

ITEM 2. INVESTMENTS HELD AS AT 31 AUGUST 2015

FILE NO: S034147

SUMMARY

This report provides details of Council's forecast investment portfolio and performance as at 31 August 2015.

Council's total Investment and Cash position is forecast to be \$644.9M at the end of August, with investments earning interest of \$1.64M for the month.

The majority of the City's cash and investments portfolio are held as internally restricted (\$350.2M) and externally restricted (\$156.1M) cash reserves to satisfy the City's legislative responsibilities and to set aside specific funds for Council's funding commitments to the major initiatives within the Sustainable Sydney 2030 Community Strategic Plan. The level of the City's internal and external restrictions will be reviewed again as part of the preparation of the 2014/15 Annual Financial Statements which will be presented to Council in October 2015.

Key commitments within the City's Long Term Financial Plan include public domain works in the CBD to support the implementation of the CBD and South East light rail project and stormwater, town centre infrastructure and community facilities in the Green Square urban renewal area. The balance of investment funds represents working capital and funding required for the City's operating and capital expenditure commitments.

Council achieved an annualised monthly return of 3.29% for August, significantly above the 30 Day Bank Bill Rate (BBR) of 2.05%, the July AusBond Bank Bill Index of 2.14% and the enhanced benchmark of 2.45% (BBR + 0.40%) as endorsed in the Investment Strategy for 2015. At the time of writing, the August AusBond Bank Bill Index was yet to be released.

Council's annual rolling return of 3.42% also continues to exceed the 12 month 30 Day BBR of 2.35%, the July AusBond Bank Bill Index of 2.55% and the enhanced benchmark of 2.75% (BBR + 0.40%) as endorsed in the Investment Strategy for 2015. At the time of writing, the August AusBond Bank Bill Index was yet to be released.

The structure of Council's investment portfolio continues to reflect the conservative approach outlined in the Investment Policy and Strategy which remains appropriate for the current global and domestic economic conditions.

RECOMMENDATION

It is resolved that the Investment Report as at 31 August 2015 be received and noted.

ATTACHMENTS

Attachment A: Register of Investments and Cash as at 31 August 2015.

Attachment B: Investment Performance as at 31 August 2015.

BACKGROUND

1. In accordance with the principles of financial management, cash that is surplus to Council's immediate requirements is invested within acceptable risk parameters to optimise interest income while ensuring the security of these funds.
2. Surplus cash is only invested in authorised investments that comply with governing legislation and Council's Investment Policy and Strategy.
3. The benchmark performance goal of Council's Investment Policy and Strategy is to surpass the 30 Day Bank Bill Rate (BBR) while performance continues to be also measured against the AusBond Bank Bill Index.
4. The August 2015 report has been reliably estimated to the end of the month in order to ensure Council receives a more recent update on its investment activity in early September, rather than at a later Council meeting in October, in accordance with the Local Government (General) Regulations.
5. Council's total Investment and Cash position is forecast to be \$644.9M at 31 August, an increase of \$20.1M from the \$624.8M reported at 31 July 2015, reflecting rates and revenue receipts partially offset by capital works expenditure and other operational payments. A schedule detailing all of Council's investments as at the end of August is provided at Attachment A.
6. The majority of the City's cash and investments portfolio are held as internally restricted (\$350.2M) and externally restricted (\$156.1M) reserves. These reserves are held to satisfy the City's legislative responsibilities and underpin our funding commitment towards the major initiatives identified within the Sustainable Sydney 2030 Community Strategic Plan. The level of the City's internal and external restrictions will be reviewed again as part of the preparation of the 2014/15 Annual Financial Statements which will be presented to Council in October 2015.
7. Key commitments within the City's Long Term Financial Plan include public domain works in the CBD to support the implementation of the CBD and South East light rail project and stormwater, town centre infrastructure and community facilities in the Green Square urban renewal area. The balance of investment funds represents working capital and funding required for the City's operating and other capital expenditure commitments.
8. Council achieved an annualised monthly return of 3.29% for August, significantly above the 30 Day Bank Bill Rate (BBR) of 2.05%, the July AusBond Bank Bill Index of 2.14% and the enhanced benchmark of 2.45% (BBR + 0.40%) as endorsed in the Investment Strategy for 2015. At the time of writing, the August AusBond Bank Bill Index was yet to be released.
9. Council's annual rolling return of 3.42% also continues to exceed the 12 month 30 Day BBR of 2.35%, the July AusBond Bank Bill Index of 2.55% and the enhanced benchmark of 2.75% (BBR + 0.40%) as endorsed in the Investment Strategy for 2015. At the time of writing, the August AusBond Bank Bill Index was yet to be released.
10. The outperformance of both the industry and enhanced benchmarks remains due to the acquisition over the last two or three years of investments with locked in higher yields in anticipation of future rate cuts. The situation is expected to gradually decline over the next two to three years as these investments steadily mature.

11. The RBA cut the official rate to 2.50% in August 2013 where it remained until further reductions of 0.25% each in February and May 2015 to leave the rate at 2.00%. The market has responded accordingly by offering lower yields on investments, which is likely to have an adverse impact on Council's future investment returns.

KEY IMPLICATIONS

12. Council's investments accord with all legislative and policy requirements, as detailed below, and continue to achieve returns above minimum benchmark rates.

FINANCIAL IMPLICATIONS

13. Council's investments earned interest of \$1.64M for the month of August 2015, against budgeted earnings of \$1.5M, reflecting the higher than anticipated opening cash balances for the year.
14. Subject to further interest rate movements and Council's cash balances, it is expected that the full year interest income full year interest income forecast will meet the full year budget of \$18.0M.

RELEVANT LEGISLATION

15. Council is authorised to invest its surplus cash under section 625 of the Local Government Act 1993.
16. The Local Government (General) Regulation 2005 (clause 212) requires Council to provide a written monthly report of all monies invested, under section 625 of the Act.
17. Council's investments accord with the Minister's Investment Order, the Office of Local Government's Investment Policy Guidelines, and the City's own Investment Policy and Strategy as adopted by Council on 30 March 2015.

CRITICAL DATES / TIME FRAMES

18. A monthly investment report must be submitted for Council's information and review within the following month.

PUBLIC CONSULTATION

19. Consultation is regularly undertaken with a number of financial institutions and investment advisers to consider options and ensure that Council continues to maximise its investment return within appropriate risk parameters.

BILL CARTER

Chief Financial Officer