

ITEM 2. INVESTMENTS HELD AS AT 30 NOVEMBER 2016

FILE NO: X005605

SUMMARY

This report provides details of Council's investment portfolio and performance forecast to be achieved at 30 November 2016.

Council's total Investment and Cash position is forecast to be \$613.6M at the end of November, with investments earning interest of \$1.4M for the month. Due to the timing of reports to Council, this report was prepared on 28 November 2016 rather than after the close of the month. No material change is expected in the last few days of 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 2.91% for November, significantly above the 30 Day Bank Bill Rate (BBR) of 1.62%, the October 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. At the time of writing, the November AusBond Bank Bill Index was yet to be released.

Council's annual rolling return of 3.07% also continues to exceed the 12 month 30 Day BBR of 1.86%, the October AusBond Bank Bill Index of 2.14% and the enhanced benchmark of 2.31% (BBR + 0.45%) as endorsed in the Investment Strategy for 2016. At the time of writing, the November 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 remain appropriate for the current global and domestic economic conditions and which 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 30 November 2016 be received and noted.

ATTACHMENTS

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

Attachment B: Investment Performance as at 30 November 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 is forecast to be \$613.6M as at 30 November 2016, an increase of \$12.2M from the \$601.4M reported at 31 October 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 November 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 2.91% for November, significantly above the 30 Day Bank Bill Rate (BBR) of 1.62%, the October 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. At the time of writing, the November AusBond Bank Bill Index was yet to be released.
8. Council's annual rolling return of 3.07% also continues to exceed the 12 month 30 Day BBR of 1.86%, the October AusBond Bank Bill Index of 2.14% and the enhanced benchmark of 2.31% (BBR + 0.45%) as endorsed in the Investment Strategy for 2016. At the time of writing, the November AusBond Bank Bill Index was yet to be released.
9. The outperformance against 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 left 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, noting that longer term interest rates have increased slightly in recent weeks.

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 November 2016, against budgeted earnings of \$1.17M, reflecting higher than anticipated opening cash balances.
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 were 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 24 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 Councils

BILL CARTER
Chief Financial Officer