

**ITEM 3. INVESTMENTS HELD AS AT 31 OCTOBER 2016**

**FILE NO: X005605**

**SUMMARY**

This report provides details of Council's investment portfolio and performance to 31 October 2016.

Council's total Investment and Cash position was \$601.4M at the end of October, 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 (\$346.1M) and externally restricted (\$88.2M) 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 2.96% for October, significantly above the 30 Day Bank Bill Rate (BBR) of 1.62%, the AusBond Bank Bill Index, published by Bloomberg, of 1.75% and the enhanced benchmark of 2.07% (BBR + 0.45%) as endorsed in the Investment Strategy for 2016.

Council's annual rolling return of 3.12% also continues to exceed the 12 month 30 Day BBR of 1.90%, the AusBond Bank Bill Index of 2.14% and the enhanced benchmark of 2.35% (BBR + 0.45%) as endorsed in the Investment Strategy for 2016.

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 have recently been further strengthened to state the City's preference for re-investing its surplus funds in line with its community environmental expectations as identified in Sustainable Sydney 2030.

**RECOMMENDATION**

It is resolved that the Investment Report as at 31 October 2016 be received and noted.

**ATTACHMENTS**

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

**Attachment B:** Investment Performance as at 31 October 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 31 October 2016 was \$601.4M, a decrease of \$10.3M from the \$611.7M reported at 30 September 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 (\$88.2M) 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 2.96% for October, significantly above the 30 Day Bank Bill Rate (BBR) of 1.62%, the AusBond Bank Bill Index, published by Bloomberg, of 1.75% and the enhanced benchmark of 2.07% (BBR + 0.45%) as endorsed in the Investment Strategy for 2016.
8. Council's annual rolling return of 3.12% also continues to exceed the 12 month 30 Day BBR of 1.90%, the AusBond Bank Bill Index of 2.14% and the enhanced benchmark of 2.35% (BBR + 0.45%) as endorsed in the Investment Strategy for 2016.
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.

**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 October 2016, against budgeted earnings of \$1.2M, reflecting 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 \$15.6M against a budget of \$14.1M

**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. The Investment Policy and Strategy was revised in October 2016, to strengthen Council's commitment to sustainable investments where returns and risks are equivalent by changing the word 'desirable' to 'preferred' under the environmentally and socially responsible investment criteria. The revision also expanded the definition of environmentally harmful activities to include specific reference to coal, gas and oil.
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 31 October 2016.

**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.
20. Council does meet regularly with representatives of each of the 'Big 4' banks. At these meetings, Council officers actively advocate for socially responsible investment (SRI) opportunities. To date, feedback from these meeting is that there is a well-known appetite in the market for these products and they are investigating the development of suitable products; however, it is difficult to match the level of funds to available SRI opportunities that meets, both, the credit risk and maturity profile requirements of Council.

**BILL CARTER**  
Chief Financial Officer