

Relevant Information for Council

FILE: X020701 **DATE:** 20 October 2023

TO: Lord Mayor and Councillors

FROM: Bill Carter, Chief Financial Officer

THROUGH: Monica Barone, Chief Executive Officer

SUBJECT: Information Relevant To Item 6.5 – Review of the Investment Policy and Strategy

For Noting

This memo is for the information of the Lord Mayor and Councillors.

Purpose

This memo provides additional information in relation to the report prepared for Council's annual review of the Investment Policy and Strategy.

Background

At the meeting of the Corporate, Finance, Properties and Tenders Committee on 16 October 2023, further information was sought on the following:

Clarification of the language used in the policy ('cash and investments') and how it is derived from the legislative framework including the Local Government Act 1993

The Local Government Act 1993 (section 625) states that councils may invest funds that are not immediately required for council's purposes but limited to a form of investment approved within the Ministerial Investment Order, as published in the Gazette.

The most recent Ministerial Investment Order states that councils may only invest money (on the basis that all investments to be denominated in Australian Dollars) in the following forms of investment:

- (a) public funds or securities issued or guaranteed by the commonwealth, and State or Territory;

- (b) and debentures or securities issued by a council;
- (c) interest bearing deposits, or debentures or bonds, issued by an authorised deposit taking institution, as defined in the Commonwealth banking Act 1959);
- (d) any bill of exchange with a maturity date of not more than 200 days which confers a right of recourse against an APRA authorised deposit taking institution; or
- (e) a deposit with the NSW Treasury Corporation or investments in an Hour-Glass investment facility of the NSW Treasury Corporation.

The Order requires all councils to adopt an investment policy that is consistent with this Order and any guidelines issued by the NSW Government.

The Office of Local Government Investment Policy Guidelines defines the legislative framework for council's investment of surplus funds, those funds not immediately required for council's purposes. This framework identifies the Local Government Act 1993 requirements, including the section 625 limitations discussed above, and section 413 which stipulates the accounting and reporting requirements for investments to be complied within the annual financial reports. The legislative framework also includes the Local Government (General Regulation) 2021, section 212, which requires a monthly investment report to council.

The Local Government Act, Regulation, Guidelines and the Local Government Code of Accounting Practice and Financial Reporting all use the term "cash and investments", to reference the investment of surplus cash, and all in this regard are solely concerned with the appropriate investment, management and reporting of surplus cash.

It is worth noting that the distinction between cash and investments in this context is solely concerned with distinguishing cash that is immediately available for operational needs, and investments that at time of placement have maturity dates of at least 30 days. Investments of cash are further classified within the annual financial report as "current" when they are expected to mature in the coming 12 months, or "non-current" when they are expected to mature beyond that term. This distinction is important within the annual financial reports as the former are included within the analysis of a council's financial liquidity ratios, whereas the latter are excluded given their longer term to maturity.

The City's Investment Policy defines these terms in line with the Office of Local Government Investment Policy Guidelines and the use of those terms in the Investment Policy is consistent with the definitions within the document.

Explain the City's Long Term Financial Plan, how it plans to fund the City's existing financial obligations (services, asset management, etc.) and commitments, and how this informs the investments that would be made in accordance with the Investment Policy. Provide further clarity / explanation of 'unrestricted' / 'unallocated' funds

The Integrated Planning and Reporting framework sets out the City's plans and commitments for its community over a one year (Operational Plan), four year (Delivery Program) and ten year (Community Strategic Plan - Delivering Sustainable Sydney 2030-2050) horizon.

The Resourcing Strategy sits alongside these plans, and sets out the City's overall long term resource allocation plans, to support the community's objectives as expressed in the community strategic plan. It includes the Long Term Financial Plan (LTFP), Asset

Management Plan, People Strategy, Information and Technology Strategy, and Community Engagement Strategy Workforce Plan.

The City's Long Term Financial Plan aims to capture the amounts and timing of payment required for all of the resources required to support the City's plans and commitments for its community, including the services, facilities, activities, asset maintenance, capital works and acquisitions that will need to be funded by the City's accumulated cash and expected future revenue streams.

All sources of restricted and unrestricted funds, both known and estimated over the ten years of the plan, are allocated to meet the City's objectives over the life of the plan. The City does not restrict all of the funds that are required to satisfy its known and projected commitments, including future years services and much of its capital works program. Any Council activity, or commitment not funded by specifically restricted funds, will therefore be funded by current or future unrestricted cash.

It is also important to remember that the vast majority of the \$200M that the City plans to hold as a minimum cash balance, by the end of the ten year planning horizon, is required to offset all or part of the City's ongoing obligations including developer contributions, insurance requirements, security deposits and provisions towards employee leave entitlements.

The City's investment intentions are initially guided by the expected timing of the cash inflows and outflows, recognising that the planned timing of requirements constantly change and are subject to unanticipated events beyond the City's control. As a result, the portfolio and evolving changes are constantly monitored, and a flexible approach to address changing circumstances is appropriate to optimise returns while still ensuring sufficient liquidity and the security of the funds.

Memo from Bill Carter, Chief Financial Officer

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Approved

P. M. Barone

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Chief Executive Officer