

ITEM 3. INVESTMENTS HELD AS AT 31 MAY 2017

FILE NO: X005605

SUMMARY

This report provides details of Council's investment portfolio and performance to 31 May 2017.

Council's total Investment and Cash position was \$582.0M at the end of May, 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 (\$350.3M) and externally restricted (\$95.3M) 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 2.76% for May, significantly above the 30 Day Bank Bill Rate (BBR) of 1.62%, the AusBond Bank Bill Index, published by Bloomberg, of 1.78%, and the enhanced benchmark of 2.07% (BBR + 0.45%) as included in the Investment Strategy adopted by Council on 24 October 2016.

Council's annual rolling return of 2.81% also continues to exceed the 12 month 30 Day BBR of 1.66%, AusBond Bank Bill Index of 1.84%, and the enhanced benchmark of 2.11% (BBR + 0.45%) included in the Investment Strategy.

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 May 2017 be received and noted.

ATTACHMENTS

Attachment A: Register of Investments and Cash as at 31 May 2017.

Attachment B: Investment Performance as at 31 May 2017.

BACKGROUND

1. In accordance with the principles of sound 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 May 2017 was \$582.0M, an increase of \$23.8M from the \$558.2M reported at 30 April 2017, 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 May is provided at Attachment A.
5. The majority of the City's cash and investments portfolio are held as internally restricted (\$350.3M) and externally restricted (\$95.3M) 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 2.76% for May, significantly above the 30 Day Bank Bill Rate (BBR) of 1.62%, the AusBond Bank Bill Index, published by Bloomberg, of 1.78%, and the enhanced benchmark of 2.07% (BBR + 0.45%) as included in the Investment Strategy adopted by Council on 24 October 2016.
8. Council's annual rolling return of 2.81% also continues to exceed the 12 month 30 Day BBR of 1.66%, AusBond Bank Bill Index of 1.84%, and the enhanced benchmark of 2.11% (BBR + 0.45%) as included in the Investment Strategy.
9. The RBA cut the official cash 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 responded by offering lower yields on investments which will ultimately adversely impact Council's future investment returns, noting that longer term interest rates have increased slightly in recent weeks.
10. Council has been able to outperform the industry benchmarks, and our own enhanced benchmarks (Investment Strategy benchmarks are based on returns currently available in the 30-90 day investment market), on both a monthly and annual rolling basis. This performance largely reflects Council's prior decisions to lock in a number of investments with fixed rates above 5% p.a. and floating rates with fixed margins significantly above the risk free rate, however as these investments mature, surplus funds will be reinvested at lower rates as offered in the market.

11. 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.
12. In May 2017, Standard and Poors Global Ratings (S&P) downgraded its long term ratings for 23 Australian financial institutions, reflecting their view of the risks associated with the ongoing build-up of private sector debt and housing prices, particularly in Sydney and Melbourne. A number of the financial institutions with which the City invests were affected, however both the Bank of Queensland and Bendigo & Adelaide Bank were downgraded from A- to BBB+ rating, which has implications for our investment requirements.
13. The City's Investment Policy includes a tiered risk management structure that limits the exposure of Council's surplus funds to individual financial institutions, including a consideration of their risk rating within the market. The downgrade to below A rating for these two institutions reduces the maximum amount that may be invested to \$10M. The City currently holds \$16M worth of long-term investments with Bendigo & Adelaide Bank, with an earliest maturity date scheduled of 14 November 2018 for \$6M. The Investment Policy's "grandfathering" provisions will be applied, which allows the existing investments to be maintained or divested in accordance with all regular investment considerations, but no further investment is permissible.
14. It is worth noting that the City references three rating agencies to determine its credit rating bands, however where investments or institutions are rated by more than one ratings agency, the City will assess credit ratings based on the order of S&P, Moodys and then Fitch. The downgrade of long term ratings for the 23 Australian financial institutions has only been declared by S&P, and at the date of this report, Moodys and Fitch have made no announcements regarding any change to the credit worthiness of the Australian financial institutions.

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 \$1.4M for the month of May 2017, against budgeted earnings of \$1.2M. Earnings for the full year are forecast to achieve \$16.5M and exceed the annual budget of \$14.1M.

RELEVANT LEGISLATION

17. Council is authorised to invest its surplus cash under Section 625 of the Local Government Act 1993.
18. 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.
19. The Investment Policy and Strategy was revised in October 2016, strengthening 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.

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 24 October 2016.

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.
23. Council officers meet regularly with representatives of each of the 'Big 4' banks and with other Authorised Deposit-taking Institutions (ADI). At these meetings, Council officers actively advocate for socially responsible investment (SRI) opportunities. To date, feedback from these meetings indicates that there is a well-known appetite in the market for these products and financial institutions continue to investigate the development of suitable products, however it is difficult to match the level of funds to available SRI opportunities whilst meeting both the credit risk and maturity profile requirements of councils.

BILL CARTER
Chief Financial Officer