

*File No. 100/07  
Our Ref: SC*

27 September 2007

Dear Councillor

You are kindly requested to attend an **EXTRAORDINARY COUNCIL MEETING** of Wingecarribee Shire Council to be held in the Council Chambers, Elizabeth Street, Moss Vale on **Wednesday, 3 October 2007** commencing at **6.30 pm**.

Yours faithfully

Mike Hyde  
**General Manager**

# BUSINESS

1. OPENING OF THE MEETING
2. PRAYER – *Civic Prayer read by the Mayor, Clr G Lewis*
3. APOLOGIES
4. DECLARATIONS OF INTEREST
5. OPEN CONCIL

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**EXTRAORDINARY MEETING OF COUNCIL**  
held in the Council Chamber, Civic Centre, Elizabeth St,  
Moss Vale on Wednesday, 3 October 2007

**DECLARATIONS OF INTEREST**

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**DECLARATION OF INTEREST**

*101/3*

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Councillors are requested to declare any Pecuniary or Non Pecuniary Interests for items on the agenda.

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**OPEN COUNCIL**

**CORPORATE SERVICES DIVISION**

**o-CS1 Investments as at 31 August 2007**

REF	FSM	2104
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Submitting details of Council's Investments as at 31 August 2007

**REPORT**

**BACKGROUND**

In February 2006, Council's Finance Sub Committee undertook a major review of Council's finances with the objective of improving Council's budget situation.

A critical assessment was made of all budget items with emphasis on minimising costs and increasing revenue. One of the initiatives from this review was to improve councils return on investments by outsourcing the management of Council's investment portfolio.

Expressions of interest were called in October 2006 with Council receiving three EOI's. Grange Securities were shortlisted and were then invited to make a presentation to Council's Finance Committee in February 2007. Council's Finance Committee subsequently endorsed the appointment of Grange Securities as Council's investment advisors and this recommendation was endorsed by Council at its Ordinary Meeting 28 February 2007. and Council subsequently restructured its investment portfolio utilising advice from Grange.

**OVERVIEW OF CURRENT SITUATION**

The Local Government (General) Regulation 2005 (Part 9, Division 5, Clause 212), requires a written report be submitted to Council setting out details of all monies that has been invested under Section 625 (2) of the Local Government Act 1993.

Included for Councils information (**see Attachment 1**) is a list of investments held as at 31 August 2007, it is noted that all investments are in compliance with the requirements of the Local Government Act and Ministerial Guidelines, also included is a list of commitments for which these investments are held (**see Attachment 2**).

The current volatility in the global credit markets resulting from the issues associated with the US residential sub-prime mortgage market has affected Council's Investment portfolio when reporting on a *Mark to Market* basis. Council's investment portfolio has experienced a significant fall in value when assessed against current market values for these investments, but only if they were divested in the current illiquid market. It would therefore not be an appropriate decision to sell any of these investments in the current market, and Council has more than sufficient liquidity to ride out the current market volatility without the need to divest itself of these hold to maturity type assets.

Council currently holds one security that has been directly impacted by the problems in the US with regards to the Sub-prime Mortgage Market and as such has been significantly affected. While this investment represents 5.0% of Council's portfolio, but it must be highlighted the change in valuation of this investment is based on a "Mark to Market" valuation if the investment was sold now. However, at this point, Council's strategy is to hold it to maturity. Importantly, Council's cashflow has not been impacted and the coupon interest is still being received on all investments.

It must be highlighted that the situation in the US has affected all global markets with the remainder of Council's investment portfolio also being affected by "contagion" when reviewing them on a "Mark to Market" basis. It is important to distinguish between the current valuation of these securities and realized losses. Information provided by Council's investment advisor Grange Securities, is that these securities continue to maintain their high credit rating of AAA and AA and that *"a loss however, will only be realised if a client elects to sell CDO's in the current illiquid market environment"*.

Information recently provided is that credit markets are improving which was confirmed by the 1.7% increase in capital value of these securities between July and August. Once again it should be stressed that any losses will only be realized if the individual securities are actually sold in the current volatile market.

Council's strategy with these securities is to hold to maturity or until such time as the credit market improves. As at September Council has over \$9 million in cash and at call funds which is more than adequate to funds its current cash flow requirements. Subsequently there is no need to sell any hold to maturity type securities for liquidity purposes.

#### ATTACHMENTS

1. Investment Reconciliation as at 31 August 2007
2. List of commitments
3. Report from Ernst & Young (unfortunately this report is not ready at this time but will be distributed to Councillors on Tuesday 2 October)

#### RECOMMENDATION

THAT the information on Council's Investments as at 31 August 2007 be received and noted.

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Barry W Paul  
**Director Corporate Services**

28 September 2007

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**ATTACHMENT 1**

<u>INVESTMENT RECONCILIATION AS AT 31 August 2007</u>								
Bank	Certificates	Rate	Term(days)	Due Date	Value	Consideration	Total	
<b><u>Grange Securities</u></b>								
<b><u>Individual Managed Portfolio</u></b>								
Adelaide Bank FR Sub Debt		bbsw + .50%		9/06/2011	3,500,000.00	3,531,185.00		
ANZ		8.25%		17/07/2008	750,000.00	717,600.00		
Bank of Qld Sub Debt		bbsw + .29%		2/12/2010	7,000,000.00	6,959,820.00		
Elders Rural Bank Sub Debt		bbsw + .85%		13/07/2010	500,000.00	505,630.00		
Elders Rural Bank Sub Debt		bbsw + .75%		13/10/2010	500,000.00	504,260.00		
Elders Rural Bank Sub Debt		bbsw + .83%		6/09/2010	1,000,000.00	1,000,390.00		
HSBC FRN		bbsw + .28%		22/09/2011	6,500,000.00	6,486,805.00		
Macquarie Bank Sub Debt		bbsw + .70%		15/09/2009	500,000.00	507,420.00		
Macquarie Bank Sub Debt		bbsw + .85%		18/02/2008	1,000,000.00	1,004,140.00		
Royal Bank Scotland		bbsw + .28%		17/02/2012	2,000,000.00	1,988,420.00		
Elders Rural Bank		bbsw + .60%		6/03/2012	1,000,000.00	987,470.00		
Westpac		bbsw + .35%		4/02/2010	500,000.00	501,765.00		
St George		bbsw + 0.31%		26/07/2011	1,000,000.00	999,170.00		
<b><u>Liquid Securities</u></b>					25,750,000.00	25,694,075.00		
Aphex (Glenelg)		bbsw + 1.25%		22/06/2009	2,250,000.00	2,123,370.00		
Corsair Kakadu		bbsw + 1.00%		20/12/2009	1,500,000.00	1,228,080.00		
Corsair Torquay		bbsw + 1.20%		20/06/2009	2,500,000.00	2,261,550.00		
Helium Esperance		bbsw + 1.10%		20/03/2008	2,000,000.00	1,834,640.00		
Helium Scarborough		bbsw + 1.30%		23/06/2009	2,700,000.00	2,449,332.00		
Magnolia Flinders		bbsw + 1.50%		20/03/2009	5,100,000.00	4,363,611.00		
Omega Henley		bbsw + .80%		22/06/2012	2,000,000.00	1,843,700.00		
Starts Blue Gum		bbsw + 1.40%		22/12/2010	1,050,000.00	975,555.00		
Cypress Tree Lawson		bbsw + 1.30%		30/12/2010	1,000,000.00	1,002,650.00		
MAS6-7 Parkes		bbsw + 2.00%		20/12/2009	2,000,000.00	1,841,000.00		
Bishopgate Wentworth		bbsw + 1.50%		30/09/2010	500,000.00	510,250.00		
Zircon Coolangatta		bbsw + 1.30%		20/03/2011	2,000,000.00	1,665,240.00		
Saphir Endeavour		bbsw + 1.30%		4/08/2011	140,000.00	141,387.40		
Beryl		bbsw + 0.60%		20/03/2010	4,000,000.00	3,762,520.00		
SPRC Federation		bbsw + 1.00%		9/05/2010	3,000,000.00	1,033,860.00		
Zircon Merimbula		bbsw + 1.05%		20/06/2013	500,000.00	426,230.00		
Lehman		bbsw + 0.00%		15/06/2009	560,000.00	519,960.00		
<b><u>Medium - Long Term Securities</u></b>					32,800,000.00	27,982,935.40		
<b><u>Total Securities</u></b>							53,677,010.40	
Macquarie Cash Management Trust					184,378.71		184,378.71	
<b><u>Short Term</u></b>								
NAB					6,000,000.00		6,000,000.00	
July bbsw average 90d		6.77						59,861,389.11

<b>COUNCIL INVESTMENT HOLDINGS - PURPOSE)</b>		
<b>Investments Held</b>		<b>Est 31/08/2007</b>
Developer Contributions	Unexpended funds paid by developers for Section 94 and 64 works	8,158,217
RTA Unexpended Grants	Unexpended grant funds received from Roads & Traffic Authority to be expended in 2007/08	1,186,148
Other Unexpended Grants	Unexpended grant funds received from other government departments to be expended in 2007/08	826,157
Loan Repayment Sinking Fund	Sinking funds held for repayment of sewer loan in 2016	179,863
General Fund Accumulated Cash	Represents all General Funds accumulated cash and cash equivalents held at report date	1,772,995
		<b>12,123,380</b>
<b>General Fund Reserves</b>		
Employee Leave Entitlements	Used to fund Long Service, Annual leave and Council commitments to staff entitlements.	1,055,719
Entrepreneurial Development	Used to provide internal loans that can be repaid into the Reserve. Funded by internal loan repayments, lease income and sale of surplus land.	3,974,886
Entrepreneurial Investment Fund	Funds to be used to develop strategies for new entrepreneurial activities to reduce Council's reliance on rate revenue	2,099,393
Works In Progress	Uncompleted or works in progress at year end, carried forward for completion in following year..	2,104,116
Cemeteries	Funded by additional burial fees and used to fund specific works in Council cemeteries.	30,121
Plant	Used to fund replacement of Council Plant and Equipment. This is a self funding activity.	954,299
Performance Appraisal System	Funded by salary savings across all budgets from staff resignations identified at year end. Used to fund staff maternity leave and replacement of staff on significant periods of sick leave.	144,940
Waste	DWM is required to be a self funding activity. Part of this reserve is allocated to DWM, the remainder to RRC and the rehabilitation of the old Welby Tip site.	615,017
Computer Reserve	Used to fund implementation of Dataworks, NAMS licensing, PABX upgrade and replacement of IT hardware.	328,320
Capital Projects	Contributions and EOY surplus transferred to this Reserve. Used to fund specific projects.	1,196,581
Family Day Care	FDC is a self funding activity. EOY results are transferred to or from this Reserve to ensure it remains self funding.	92,401
Effluent Disposal	Funded by a levy as part of septic tank applications and pump outs. Used to fund cleanout of sludge lagoons and updating of land affectation register.	50,317
Land Rental Reserve	Contributions from Water & Sewer for infrastructure on General Fund land. Used to fund Councils matching developer contributions.	3,049,432
Depreciation	Used to cash fund depreciation. Only one year funded to date for Animal Shelter.	4,000
Saleyards	Surplus operating funds to be used to fund OH & S upgrades at the saleyards.	41,604
Emergency Assistance Fund	Emergency Assistance Fund	5,000
Bonds, Deposits Etc..	Represents all bonds and deposits held by Council as restricted cash at reporting date. Includes Bonds, Damage, Contractors deposits, Sundry Deposits and Quarry Royalties.	2,774,851
		<b>18,520,997</b>
<b>Water Fund</b>		
Accumulated Cash	Represents all Water Funds accumulated cash and cash equivalents held at report date	1,329,746
Developer Contributions	Unexpended funds paid by developers for Section 94 and 64 works	5,587,617
Works in Progress Reserve	Uncompleted or works in progress at year end, carried forward for completion in following year..	1,938,484
Plant Reserve	Used to fund replacement of Water Fund Plant and Equipment. This is a self funding activity.	599,168
Pump Replacement Reserve	Used to fund replacement of specific pumps at Council water pumping stations.	45,000
Augmentation Reserve	Used to fund major capital works and subsidised schemes expenditure.	2,507,522
Sales Fluctuation Reserve	Used to fund variations in income from Water Access and User charges.	5,796,339
		<b>17,803,876</b>
<b>Sewer Fund</b>		
Accumulated Cash	Represents all Sewer Funds accumulated cash and cash equivalents held at report date	306,865
Developer Contributions	Unexpended funds paid by developers for Section 94 and 64 works	4,216,410
Works in Progress Reserve	Uncompleted or works in progress at year end, carried forward for completion in following year..	1,155,202
Plant Reserve	Used to fund replacement of Sewer Fund Plant and Equipment. This is a self funding activity.	356,049
Pump Replacement Reserve	Used to fund replacement of specific pumps at Council pumping sewer stations.	50,818
Augmentation Reserve	Used to fund major capital works and subsidised schemes expenditure.	3,356,340
Sales Fluctuation Reserve	Used to fund variations in income from Sewer Access and User charges.	1,971,452
		<b>11,413,136</b>
<b>Totals - Estimated as at 31 August 2007</b>		<b>59,861,389</b>