

Investments Held as at 30 November 2019

File No: X020701

Summary

This report provides details of the City's investment portfolio and performance, as projected to 30 November 2019.

The City's total Investment and Cash position is forecast to be \$700.9M at the end of November, with investments earning interest of \$1.0M for the month. Note that the forecast of the cash and investment position incorporates \$65.3M relating to a property transaction that was received by the City in the final days of the month.

The majority of the City's cash and investments portfolio is held as internally restricted (\$363.3M) or externally restricted (\$116.5M) 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.

The City achieved an annualised monthly return of 1.92 per cent for November, above the 30 Day Bank Bill Rate (BBR) of 0.88 per cent, the latest AusBond Bank Bill Index (published by Bloomberg) of 0.96 per cent and the enhanced benchmark of 1.33 per cent (BBR + 0.45 per cent) as endorsed in November 2019 as part of the Investment Strategy. At the time of writing, the November AusBond Bank Bill Index has not been released.

The City's annual rolling return of 2.17 per cent also continues to exceed the 12 month average 30 Day Bank Bill Rate of 1.59 per cent, the latest AusBond Bank Bill Index of 1.65 per cent and the enhanced benchmark of 2.04 per cent (BBR + 0.45 per cent) as endorsed in the Investment Strategy in November 2019. At the time of writing, the November AusBond Bank Bill Index has not been released.

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 November 2019 be received and noted.

Attachments

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

Attachment B. Investment Performance as at 30 November 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 forecast Investment and Cash position as at 30 November 2019 is \$700.9M, an increase of \$15.8M from the \$684.1M reported at 31 October 2019. The increase incorporates the \$65.3M received for the long term lease of Oxford Street, higher operating income for the first rates instalment for 2019/20, offset by \$61.7M for the acquisition of a property in George Street and other capital works and operational expenditure. A schedule detailing all of the City's investments as at the end of November is provided at Attachment A.
5. The majority of the City's cash and investments portfolio is held as internally restricted (\$363.3M) or externally restricted (\$116.5M) 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. The City achieved an annualised monthly return of 1.92 per cent for November, above the 30 Day Bank Bill Rate (BBR) of 0.88 per cent, the latest AusBond Bank Bill Index (published by Bloomberg) of 0.96 per cent and the enhanced benchmark of 1.33 per cent (BBR + 0.45 per cent) as endorsed in November 2019 as part of the Investment Strategy. At the time of writing, the November AusBond Bank Bill Index has not been released.
8. The City's annual rolling return of 2.17 per cent also continues to exceed the 12 month average 30 Day Bank Bill Rate of 1.59 per cent, the latest AusBond Bank Bill Index of 1.65 per cent and the enhanced benchmark of 2.04 per cent (BBR + 0.45 per cent) as endorsed in the Investment Strategy in November 2019. At the time of writing, the November AusBond Bank Bill Index has not been released.
9. The RBA last adjusted the official cash rate on 1 October 2019, when it was reduced to 0.75 per cent. The market had anticipated a reduction and responded accordingly, and the resultant lower investment yields have had a sustained adverse impact on the City's portfolio return. These low interest rates are anticipated to continue, though in recent periods some improvement in longer term interest rates has been noted.

10. 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.

Key Implications

Strategic Alignment - Sustainable Sydney 2030

11. 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

12. The City's investments earned interest of \$1.0M for the month of November 2019 against budgeted earnings of \$1.1M. Investment earnings for the full year are forecast to be on budget at \$13.8M.

Relevant Legislation

13. Council is authorised to invest its surplus cash under Section 625 of the Local Government Act 1993.
14. The Local Government (General) Regulation 2005 (Clause 212) requires the City to provide a written monthly report of all monies invested, under Section 625 of the Act.
15. The Investment Policy and Strategy was revised in October 2019, 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.
16. 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 28 October 2019.

Critical Dates / Time Frames

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

Public Consultation

18. 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.
19. 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.
20. 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.
21. As noted in previous Investment Reports, Westpac has been able to bring a Green Tailored Deposit product to market, which delivers a comparable return while achieving the City's preferred outcomes. Since November 2018, the City has invested \$70 million in eleven tranches with this Green Tailored deposit.

BILL CARTER

Chief Financial Officer