	\$95,000
Corporate / Property Unit	Resource to assist with negotiations with Crown concerning future tenure of Crown Lands (Fixed term)	\$95,000



Immediate resourcing needs

Unit	Position and/or other resource	Funding Required pa
Corporate Business Improvement Unit	Business Analyst (Fixed term 2 years)	\$100,000
HR	2 additional HR Advisors to implement strategic initiatives (refer Workforce Plan) increased recruitment volumes	\$250,000
	Cadet to assist team meet increasing recruitment volumes with ageing workforce	\$60,000
Governance	Governance Officer (to meet increasing demands on unit – Meetings, GIPAA, Complaints)	\$75,000 Could fund through reallocation of Councillor Misc budgets
	Capital funding – i-ferret to assist with GIPAA Requests	\$90,000 one-off
Customer Service	Customer Service Officers to meet increasing demand & allow development of Contact Centre (2 officers)	\$140,000

Immediate resourcing needs

Unit	Position and/or other resource	Funding Required pa
Corporate	Compliance Officer (Fraud Control)	\$95,000
Corporate	Risk Officer	\$95,000
IT	IT Service Review:	
	Administration Support & Procurement	\$40,000
	IT Project Management Coordinator	\$115,000
	2 x Network & Server Engineer	\$105,000
	Service Desk Supervisor	\$96,000
GIS	GIS Service Review:	
	GIS System Specialist (Gd 14)	\$95,000
	Upgrade of existing GIS Officer position to Land & Property Mgr	\$20,000
	Administrative Support – part time	\$40,000
Records Unit	2 x Records Officers to meet increasing volumes	\$126,000



Immediate resourcing needs

Unit	Position and/or other resource	Funding Required pa
Shoalhaven Water	Separate Report & Presentation	tba
Corporate	Energy Management Officer (Gd 16)	\$105,000
Corporate	Part-time (3 days/wk) officer to coordinate Disability Inclusion Plan	\$55,000
Development	Resource for digitising Development files (Gd 6 - 2 years fixed term)	\$65,000
Development	Development Assessment Officer	\$110,000
Economic Development	Marketing & Business Attraction (Gd 16)	\$105,000
Assets & Works	Tree Inspector	\$121,000
	Asset Inspector	\$85,000
	Electrical Asset Coordinator	\$124,000
	Traffic/ Transport Technical Officer	\$128,000
	Project Manager x 2	\$290,000
	Design Engineer x 2	\$277,000
	Contracts Inspector	\$108,000
	Drainage maintenance crew x 2	\$279,000
	Welder	\$77,000
	Mechanic	\$77,000



au

Way Forward

- Consider these resource and budget needs at the 31 August workshop
- Consider further reports from Group Directors

