

Item 3.**Investments Held as at 31 May 2018****File No:** X011299**Summary**

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

Council's total Investment and Cash position was \$634.5M 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 is held as internally restricted (\$307.1M) or externally restricted (\$121.7M) 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 2.75% for May, significantly above the 30 Day Bank Bill Rate (BBR) of 1.85%, the AusBond Bank Bill Index (published by Bloomberg) of 2.06% and the enhanced benchmark of 2.30% (BBR + 0.45%), as endorsed in October 2017 as part of the Investment Strategy.

Council's annual rolling return of 2.69% also continues to exceed the 12 month average 30 Day BBR of 1.68%, the AusBond Bank Bill Index of 1.78% and the enhanced benchmark of 2.13% (BBR + 0.45%), as endorsed in October 2017 as part of 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. The policy and strategy also maintain 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 31 May 2018 be received and noted.

Attachments

Attachment A. Register of Investments and Cash as at 31 May 2018

Attachment B. Investment Performance as at 31 May 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 May 2018 was \$634.5M, an increase of \$25.6M from the \$608.9M reported at 30 April 2018 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 May is provided at Attachment A.
5. The majority of the City's cash and investments portfolio are held as internally restricted (\$307.1M) or externally restricted (\$121.7M) 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 2.75% for May, significantly above the 30 Day Bank Bill Rate (BBR) of 1.85%, the AusBond Bank Bill Index (published by Bloomberg) of 2.06% and the enhanced benchmark of 2.30% (BBR + 0.45%), as endorsed in October 2017 as part of the Investment Strategy.
8. Council's annual rolling return of 2.69% also continues to exceed the 12 month average 30 Day BBR of 1.68%, the AusBond Bank Bill Index of 1.78% and the enhanced benchmark of 2.13% (BBR + 0.45%), as endorsed in October 2017 as part of the Investment Strategy.
9. The RBA has not adjusted the official cash rate since August 2016, when it was reduced to 1.50%. The market then responded accordingly, and lower yields on investments which has 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 previous investment reports, the downgrade of 23 financial institutions' global ratings by Standard and Poors (S&P) in May 2017 incorporated a downgrade of both Bank of Queensland and Bendigo & Adelaide Bank from an A- to a BBB+ rating. The City's Investment Policy limits the maximum amount that may be invested with sub 'A' rated institutions to \$10M each. In the case of Bendigo & Adelaide Bank, the City continues to hold \$16M of long-term investments, 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

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

Financial Implications

14. Council's investments earned interest of \$1.4M for the month of May 2018, against budgeted earnings of \$1.1M. Investment earnings for the full year are forecast at \$14.8M, ahead of the full year budget of \$13.0M.

Relevant Legislation

15. Council is authorised to invest its surplus cash under Section 625 of the Local Government Act 1993.
16. 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.
17. The Investment Policy and Strategy was revised in October 2017, maintaining Council's commitment to give preference to sustainable investments where returns and risks are equivalent to other investments. The revision also maintained the broadening of the definition of environmentally harmful activities to include specific reference to coal, gas and oil.
18. 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

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

Public Consultation

20. 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.
21. City staff meet periodically with representatives of each of the 'Big 4' banks and NSW TCorp. At these meetings City staff 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

Priyanka Sharma, Assistant Accountant