

ITEM 4. INVESTMENTS HELD AS AT 31 JANUARY 2016

FILE NO: S034147

SUMMARY

This report provides details of Council's forecast investment portfolio and performance as at 31 January 2016.

Council's total Investment and Cash position was \$569.9M at the end of January, with investments earning interest of \$1.4M for the month.

The majority of the City's cash and investments portfolio are held as internally restricted (\$350.0M) and externally restricted (\$144.6M) 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 3.33% for January, significantly above the 30 Day Bank Bill Rate (BBR) of 2.05%, the Bloomberg AusBond Bank Bill Index of 2.39% and the enhanced benchmark of 2.45% (BBR + 0.40%) as endorsed in the Investment Strategy for 2015.

Council's annual rolling return of 3.33% also continues to exceed the 12 month 30 Day BBR of 2.11%, the Bloomberg AusBond Bank Bill Index of 2.28% and the enhanced benchmark of 2.51% (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 January 2016 be received and noted.

ATTACHMENTS

Attachment A: Register of Investments and Cash as at 31 January 2016.

Attachment B: Investment Performance as at 31 January 2016.

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 \$569.9M at 31 January 2016, an increase of \$2.3M from the \$567.6M reported at 31 December 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 January is provided at Attachment A.
5. The majority of the City's cash and investments portfolio are held as internally restricted (\$350.0M) and externally restricted (\$144.6M) 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.
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 3.33% for January, significantly above the 30 Day Bank Bill Rate (BBR) of 2.05%, the Bloomberg AusBond Bank Bill Index of 2.39% and the enhanced benchmark of 2.45% (BBR + 0.40%) as endorsed in the Investment Strategy for 2015.
8. Council's annual rolling return of 3.33% also continues to exceed the 12 month 30 Day BBR of 2.11%, the Bloomberg AusBond Bank Bill Index of 2.28% and the enhanced benchmark of 2.51% (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 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

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

FINANCIAL IMPLICATIONS

12. Council's investments earned interest of \$1.4M for the month of January 2015, against budgeted earnings of \$1.2M, reflecting the higher than anticipated opening cash balances for the year.
13. Subject to further interest rate movements and Council's cash balances, the full year interest income forecast is \$19.2M which will exceed the full year budget of \$15.1M.

RELEVANT LEGISLATION

14. Council is authorised to invest its surplus cash under section 625 of the Local Government Act 1993.
15. 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.
16. 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

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

PUBLIC CONSULTATION

18. 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