

ITEM 4. INVESTMENTS HELD AS AT 31 JANUARY 2018

FILE NO: X011299

SUMMARY

This report provides details of Council's investment portfolio and performance to 31 January 2018.

Council's total Investment and Cash position is forecast to be \$584.8M at the end of January, with investments earning interest of \$1.4M for the month.

The majority of the City's cash and investments portfolio is held as internally restricted (\$310.2M) or externally restricted (\$102.0M) 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 represent working capital and funding required for the City's operating and capital expenditure commitments.

Council achieved an annualised monthly return of 2.67% for January, significantly above the 30 Day Bank Bill Rate (BBR) of 1.70%, the AusBond Bank Bill Index (published by Bloomberg) of 1.94% and the enhanced benchmark of 2.15% (BBR + 0.45%) as endorsed in October 2017 as part of the Investment Strategy.

Council's annual rolling return of 2.66% also continues to exceed the 12 month average 30 Day BBR of 1.62%, the AusBond Bank Bill Index of 1.75% and the enhanced benchmark of 2.07% (BBR + 0.45%) as endorsed in the Investment Strategy in October 2017.

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. The policy and strategy also maintains 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.

RECOMMENDATION

It is resolved that the Investment Report as at January 2018 be received and noted.

ATTACHMENTS

Attachment A: Register of Investments and Cash as at January 2018

Attachment B: Investment Performance as at January 2018

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 total Investment and Cash position as at 31 January 2018 was \$584.8M, a decrease of \$13.6M from the \$598.4M reported at 31 December 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 January is provided at Attachment A.
5. The majority of the City's cash and investments portfolio are held as internally restricted (\$310.2M) or externally restricted (\$102.0M) 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 2.67% for January, significantly above the 30 Day Bank Bill Rate (BBR) of 1.70%, the AusBond Bank Bill Index (published by Bloomberg) of 1.94% and the enhanced benchmark of 2.15% (BBR + 0.45%) as endorsed in October 2017 as part of the Investment Strategy.
8. Council's annual rolling return of 2.66% also continues to exceed the 12 month average 30 Day BBR of 1.62%, the AusBond Bank Bill Index of 1.75% and the enhanced benchmark of 2.07% (BBR + 0.45%) as endorsed in the Investment Strategy in October 2017.
9. The RBA last adjusted the official cash rate in August 2016, when it was reduced to 1.50%. The market subsequently responded accordingly, and lower yields on investments have had a sustained adverse impact on Council's portfolio return. This trend is anticipated to continue, though in recent periods some improvement in longer term interest rates has been noted.

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 of 4.5% p.a. and floating rates with fixed margins significantly above the risk free rate. However, as these investments have continued to mature, surplus funds have been 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 recent 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 have been applied, allowing 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 \$1.4M for the month of January 2018, against budgeted earnings of \$1.1M. Investment earnings for the full year are forecast at \$13.9M, ahead of the full year budget of \$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 2017, maintaining 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 maintained the broadening of 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 16 October 2017.

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 Council.

Bill Carter
Chief Financial Officer