

Investments Held as at 31 October 2018

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Summary

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

Council's total Investment and Cash position was \$594.7M at the end of October, 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 (\$309.6M) or externally restricted (\$126.7M) 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 2.80% for October, 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 2018 as part of the Investment Strategy.

Council's annual rolling return of 2.78% also continues to exceed the 12 month average 30 Day BBR of 1.80%, the AusBond Bank Bill Index of 1.89% and the enhanced benchmark of 2.25% (BBR + 0.45%) as endorsed in October 2018 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 October 2018 be received and noted.

Attachments

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

Attachment B. Investment Performance as at 31 October 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 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 October 2018 was \$594.7M, a decrease of \$4.9M from the \$599.6M reported at 30 September 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 October is provided at Attachment A.
5. The majority of the City's cash and investments portfolio is held as internally restricted (\$309.6M) or externally restricted (\$126.7M) 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 2.80% for October, significantly above the 30 Day Bank Bill Rate 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 2018 as part of the Investment Strategy.
8. Council's annual rolling return of 2.78% also continues to exceed the 12 month average 30 Day Bank Bill Rate of 1.80%, the AusBond Bank Bill Index of 1.89% and the enhanced benchmark of 2.25% (BBR + 0.45%) as endorsed in October 2018 as part of the Investment Strategy.
9. The RBA last adjusted the official cash rate in August 2016, when it was reduced to 1.50%. The market 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. 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.

11. As noted in previous investment reports, the downgrade of 23 financial institutions' global ratings by Standard and Poors 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

Strategic Alignment - Sustainable Sydney 2030 Vision

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

Financial Implications

13. Council's investments earned interest of \$1.4M for the month of October 2018, against budgeted earnings of \$1.12M. Investment earnings for the full year are forecast to be on budget of \$13.5M.

Relevant Legislation

14. Council is authorised to invest its surplus cash under Section 625 of the Local Government Act 1993.
15. 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.
16. The Investment Policy and Strategy was revised in October 2018, 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.
17. 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 29 October 2018.

Critical Dates / Time Frames

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

Public Consultation

19. Consultation is regularly undertaken with a number of financial institutions and investment advisers to consider options and ensure Council continues to maximise its investment return within appropriate risk parameters.
20. City staff meet regularly 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 has been 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 Socially Responsible Investment opportunities that meet both the credit risk and maturity profile requirements of Council. Note one of the Big 4 banks has advised the City that they will, after extensive development effort, bring a Socially Responsible Investment product to market in the near future. At the time of writing this report they were yet to publicly launch the product.

BILL CARTER

Chief Financial Officer

James Legarse, Financial Accountant