

Relevant Information for Council

FILE: S088829.002 **DATE:** 21 November 2024

TO: Lord Mayor and Councillors

FROM: Scott McGill, A/Chief Financial Officer

THROUGH: Monica Barone PSM, Chief Executive Officer

SUBJECT: Information Relevant To Item 6.5 – Investments Held as at 31 October 2024

For Noting

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

Purpose

To provide additional information relating to aspects of the City's Investment Report and Investment Policy, as requested by the Corporate, Finance, Properties and Tenders Committee on 11 November 2024

Background

At the meeting of the Corporate, Finance, Properties and Tenders Committee on 11 November 2024, further information was sought on the following;

The City's relationship with Westpac

The City has utilised Westpac Bank as its corporate bank services provider for transactional banking for over 30 years.

The current banking services contract with Westpac Banking Corporation was renewed in September 2023. The Local Government Act 1993 generally requires councils to issue tenders for all goods and services with a total contract value exceeding \$250,000, however section 55(1)(f) provides a specific exemption for contracts relating to the provision of banking services.

Notwithstanding this exception, and the significant administrative effort to change bankers, the City tests the market towards the end of each contract term to ensure best value for ratepayers. Prior to re-engaging Westpac in 2023, a review of banking services requirements was undertaken.

Factors that were considered included:

- The capacity of the financial institution to deliver the full range of banking services required by the City.
- The ability of the bank to deliver accurate and timely processing of transactions for the volume of business generated by the City.
- A commitment to advise the City of ongoing changes to the Australian banking environment, to identify risks and opportunities that the City can avoid / leverage to ensure that we continue to provide effective and efficient in-person and digital operational facilities for our community.
- The cost structure and amount of bank charges in respect of those services.
- Value for money for the services provided.

Westpac was found to be able to meet all these requirements. Fees under the contract had previously been negotiated with reference to NSW Government contract rates and were revalidated to identify cost savings and efficiencies. The City has generally been able to leverage favourable rates due to its scale compared to other councils.

In Australia, institutional banking services of a scale and capacity required by the City's operations are almost wholly limited to 'Big 4' banks. Furthermore, it should be noted that Westpac's performance over many years has been of a consistently high standard. The City has built and maintains an excellent working relationship with the bank's representatives, and many of the City's financial systems have integration points that have been designed and built to ensure seamless transactions from our customers to bank.

In addition, Westpac has a commitment to improving sustainability outcomes products. The City has invested in the first release of new sustainable investment products developed by Westpac. Such products have been independently certified to meet the Climate Bonds Standard while not compromising the credit risk of the product.

Mid-size banks

As set out in the City's Investment Policy, investment limits are not constrained by institution size but rather by credit rating. Credit risk investment parameters are based on credit rating bands as published by the credit rating agencies (S&P, Moody's and Fitch). An institution's size may influence its credit rating, but is not explicitly considered when investment decisions are determined.

Council diversifies its portfolio into a number of financial institutions as part of the risk management process. As noted above, limitations are placed on the amounts placed with individual institutions based upon their respective creditworthiness and financial strength. This measured approach has served Council well over the past decade delivering above endorsed benchmark returns.

The City currently holds investments with mid-tier banks rated as BBB+ through to A+. Threshold limits for each credit rating 'band', per the Investment Policy, are as follows:

Thresholds – Portfolio Percentage Limits		
Credit rating / Organisation	Direct investment products (as a % of Total Portfolio)	Exposure to a single institution (as a % of Total Portfolio)
AAA to AA-	100%	33 ⅓ %
ADIs within either the ANZ, Commonwealth Bank, NAB or Westpac Banking Groups ('Big Four')	100%	33 ⅓ %
A+ to A	60%	Maximum is the lesser of \$100M or 5% of Net Equity as per the latest published annual financial statements
A- to BBB+	25%	Maximum is the lesser of \$75M or 5% of [the institution's] Net Equity as per the latest published annual financial statements
BBB to BBB-	10%	Maximum is the lesser \$10M or 10% of the City's total investment portfolio

As noted, the maximum percentage of the portfolio that is able to be invested with any one institution is 33 ⅓ %.

Ministerial Investment Order advocacy

The scope of Council's investments is mandated under the Local Government Act 1993 through a Ministerial Investment Order (the Order; refer Attachment A). The Order currently limits Council investments to deposits and / or bonds in Federal, State (including NSW TCorp) or Local Governments and in banks that are Approved Deposit-Taking Institutions under the Banking Act 1959. Council is not permitted to invest in equities and is therefore not permitted to invest directly in individual companies.

The most recent Ministerial Investment Order (and subsequent guidelines) were developed and issued in response to the 2008 Global Financial Crisis. At that time, a number of NSW councils fell into financial distress as a result of imprudent investment approaches. The City has, over the past 15 years, generally supported the limitations imposed by the Order, as they help to ensure the effective and secure stewardship of public funds, which in turn remain available to provide public benefit.

The City maintains good relationships with its financial institutions, and regularly meets to advocate for new investment vehicles and products that will achieve our desire to increase our commitments to social and responsible investment. In the past, based on this advocacy, the City has been given the opportunity to invest in the first release of new sustainable investment products. Such products have been independently certified to meet the Climate Bonds Standard while not compromising the credit risk of the product.

Memo from Scott McGill, A/Chief Financial Officer

Prepared by: Scott McGill, A/Chief Financial Officer

Attachments

Attachment A. Ministerial Investment Order

Approved

P. M. Barone

MONICA BARONE PSM
Chief Executive Officer

Attachment A

Ministerial Investment Order

LOCAL GOVERNMENT ACT 1993 – INVESTMENT ORDER

(Relating to investments by councils)

I, the Hon. Barbara Perry MP, Minister for Local Government, in pursuance of section 625(2) of the *Local Government Act 1993* and with the approval of the Treasurer, do, by this my Order, notify for the purposes of section 625 of that Act that a council or county council may only invest money (on the basis that all investments must be denominated in Australian Dollars) in the following forms of investment:

- (a) any public funds or securities issued by or guaranteed by, the Commonwealth, any State of the Commonwealth or a Territory;
- (b) any debentures or securities issued by a council (within the meaning of the *Local Government Act 1993* (NSW));
- (c) interest bearing deposits with, or any debentures or bonds issued by, an authorised deposit-taking institution (as defined in the *Banking Act 1959* (Cwth)), but excluding subordinated debt obligations;
- (d) any bill of exchange which has a maturity date of not more than 200 days; and if purchased for value confers on the holder in due course a right of recourse against a bank which has been designated as an authorised deposit-taking institution by the Australian Prudential Regulation Authority;
- (e) a deposit with the New South Wales Treasury Corporation or investments in an Hour-Glass investment facility of the New South Wales Treasury Corporation;

All investment instruments (excluding short term discount instruments) referred to above include both principal and investment income.

Transitional Arrangements

- (i) Subject to paragraph (ii) nothing in this Order affects any investment made before the date of this Order which was made in compliance with the previous Ministerial Orders, and such investments are taken to be in compliance with this Order.
- (ii) Paragraph (i) only applies to those investments made before the date of this Order and does not apply to any restructuring or switching of investments or any re-investment of proceeds received on disposal or maturity of such investments, which for the avoidance of doubt must comply with this Order.

Key Considerations

An investment is not in a form of investment notified by this order unless it also complies with an investment policy of council adopted by a resolution of council.


All councils should by resolution adopt an investment policy that is consistent with this Order and any guidelines issued by the Chief Executive (Local Government), Department of Premier and Cabinet, from time to time.

The General Manager, or any other staff member, with delegated authority by a council to invest funds on behalf of a council must do so in accordance with the council's adopted investment policy.

Councils have a fiduciary responsibility when investing. Councils should exercise the care, diligence and skill that a prudent person would exercise in managing the affairs of other persons.

When exercising the power of investment councils should consider, but not be limited by, the risk of capital or income loss or depreciation, the likely income return and the timing of income return, the length of the term of the proposed investment, the liquidity and marketability of the proposed investment, the likelihood of inflation affecting the value of the proposed investment and the costs (including commissions, fees, charges and duties payable) of making the proposed investment.

Dated this 12th day of January 2011


Hon BARBARA PERRY MP
Minister for Local Government