

**ITEM 4. INVESTMENTS HELD AS AT 31 JULY 2017**

**FILE NO: X005605**

**SUMMARY**

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

Council's total Investment and Cash position is forecast to be \$500.1M at the end of July, with investments earning interest of \$1.2M for the month.

The majority of the City's cash and investments portfolio is held as internally restricted (\$301.7M) or externally restricted (\$101.6M) 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 2.83% for July, significantly above the 30 Day Bank Bill Rate (BBR) of 1.61%, the June AusBond Bank Bill Index (published by Bloomberg) of 1.72% and the enhanced benchmark of 2.06% (BBR + 0.45%) as endorsed in October 2016 as part of the Investment Strategy. At the time of writing, the July AusBond Bank Bill Index had not been released.

Council's annual rolling return of 2.86% also continues to exceed the 12 month average 30 Day BBR of 1.62%, the June AusBond Bank Bill Index of 1.82% and the enhanced benchmark of 2.07% (BBR + 0.45%) as endorsed in the Investment Strategy in October 2016. At the time of writing, the July AusBond Bank Bill Index had not been released.

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. Both the Policy and Strategy were further strengthened to state the City's preference for re-investing its surplus funds in line with community environmental expectations as identified in Sustainable Sydney 2030.

**RECOMMENDATION**

It is resolved that the Investment Report as at 31 July 2017 be received and noted.

**ATTACHMENTS**

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

**Attachment B:** Investment Performance as at 31 July 2017.

**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 also continues to be measured against the Bloomberg AusBond Bank Bill Index.
4. Council's forecasted total Investment and Cash position as at 31 July 2017 is \$500.1M, a decrease of \$12.3M from the \$512.4M reported at 30 June 2017, reflecting operating income offset by capital works expenditure and other operational payments. A schedule detailing all of Council's investments as at the end of July is provided at Attachment A.
5. The majority of the City's cash and investments portfolio is held as internally restricted (\$301.7M) or externally restricted (\$101.6M) 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 2.83% for July, significantly above the 30 Day Bank Bill Rate (BBR) of 1.61%, the June AusBond Bank Bill Index (published by Bloomberg) of 1.72% and the enhanced benchmark of 2.06% (BBR + 0.45%) as endorsed in October 2016 as part of the Investment Strategy. At the time of writing, the July AusBond Bank Bill Index had not been released.
8. Council's annual rolling return of 2.86% also continues to exceed the 12 month average 30 Day BBR of 1.62%, the June annual average AusBond Bank Bill Index of 1.82% and the enhanced benchmark of 2.07% (BBR + 0.45%) as endorsed in the Investment Strategy in October 2016. At the time of writing, the July AusBond Bank Bill Index had not been released.
9. 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 a continued adverse impact on 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 4.5% p.a. and floating rates with fixed margins significantly above the risk free rate. However, as these investments mature, surplus funds will likely 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. As noted in the May and June investment reports, Standard and Poors Global Ratings (S&P) downgraded its long term ratings for 23 Australian financial institutions in May 2017, 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, the most significant implications were as a result of both the Bank of Queensland and Bendigo & Adelaide Bank being downgraded from A- to BBB+ rating. The downgrade of these institutions will affect the future placement of funds in order to ensure ongoing compliance with the Policy.
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, which incorporates 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 each. The City currently holds \$16M of long-term investments with Bendigo & Adelaide Bank, with the earliest maturity date scheduled for a \$6M investment on 14 November 2018. The Investment Policy's "grandfathering" provisions will be applied, which allow the existing investments to be maintained or divested in accordance with all regular investment considerations, but no further investment will be permissible at this time.

#### **KEY IMPLICATIONS**

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

#### **FINANCIAL IMPLICATIONS**

15. Council's investments earned interest of \$1.2M for the month of July 2017, against budgeted earnings of \$1.1M. Investment earnings for the full year are forecast at \$13.0M.

#### **RELEVANT LEGISLATION**

16. Council is authorised to invest its surplus cash under Section 625 of the Local Government Act 1993.
17. 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.

18. 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.
19. 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**

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

**PUBLIC CONSULTATION**

21. 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.
22. Council does meet regularly with representatives of each of the 'Big 4' banks and NSW TCorp. At these meetings, Council officers actively advocate for socially responsible investment (SRI) opportunities. To date, feedback from these meetings 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 meet both the credit risk and maturity profile requirements of Councils.

**BILL CARTER**  
Chief Financial Officer