

**ITEM 3. INVESTMENTS HELD AS AT 31 OCTOBER 2015**

**FILE NO: S034147**

**SUMMARY**

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

Council's total Investment and Cash position was forecast to be \$651M at the end of October, with investments earning interest of \$1.8M for the month.

The majority of the City's cash and investments portfolio are held as internally restricted (\$388.8M) and externally restricted (\$129.1M) 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.

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 3.28% for October, significantly above the 30 Day Bank Bill Rate (BBR) of 2.04%, the Bloomberg AusBond Bank Bill Index of 2.25% and the enhanced benchmark of 2.44% (BBR + 0.40%) as endorsed in the Investment Strategy for 2015.

Council's annual rolling return of 3.37% also continues to exceed the 12 month 30 Day BBR of 2.25%, the Bloomberg AusBond Bank Bill Index of 2.43% and the enhanced benchmark of 2.65% (BBR + 0.40%) as endorsed in the Investment Strategy for 2015.

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 October 2015 be received and noted.

**ATTACHMENTS**

**Attachment A:** Register of Investments and Cash as at 31 October 2015

**Attachment B:** Investment Performance as at 31 October 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. Council's total Investment and Cash position is forecast to be \$651M at 31 October, a decrease of \$16.7M from the \$667.7M reported at 30 September 2015, reflecting revenue receipts offset by capital works expenditure and other operational payments. A schedule detailing all of Council's investments as at the end of October is provided at Attachment A.
5. The majority of the City's cash and investments portfolio are held as internally restricted (\$388.8M) and externally restricted (\$129.1M) 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.
6. 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.
7. Council achieved an annualised monthly return of 3.28% for October, significantly above the 30 Day Bank Bill Rate (BBR) of 2.04%, the Bloomberg AusBond Bank Bill Index of 2.25% and the enhanced benchmark of 2.44% (BBR + 0.40%) as endorsed in the Investment Strategy for 2015.
8. Council's annual rolling return of 3.37% also continues to exceed the 12 month 30 Day BBR of 2.25%, the Bloomberg AusBond Bank Bill Index of 2.43% and the enhanced benchmark of 2.65% (BBR + 0.40%) as endorsed in the Investment Strategy for 2015.
9. 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.
10. The RBA cut the official rate to 2.50% in October 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.
11. It is worth noting Council's position on investment in fossil fuel or fossil-fuel aligned companies, given the recent media attention on the issue, and reports of significant movement in other councils' policy positions.

12. The City's Investment Policy and Investment Strategy, which are reviewed and endorsed annually by Council, are significantly constrained by the requirements of the NSW Local Government Act 1993, through a Ministerial Investment Order. The Order does not allow investment in equities or corporate debt instruments, and councils are prohibited from direct investment in any company, including fossil fuel or fossil-fuel aligned companies.
13. The City's Policy does, however, encourage socially responsible investments that meet the security, risk and return requirements expected within a diversified investment portfolio that needs to safeguard public moneys. Council officers continue to promote interest, and actively advocate for these investment opportunities within the banking industry, and it should be noted the major banks are investigating the development of suitable products. They advise that the major barrier is their difficulty in matching the level of funds available for socially responsible opportunities to investment instruments that meet the credit risk and maturity profile requirements of councils.
14. It is also worth noting that Council has previously invested in a range of capital protected notes, provided by the commercial banking industry and specifically targeted to promote socially responsible investment opportunities, including green infrastructure initiatives such as solar farms and water recycling plants. These investments were impacted by the global financial crisis and, while ratepayers' funds were not lost, interest earnings were impacted and these types of investments were excluded from the Minister's Investment Order when it was revised in 2008.

#### **KEY IMPLICATIONS**

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

#### **FINANCIAL IMPLICATIONS**

16. Council's investments earned interest of \$1.8M for the month of October 2015, against budgeted earnings of \$1.2M, reflecting the higher than anticipated opening cash balances for the year.
17. Subject to further interest rate movements and Council's cash balances, the full year interest income forecast is \$19.3M which will exceed the full year budget of \$15.2M.

#### **RELEVANT LEGISLATION**

18. Council is authorised to invest its surplus cash under section 625 of the Local Government Act 1993.
19. 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.
20. 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**

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

**PUBLIC CONSULTATION**

22. 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