

## Item 3.

### Investments Held as at 30 June 2019

File No: X020701

#### Summary

This report provides details of Council's investment portfolio and performance to 30 June 2019.

Council's total Investment and Cash position was \$621.5M at the end of June, with investments earning interest of \$1.3M for the month.

The majority of the City's cash and investments portfolio is held as internally restricted (\$241.2M) or externally restricted (\$120.3M) 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 2.50 per cent for June, significantly above the 30 Day Bank Bill Rate (BBR) of 1.30 per cent, the AusBond Bank Bill Index (published by Bloomberg) of 1.57 per cent and the enhanced benchmark of 1.75 per cent (BBR + 0.45 per cent) as endorsed in October 2018 as part of the Investment Strategy.

Council's annual rolling return of 2.64 per cent compared to a return of 2.74 per cent for the same period last year. It also continues to exceed the 12 month average 30 Day Bank Bill Rate of 1.80 per cent, AusBond Bank Bill Index of 1.99 per cent and the enhanced benchmark of 2.25 per cent (BBR + 0.45 per cent) as endorsed in the Investment Strategy in October 2018.

In the 2018/19 Financial Year, a revised accounting standard relating to 'Financial Instruments' (AASB 9) became effective. For the Council, this revised standard simplifies the accounting for the valuation of investments. The requirement to continually revalue all of Council's investments that could be sold in a secondary market (i.e. floating rate notes) falls away, as all investments held by the City will now always be recorded at their face value, with any premium or discount paid at acquisition amortised over the life of the investment.

This change requires a one off accounting adjustment to write-back any unrealised cumulative valuation gains or losses, which had been recognised for the City's floating rate notes under the previous accounting standard, rather than incrementally adjusting these values back to face value over the life of the investment.

The report also includes graphs which demonstrate that Council's liquidity profile continues to satisfy the requirements of the Policy, and charts that identify the distribution of Council's portfolio across credit ratings, investment product types and financial institutions. Separate charts depicting the City's cumulative portfolio returns over and above both the 90 day Bloomberg AusBond and 30 day Bank Bill Rate benchmarks for the past eight years have also been included to provide further insight into the City's total investment portfolio performance.

The structure of the City'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 the City's commitment to sustainable investments where returns and risks are equivalent, under the environmentally and socially responsible investment criteria.

### **Recommendation**

It is resolved that the Investment Report as at 30 June 2019 be received and noted.

### **Attachments**

**Attachment A.** Register of Investments and Cash as at 30 June 2019

**Attachment B.** Investment Performance as at 30 June 2019

## Background

1. In accordance with the principles of financial management, cash that is surplus to the City'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 the City's Investment Policy and Strategy.
3. The benchmark performance goal of the City'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. The City's total Investment and Cash position as at 30 June 2019 was \$621.5M, a decrease of \$4.4M from the \$625.9M reported at 31 May 2019, reflecting operating income offset by capital works expenditure, a significant property acquisition (Customs House) and other operational payments. A schedule detailing all of the City's investments as at the end of June is provided at Attachment A.
5. The majority of the City's cash and investments portfolio is held as internally restricted (\$241.2M) or externally restricted (\$120.3M) 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 2.50 per cent for June, significantly above the 30 Day Bank Bill Rate (BBR) of 1.30 per cent, the AusBond Bank Bill Index (published by Bloomberg) of 1.57 per cent and the enhanced benchmark of 1.75 per cent (BBR + 0.45 per cent) as endorsed in October 2018 as part of the Investment Strategy.
8. Council's annual rolling return of 2.64 per cent also continues to exceed the 12 month average 30 Day Bank Bill Rate of 1.80 per cent, AusBond Bank Bill Index of 1.99 per cent and the enhanced benchmark of 2.25 per cent (BBR + 0.45 per cent) as endorsed in the Investment Strategy in October 2018.
9. The RBA last adjusted the official cash rate in June 2019, when it was reduced to 1.25 per cent. The market subsequently responded accordingly, and lower yields on investments have had a sustained adverse impact on the City's portfolio return. This trend is anticipated to continue, though in recent periods some improvement in longer term interest rates has been noted.
10. In the 2018/19 Financial Year, the Australian Accounting Standard Board released an amendment to AASB 9 'Financial Instruments' (AASB 9). Under AASB 9, the classification of investments held is determined with reference the entity's 'business model' in relation to investing activity. On the basis of Council's Investment Policy and historical experience, the City's business model is typically to hold investments to maturity, for the purposes of earning interest and redemption of principal.

11. All investments held by the City will now be recorded at Amortised Cost (i.e. face value), with any premium or discount paid at the time of acquisition amortised over the life of the investment. Quarterly market valuation movements will therefore no longer be recognised within the City's Income Statement or Balance Sheet.
12. As part of the transition to AASB 9, the City has needed to make a one-off accounting adjustment in 2018/19 to write-back a total unrealised gain of \$1.3M. This cumulative gain reflected market valuations of our floating rate note (FRN) holdings, as required by the old accounting standard, gains that would previously have been incrementally written back as the individual investments progressed towards maturation.
13. The change to recognition and valuation of investments does not alter our expected cash flows from interest, nor expected return of principal at maturity. All investments (comprising term deposits, FRNs and at-call deposits) are now held at face value, adjusted for minor premiums or discounts on acquisition.
14. The report also includes graphs demonstrating that the City's liquidity profile continues to satisfy the requirements of the Policy, and charts that identify the distribution of the City's portfolio across credit ratings, investment product types and investment institutions. Separate charts depicting the City's portfolio returns over and above both the 90 day Bloomberg AusBond and 30 day Bank Bill Rate benchmarks for the past ten years have also been included to provide further insight into the City's total investment portfolio performance.
15. The structure of the City'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.
16. 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 long-term rating from an A- to a BBB+. As the City's Investment Policy limits the maximum amount that may be invested with sub 'A' rated institutions to \$10M each, the policy's "grandfathering" provisions have been applied to allow the existing investments to be maintained or divested in accordance with all regular investment considerations.

## Key Implications

### Strategic Alignment - Sustainable Sydney 2030 Vision

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

## Financial Implications

18. Council's investments earned interest of \$1.3M for the month of June 2019, against budgeted earnings of \$1.1M. Earnings for the full year were \$16.8M, ahead of the annual budget of \$13.5M, reflecting higher than anticipated cash balances and the improved interest rate returns above benchmark.

### Relevant Legislation

19. Council is authorised to invest its surplus cash under Section 625 of the Local Government Act 1993.
20. 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.
21. 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.
22. The City'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

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

### Public Consultation

24. Consultation is regularly undertaken with a number of financial institutions and investment advisers to consider options and ensure the City continues to maximise its investment return within appropriate risk parameters.
25. 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.
26. 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 has been challenging to match the level of funds to available Socially Responsible Investment opportunities that meet both the credit risk and maturity profile requirements of Council.
27. In a recent positive development, Westpac has been able to bring a Green Tailored Deposit product to market. Between November 2018 and June 2019, the City invested \$40 million in six tranches, for five years in this instrument. The product offered a rate of return commensurate with other investment offerings in the market.

### BILL CARTER

Chief Financial Officer

James Legarse, Financial Accountant