

## Item 5.

### Investments Held as at 31 January 2022

File No: X020701

#### Summary

This report provides details of the City's investment portfolio and performance to 31 January 2022.

The City's total Investment and Cash position was \$710.2M at 31 January 2022, with investments earning interest of \$0.3M for the month.

The Covid-19 pandemic has created significant uncertainty in financial markets. The Reserve Bank of Australia (RBA) responded to the crisis by reducing the official cash rate, firstly on 3 March 2020 to 0.50 per cent, again on 20 March 2020 to 0.25 per cent, and then again on 2 November 2020 down to an official cash rate of 0.10 per cent. The RBA also launched a Term Funding Facility, now in the order of \$200 billion, which further reduced the funding costs of Authorised Deposit-Taking Institutions (ADIs). The market responded to these actions by reducing the rates on offer, with the lower investment yields continuing to have a sustained adverse impact on the City's portfolio return.

The market has recently begun to forecast and factor in future rate increases, slightly improving medium and longer term investment returns, however to date, the RBA's official cash rate remains unchanged.

The City's cash inflows have also been negatively impacted as the economic consequences of the pandemic continue to reduce major revenue streams, in particular commercial property and parking related income. A greater focus on maintaining adequate liquidity with shorter investment maturities, and increasingly limited opportunities to invest funds at adequate rates of return, continues to affect the City's interest revenue.

The majority of the City's cash and investments portfolio is held as internally restricted (\$330.5M) or externally restricted (\$67.8M) 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 0.57 per cent for January, which remains 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 City's enhanced benchmark of 0.46 per cent (BBR + 0.45 per cent) as endorsed in October 2021 as part of the Investment Strategy.

The City's annual rolling return of 0.57 per cent also continues to exceed the 12 month average 30 Day Bank Bill Rate of 0.01 per cent, the latest AusBond Bank Bill Index of 0.05 per cent and the enhanced benchmark of 0.46 per cent (BBR + 0.45 per cent) as endorsed within the Investment Strategy in October 2021.

While the returns remain at historic lows, it is worth noting Council's investment opportunities are constrained by a combination of legislation, regulation and any directions and guidelines issued by the Minister or the Office of Local Government. These guidelines were developed, in large part, as a response to the Global Financial Crisis and its impact on the local government sectors investments. They limit the City's investment profile effectively to a cash managed fund, which generally produce lower returns but provide a high level of security. The City's returns from the investment portfolio remain in line with cash managed funds in the market.

The report 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 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

## **Recommendation**

It is resolved that the Investment Report as at 31 January 2022 be received and noted.

## **Attachments**

**Attachment A.** Register of Investments and Cash as at 31 January 2022

**Attachment B.** Investment Performance as at 31 January 2022

## 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 Days 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 31 January 2022 is \$710.2M, a decrease of approximately \$24.5M from the \$734.7M reported as at 31 December 2021. The monthly movement reflects capital works expenditure and other operational payments in excess of operating income for the period. A schedule detailing all of the City's investments as at the end of January is provided at Attachment A.
5. A substantial portion of the City's cash and investments portfolio is held as internally restricted (\$330.5M) or externally restricted (\$67.8M) 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 0.57 per cent for January, which remains 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 2021 as part of the Investment Strategy.
8. The City's annual rolling return of 0.57 per cent also continues to exceed the 12 month average 30 Day Bank Bill Rate of 0.01 per cent, the latest AusBond Bank Bill Index of 0.05 per cent and the enhanced benchmark of 0.46 per cent (BBR + 0.45 per cent) as endorsed in the Investment Strategy in October 2021.
9. While the returns remain at historic lows, relative to returns currently available in the equity and property markets, it is worth noting Council's investment opportunities are constrained by a combination of legislation, regulation and any directions and guidelines issued by the Minister or the Office of Local Government. These guidelines were developed, in large part, as a response to the Global Financial Crisis and its impact on the local government sectors investments. They limit the City's investment profile effectively to a cash managed fund, which produces lower returns but a high level of security. The City's returns from the investment portfolio are in line with cash managed funds in the market.

10. In response to the global Covid-19 pandemic, the Reserve Bank of Australia (RBA) adjusted the official cash rate on 3 March 2020, again on 20 March 2020, and most recently in November 2020 down to 0.10 per cent. In addition, the RBA launched 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 facility closed to new drawdowns on 30 June 2021, at which time \$188 billion of funding was outstanding. As the facility provides low-cost fixed-rate funding for 3 years it will continue to support low borrowing costs until mid-2024.
11. The resultant lower investment yields are expected to have a continuing adverse impact on the City's portfolio return and low interest rates are anticipated to continue for the immediate term given the current challenging economic conditions. While the market has begun to factor in future rate increases, slightly improving medium and longer term investment returns, to date the RBA's official cash rate remains unchanged.
12. The City's cash inflows, whilst reasonably resilient, have been negatively impacted for a prolonged period, as the economic consequences of the pandemic have continued to affect major revenue streams, in particular commercial property and parking related income. 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.
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. 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

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

### Financial Impact

16. The City's investments earned interest of \$0.3M for the month of January 2022, marginally above budgeted earnings of \$0.2M, as cash balances for the year to date have remained higher than anticipated when the budget was prepared.
17. The budget for 2021/22 represents a substantial reduction on prior years, in anticipation of earning lower returns on the portfolio due to the reduced rates on offer in the market. In early 2022, there have been signs of small improvements in medium to long term investment rates of return. However, short term investment returns are expected to remain suppressed in the immediate future.

**Economic**

18. 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.
19. The RBA reduced the official cash rate down to 0.10 per cent on 2 November 2020, and has indicated that this cash rate is unlikely to be lifted until it is confident the economy has recovered sufficiently and there is a sustained period of inflation inside its target 2 per cent to 3 per cent range.
20. Historically, returns on cash (i.e. "at call" accounts) and short term investments have been quite strong, however, the low official cash rate and market variability in monthly returns may mean the short to medium term investment returns could be flat or potentially slightly negative. While 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) has been limited for some time, the best available returns continue to be actively sought when surplus funds are invested.
21. 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**

22. Council is authorised to invest its surplus cash under Section 625 of the Local Government Act 1993.
23. 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.
24. The Investment Policy and Strategy was last revised and endorsed by Council in October 2021, maintaining Council's commitment to give preference to sustainable investments where returns and risks are equivalent to other investments.
25. 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 18 October 2021.

**Critical Dates / Time Frames**

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

**Public Consultation**

27. 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.
28. 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.
29. 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.
30. 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. The City currently holds \$100M in sixteen tranches with this Green Tailored deposit.
31. The City has also invested \$5M with the Commonwealth Bank of Australia (CBA) in Climate Bond-certified Green Term Deposits since it was introduced, whilst also meeting the City's risk / return profile.
32. The City also 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.

**BILL CARTER**

Chief Financial Officer