

## Investments Held as at 30 September 2020

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### Summary

This report provides details of the City's investment portfolio and performance to 30 September 2020.

The City's total Investment and Cash position was \$642.0M at the end of September, with investments earning interest of \$0.6M for the month.

The Covid-19 pandemic has created significant uncertainty in financial markets. One of the measures the Reserve Bank of Australia (RBA) has used to respond to the crisis is by reducing the official cash rate downward. It was reduced first on 3 March 2020, to 0.50 per cent and again on 20 March 2020 when it was further reduced to 0.25 per cent. In addition, the RBA launched its Term Funding Facility. This facility, now in the order of \$200 billion, has reduced the funding costs of Authorised Deposit-Taking Institutions (ADIs). The market has responded by reducing the rates on offer and the resultant lower investment yields continue to have a sustained adverse impact on the City's portfolio return.

The City's cash inflows have also been negatively impacted as the economic consequences of the pandemic affect major revenue streams including parking services, commercial property income and the timely payment of rates and annual charges. Lower cash balances combined with lower rates of returns on financial investments will continue to affect the City's interest revenue.

The majority of the City's cash and investments portfolio is held as internally restricted (\$328.7M) or externally restricted (\$41.1M) 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, infrastructure and community facilities in the Green Square urban renewal area and open space acquisitions. The balance of investment funds represents working capital and funding required for the City's operating and capital expenditure commitments, including the Covid-19 relief grants program.

The City achieved an annualised monthly return of 0.98 per cent for September, above the 30 Day Bank Bill Rate (BBR) of 0.09 per cent, the latest AusBond Bank Bill Index (published by Bloomberg) of 0.12 per cent and the enhanced benchmark of 0.54 per cent (BBR + 0.45 per cent) as endorsed in October 2019 as part of the Investment Strategy.

The City's annual rolling return of 1.16 per cent also continues to exceed the 12 month average 30 Day Bank Bill Rate of 0.45 per cent, the latest AusBond Bank Bill Index of 0.58 per cent and the enhanced benchmark of 0.90 per cent (BBR + 0.45 per cent) as endorsed in the Investment Strategy in October 2019. The report 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 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. The latest update to the Investment Policy and Strategy is the subject of a separate paper to Council within the current reporting cycle.

### **Recommendation**

It is resolved that the Investment Report as at 30 September 2020 be received and noted.

### **Attachments**

**Attachment A.** Register of Investments and Cash as at 30 September 2020

**Attachment B.** Investment Performance as at 30 September 2020

## 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 September 2020 is \$642.0M, an increase of approximately \$19M from the \$623.3M reported as at 31 August 2020, reflecting operating income offset by capital works expenditure and other operational payments. A schedule detailing all of the City's investments as at the end of September is provided at Attachment A.
5. The majority of the City's cash and investments portfolio is held as internally restricted (\$328.7M) or externally restricted (\$41.1M) 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, infrastructure and community facilities in the Green Square urban renewal area and the acquisition of open space. 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 0.98 per cent for September, above the 30 Day Bank Bill Rate (BBR) of 0.09 per cent, the latest AusBond Bank Bill Index (published by Bloomberg) of 0.12 per cent and the enhanced benchmark of 0.54 per cent (BBR + 0.45 per cent) as endorsed in October 2019 as part of the Investment Strategy.
8. The City's annual rolling return of 1.16 per cent also continues to exceed the 12 month average 30 Day Bank Bill Rate of 0.45 per cent, the latest AusBond Bank Bill Index of 0.58 per cent and the enhanced benchmark of 0.90 per cent (BBR + 0.45 per cent) as endorsed in the Investment Strategy in October 2019.
9. In response to the global Covid-19 pandemic, the Reserve Bank of Australia (RBA) adjusted the official cash rate on 3 March 2020, and again on 20 March 2020 to 0.25 per cent. In addition, the RBA launched its Term Funding Facility. This facility, now in the order of \$200 billion, has reduced the funding costs of Authorised Deposit-Taking Institutions (ADIs) in turn helping to reduce the interest rates for borrowers. The market is responding by reducing the rates on offer, and the resultant lower investment yields continue to have a sustained adverse impact on the City's portfolio return. The low interest rates are anticipated to continue for the foreseeable future given the current challenging economic conditions.

10. The City's cash inflows, whilst reasonably resilient and showing signs of recovery, have been negatively impacted as the economic consequences of the pandemic affect major revenue streams including parking services, commercial property income and timely payment of rates and annual charges. Lower cash balances combined with lower rates of returns on financial investments will continue to affect the City's interest revenue.
11. This report includes graphs within Attachment B 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 have also been included to provide further insight into the City's total investment portfolio performance.
12. 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**

13. 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**

14. The City's investments earned interest of \$0.6M for the month of September 2020 against budgeted earnings of \$0.4M. The 2020/21 interest revenue budget anticipates a lower interest rate environment over the coming year. Diminished investment returns were offset by a higher than forecast cash balance for the month. For the same month in 2019 the City earned interest of \$1.2M on a slightly higher cash balance.

### **Economic**

15. The extent of the local and global economic impact resulting from Covid-19 has created significant uncertainty in financial markets. Many Governments and central banks, including the Australian Government and the Reserve Bank of Australia (RBA), are implementing large scale responses to the economic crisis including coordinated stimulus measures involving significant increases in government spending and borrowing combined with large scale buying of bonds by central banks.
16. The RBA reduced the official cash rate downward twice in March. It was reduced first on 3 March 2020, to 0.50 per cent and again on 20 March 2020 when it was further reduced to 0.25 per cent.
17. The RBA has continued to indicate that the 0.25 per cent official cash rate is unlikely to be lifted until it is confident the economy has recovered sufficiently to lift annual inflation inside its target 2 per cent to 3 per cent range.

18. Historically, returns on cash (i.e. “at call” accounts) and short term investments have been quite strong. However, with the low official cash rate, market variability in monthly returns may mean the short to medium term investment returns could be flat or potentially slightly negative. The capacity for City staff to invest in a manner that meets liquidity requirements whilst achieving the “enhanced” benchmark returns (as detailed in the Investment Policy) may be limited.
19. On occasion, financial institutions will not offer term deposit rates as their own liquidity requirements are already satisfied. Since the beginning of the Covid-19 pandemic, this has occurred with increased frequency, further limiting the available range of institutions able to offer adequate returns at an acceptable credit risk under the City's Investment Policy.

### **Relevant Legislation**

20. Council is authorised to invest its surplus cash under Section 625 of the Local Government Act 1993.
21. 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.
22. The Investment Policy and Strategy was last 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 broadened definition of environmentally harmful activities to include specific reference to coal, gas and oil.
23. 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**

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

### **Public Consultation**

25. 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.
26. 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.
27. The banks acknowledge the appetite in the market for these products and they continue to investigate the development of suitable products, however it has been challenging to match the level of funds to available Socially Responsible Investment opportunities that meet the credit risk and maturity profile requirements of the City.

28. As noted in previous Investment Reports, Westpac were 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 \$70M in twelve tranches with this Green Tailored deposit.
29. In January 2020, the City invested \$5M in a Floating Rate Note (FRN) / Sustainability Bond issued by Bank Australia, based on an investment framework that meets the main guidelines for issuance of Green, Social and Sustainability Bonds in the global capital markets. This Socially Responsible investment opportunity met both the credit risk and maturity profile requirement of the City.
30. Since March 2020, the City has invested in eight tranches, totalling \$45M, in Climate Bond-certified Green Term Deposits with the Commonwealth Bank of Australia (CBA), whilst also meeting the City's risk / return profile.
31. It is evident from these recent opportunities that the market is endeavouring to respond to demand and meet investors need to satisfy their financial risk / return requirements, while at the same time promoting their preferred investment profile outcomes.

**BILL CARTER**

Chief Financial Officer