

Investments Held as at 30 April 2021

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Summary

This report provides details of the City's investment portfolio and performance to 30 April 2021.

The City's total Investment and Cash position was \$629.06M at 30 April 2021, with investments earning interest of \$0.4M 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 to reduce 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. On 2 November 2020, the RBA announced a further drop in the official cash rate to 0.10 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. A greater focus on maintaining adequate liquidity with shorter investment maturities, and increasingly limited opportunities to invest funds at adequate rates of return will continue to affect the City's interest revenue.

The majority of the City's cash and investments portfolio is held as internally restricted (\$271.9M) or externally restricted (\$67.9M) 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 0.66 per cent for April, above the 30 Day Bank Bill Rate (BBR) of 0.01 per cent, the latest AusBond Bank Bill Index (published by Bloomberg) of 0.00 per cent and the enhanced benchmark of 0.46 per cent (BBR + 0.45 per cent) as endorsed in October 2020 as part of the Investment Strategy.

The City's annual rolling return of 0.70 per cent also continues to exceed the 12 month average 30 Day Bank Bill Rate of 0.05 per cent, the latest AusBond Bank Bill Index of 0.07 per cent and the enhanced benchmark of 0.50 per cent (BBR + 0.45 per cent) as endorsed in the Investment Strategy in October 2020.

The report, at Attachment B, includes graphs demonstrating the City's liquidity profile against the requirements of the Policy, and charts that identify the distribution of the City'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.

It is worth noting that the City's liquidity requirements, for 10 per cent of the total portfolio to be held within a 30 day maturity, have temporarily fallen short in the final weeks of April (9.2 per cent at 30 April), however the portfolio still holds \$57M within 30 days of maturity which exceeds the minimum \$50M threshold. The total portfolio has increased, requiring greater investment in shorter term maturities, and impacted by higher than anticipated operational payments in the final week of April which further reduced our cash at call balances.

The policy anticipates that liquidity requirements may be temporarily impacted due to changes in an actively managed portfolio, and remedies this by restricting new investments in longer term maturities, until the portfolio is managed back in accord with the requirements of the policy. The portfolio returned to full compliance by 4 May 2021 (10.2 per cent).

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 April 2021 be received and noted

Attachments

Attachment A. Register of Investments and Cash as at 30 April 2021

Attachment B. Investment Performance as at 30 April 2021

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 April 2021 is \$629M, a decrease of approximately \$37.9M from the \$666.9M reported as at 31 March 2021, reflecting operating income and proceeds from property divestment, offset by capital works expenditure, property acquisition and other operational payments. A schedule detailing all of the City's investments as at the end of April is provided at Attachment A.
5. The majority of the City's cash and investments portfolio is held as internally restricted (\$271.9M) or externally restricted (\$67.9M) 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 0.66 per cent for April, above the 30 Day Bank Bill Rate (BBR) of 0.01 per cent, the latest AusBond Bank Bill Index (published by Bloomberg) of 0.00 per cent and the enhanced benchmark of 0.46 per cent (BBR + 0.45 per cent) as endorsed in October 2020 as part of the Investment Strategy.
8. The City's annual rolling return of 0.70 per cent also continues to exceed the 12 month average 30 Day Bank Bill Rate of 0.05 per cent, the latest AusBond Bank Bill Index of 0.07 per cent and the enhanced benchmark of 0.50 per cent (BBR + 0.45 per cent) as endorsed in the Investment Strategy in October 2020.
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. On 2 November 2020, the RBA announced a further drop in the official cash rate to 0.10 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 for a prolonged period, as the economic consequences of the pandemic continue to affect major revenue streams, including parking services, commercial property income and timely payment of rates and annual charges. A greater focus on maintaining adequate liquidity with shorter investment maturities, and increasingly limited opportunities to invest funds at adequate rates of return will also continue to affect the City's interest revenue.
11. As per the Investment policy City needs to retain a maximum of either \$50M or 10 per cent of the portfolio within a 30 day maturity range. As at 30 April 2021, the minimum threshold for one month was 9.20 per cent. This threshold was a temporary breach in order to meet operational requirements. The Investment Policy sets minimum liquidity parameters to ensure that there will be an adequate amount of funding available to meet the City's operational needs. A higher than anticipated overall portfolio balance has required a larger than typical sum to be retained within a 30-day maturity range, where the minimum threshold is 10 per cent. The shortfall is approximately \$5.8M with total Maturities of 30 Days or less at \$57M, whereas the total required by the Investment Policy is \$62.9M (i.e. 9.20 per cent vs 10.00 per cent).
12. Note that the month of May corresponds with the due date of the Q4 Rates Instalment. Accordingly, higher cash receipts are typically received during this period. The total maturities in the month of May is \$27M and June is \$32M. We also hold \$29M in our Call accounts. As per the policy in case of a breach due to operational requirements or a change in portfolio, an immediate freeze is imposed on the acquisition of new investments in greater than relevant category until the portfolio can be effectively managed back to accord with the requirements of this policy.
13. The report includes graphs depicting that 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.
14. It is worth noting that the City's liquidity requirements, for 10 per cent of the total portfolio to be held within a 30 day maturity, have temporarily fallen short in the final week of April (9.2 per cent at 30 April), however the portfolio still holds \$57M within 30 days of maturity which exceeds the minimum \$50M threshold. The total portfolio had increased, requiring greater investment in shorter term maturities, impacted by higher than anticipated operational payments in the final week of April which further reduced our cash at call balances.
15. The policy anticipates that liquidity requirements may be temporarily impacted due to changes within an actively managed portfolio, and remedies this by restricting new investments in longer term maturities, until the portfolio is managed back in accord with the requirements of the policy. The portfolio returned to full compliance by 4 May 2021 (10.2 per cent).
16. 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

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. The City's investments earned interest of \$0.4M for the month of April 2021 against budgeted earnings of \$0.5M. While the 2020/21 interest revenue budget anticipated a lower interest rate environment over the financial year, the extent of rate reductions and the impact of the RBA Term Funding Facility on investment returns has exceeded predictions.

Economic

19. 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.
20. The RBA reduced the official cash rate downward twice in March 2020. 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. RBA further dropped the cash rate to 0.10 per cent on 2 November 2020.
21. The RBA has continued to indicate that the 0.10 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.
22. Historically, returns on cash (i.e. "at call" accounts) and short term investments have been quite strong. The low official cash rate and market variability in monthly returns however, may mean the short to medium term investment returns could be flat, limiting City staff's capacity to invest and meet the liquidity requirements whilst achieving the "enhanced" benchmark returns (as detailed in the Investment Policy). However, the best available returns are still actively sought whenever surplus funds are invested.
23. On occasion, financial institutions will not even offer term deposit rates as their own liquidity requirements are already satisfied. This has occurred with increased frequency, since the beginning of the covid-19 pandemic, further limiting the range of institutions able to offer adequate returns at an acceptable credit risk.

Relevant Legislation

24. Council is authorised to invest its surplus cash under Section 625 of the Local Government Act 1993
25. 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.

26. The Investment Policy and Strategy was last revised in October 2020, 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.
27. 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 2020.

Critical Dates / Time Frames

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

Public Consultation

29. 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.
30. 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.
31. 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.
32. 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 \$85M in thirteen tranches with this Green Tailored deposit.
33. In December 2019, 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.

34. Since March 2020, the City has invested in sixteen tranches, totalling \$95M, in Climate Bond-certified Green Term Deposits with the Commonwealth Bank of Australia (CBA), whilst also meeting the City's risk / return profile.
35. It is evident from these 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