

ITEM 3. INVESTMENTS HELD AS AT 30 SEPTEMBER 2016

FILE NO: X005604

SUMMARY

This report provides details of Council's investment portfolio and performance to 30 September 2016.

Council's total Investment and Cash position is forecast to be \$611.7M at the end of September, with investments earning interest of \$1.3M for the month.

The majority of the City's cash and investments portfolio are held as internally restricted (\$346.1M) and externally restricted (\$141.6M) 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 3.02% for September, significantly above the 30 Day Bank Bill Rate (BBR) of 1.62%, the August AusBond Bank Bill Index, published by Bloomberg, of 2.03% and the enhanced benchmark of 2.07% (BBR + 0.45%) as endorsed in the Investment Strategy for 2016. At the time of writing, the September AusBond Bank Bill Index was yet to be released.

Council's annual rolling return of 3.17% also continues to exceed the 12 month 30 Day BBR of 1.94%, the August AusBond Bank Bill Index of 2.22% and the enhanced benchmark of 2.39% (BBR + 0.45%) as endorsed in the Investment Strategy for 2016. At the time of writing, the September AusBond Bank Bill Index was yet to be released.

In accordance with Council's Investment Policy, the quarterly investment reports advise the latest indicative market valuations of all direct securities (being Floating Rate Notes). The value of the current portfolio increased by \$0.6M during the September quarter in a volatile market. The movement represented 0.23% of the total value of the relevant securities.

The report includes graphs which demonstrate that Council's liquidity profile continues to satisfy the requirements of the policy, and charts to identify the distribution of Council's portfolio across credit ratings, investment product types and investment institutions. Separate charts depicting the City's portfolio returns over and above both the 90 day Bloomberg AusBond and 30 day BBR benchmarks for the past eight years have also been included to provide further insight into the City's total investment portfolio performance.

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 and meets NSW Treasury guidelines.

RECOMMENDATION

It is resolved that the Investment Report as at 30 September 2016 be received and noted.

ATTACHMENTS

Attachment A: Register of Investments and Cash as at 30 September 2016.

Attachment B: Investment Performance as at 30 September 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) by 45 basis points while performance continues to be also measured against the Bloomberg AusBond Bank Bill Index.
4. Council's total Investment and Cash position as at 30 September 2016 is forecast to be \$611.7M, a decrease of \$15.5M from the \$627.2M reported at 31 August 2016 reflecting rates and revenue receipts offset by capital works expenditure and other operational payments. A schedule detailing all of Council's investments as at the end of September is provided at Attachment A.
5. The majority of the City's cash and investments portfolio are held as internally restricted (\$346.1M) and externally restricted (\$141.6M) 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 3.02% for September, significantly above the 30 Day Bank Bill Rate (BBR) of 1.62%, the August AusBond Bank Bill Index, published by Bloomberg, of 2.03% and the enhanced benchmark of 2.07% (BBR + 0.45%) as endorsed in the Investment Strategy for 2016. At the time of writing, the September AusBond Bank Bill Index was yet to be released.
8. Council's annual rolling return of 3.17% also continues to exceed the 12 month 30 Day BBR of 1.94%, the August AusBond Bank Bill Index of 2.22% and the enhanced benchmark of 2.39% (BBR + 0.45%) as endorsed in the Investment Strategy for 2016. At the time of writing, the September AusBond Bank Bill Index was yet to be released.
9. The outperformance of both the industry and enhanced benchmarks has continued 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, May 2015, May and August 2016 to leave the rate at 1.50%. 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. In accordance with Council's Investment Policy, the quarterly investment reports advise the latest indicative market valuations of all direct securities (being Floating Rate Notes). The value of the current portfolio increased by \$0.6M during the September quarter in a volatile market. The movement represented 0.23% of the total value of the relevant securities.
12. The value of the current portfolio includes a total unrealised gain of \$2.4M which has arisen because of the significant number of investments held by Council that have locked in higher yields that significantly exceed the earning rates that are currently offered in the market. Council regularly assesses whether to realise the gain through a sale of those investments. Council will only realise the gain if the amount of the gain and the returns from its subsequent reinvestment significantly exceed the future interest earnings yet to be generated by holding the current investments to maturity.
13. The report also includes graphs which demonstrate that Council's liquidity profile continues to satisfy the requirements of the policy, and charts to identify the distribution of Council's portfolio across credit ratings, investment product types and investment institutions. Separate charts depicting the City's portfolio returns over and above both the 90 day Bloomberg AusBond and 30 day BBR benchmarks for the past ten years have also been included to provide further insight into the City's total investment portfolio performance.
14. Council has, for an extended period, outperformed the industry benchmarks and enhanced benchmarks (Investment Strategy benchmarks based on returns currently available in the 30-90 day investment market) on both a monthly and annual rolling basis. Council was able to lock in, over the past two to three years, a number of investments that had fixed rates above 5.00% p.a. as well as floating rates that had fixed margins which were significantly above the risk free rate. As these investments mature, Council will only be able to achieve the lower rates offered in the market.
15. These investments will continue to generate an enhanced performance until they have all matured within the next three years. The investments are maturing gradually over each month and, consequently, the margin of achieved performance over benchmarks will also decline.
16. 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.

KEY IMPLICATIONS

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

FINANCIAL IMPLICATIONS

18. Council's investments earned interest of \$1.3M for the month of September 2016, against budgeted earnings of \$1.2M, reflecting higher than anticipated opening cash balances for the year. Year to date earnings are \$0.1M higher than anticipated in the budget.

RELEVANT LEGISLATION

19. Council is authorised to invest its surplus cash under section 625 of the Local Government Act 1993.
20. 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.
21. 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 31 March 2016.

CRITICAL DATES / TIME FRAMES

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

PUBLIC CONSULTATION

23. 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