Item 5.

Investments Held as at 31 July 2025

File No: X020701

Summary

This report provides details of the City's investment portfolio and performance to 31 July 2025.

The City's total Investment and Cash position was $732M at 31 July 2025, with investments earning interest of $2.9M for the month. It should be noted that the total Investment and Cash position includes approximately $76.2M received from developers, related to the City of Sydney Affordable Housing contributions program.

As was the case in June, after allowing for these contributions, the City's 'underlying' total Investment and Cash position was significantly lower, $655.7M at the end of July 2025. These funds are held as externally restricted cash and investments, pending distribution to Community Housing Providers, scheduled for the first quarter of the 2025/26 financial year.

Annual CPI inflation was 2.1% in the June 2025 quarter, down from 2.4% to the March 2025 quarter. Inflation has decreased more quickly than the Reserve Bank of Australia's (RBA) earlier forecasts, with core inflation currently at an annual rate that aligns with the RBA's target range of 2-3%. As inflation eases, RBA is expected to deliver rate cuts during the remainder of 2025. However, global and domestic factors also continue to play a pivotal role in this decision.

The RBA board lowered the cash rate by 25 basis points, to 3.85% on 20 May 2025. The majority of banks predict at least two more 25 basis point rate cuts in 2025 provided that the declining inflation trend continues. The financial institutions have reduced medium term deposit rates since the rate cut by the RBA in May 2025.

The City's cash and investments portfolio includes restricted funds in both internal ($315.4M) and external ($152.5M) cash reserves, to satisfy the City's legislative responsibilities, to set aside specific amounts for major initiatives within the Community Strategic Plan Delivering Sustainable Sydney 2030-2050 Continuing the Vision, and to distribute the above-mentioned contributions to Community Housing Providers. The unrestricted balance of cash and investments ($264.0M) represents working capital, and funding required for the City's operating and capital expenditure commitments.

The City has known and projected commitments beyond amounts currently restricted, including much of its forward capital works program. The City's Long Term Financial Plan (LTFP) sets out details of the working capital, services, facilities, activities, capital works and acquisitions that will be funded by the City's accumulated cash and future revenue streams. Key commitments within the City's Long Term Financial Plan include ongoing asset renewals, public domain works in the CBD, infrastructure and community facilities in the Green Square urban renewal area and commercial property and open space acquisitions.

The City achieved an annualised monthly return of 4.58% for July, which remains above the 30-Day Bank Bill Rate (BBR) of 3.71%, the latest AusBond Monthly Bank Bill Index of 3.60% and the enhanced benchmark of 4.16% (BBR + 0.45%).

The City's investment portfolio returns are comparable to those of cash-managed funds available in the market. Following the rate cut in February 2025, market rates have been falling, and banks have started lowering term deposit rates in anticipation of further cash rate cut from the Reserve Bank of Australia. This downward trend is expected to continue during the first half of the current financial year.

Since 2015, the City has utilised an additional strategic benchmark rate to measure its investment performance by exceeding the 30 day benchmark returns, by at least 45 additional basis points (0.45% p.a.). The 45 basis point increase is based on observed historical average increased credit spreads (or margins) over bank bill rates on offer in relation to 30 to 90 day investments.

The City’s annual rolling return of 4.75% likewise continues to exceed the 12-month average 30 Day Bank Bill Rate of 4.12%, the latest AusBond 12 Month Average Bank Bill Index of 4.31% and the enhanced benchmark of 4.57% (BBR + 0.45%). The benchmarks were endorsed in the revised Investment Strategy approved by Council in November 2024.

The City invested $25M in March 2025 and $5M in April 2025 in a new product, Social Tailored Deposits, with Westpac. This investment aligns with the Socially Responsible Investment principles set out in the City's Investment Policy. The City of Sydney is one of three cornerstone investors in this product. It has been independently certified to meet the International Capital Market Association (ICMA) Social Bond Principles while not compromising its credit risk. These Social Tailored Deposits are associated with a defined pool of eligible assets which may include affordable housing, public education and/or healthcare assets along with transport services to disadvantaged areas. These investments will be independently certified annually.

It is worth noting that Council’s investment opportunities are constrained by a combination of legislation, regulation and any directions and guidelines issued by the Minister for the Office of Local Government. These guidelines were developed, in large part, as response to the Global Financial Crisis and its impact on the local government sector's investments. They effectively limit the City's investment profile to something similar 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.

This 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. Charts depicting the City’s 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 July 2025 be received and noted.

Attachments

Attachment A. Register of Investments and Cash as at 31 July 2025

Attachment B. Investment Performance as at 31 July 2025

Background

1. In accordance with the principles of sound 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. Cash is only invested in authorised investments that comply with governing legislation and the City's Investment Policy and Strategy. 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.

3. The City's total Investment and Cash position as at 31 July 2025 was $732M, a decrease of $30.2M from 30 June 2025. The net decrease for the month of July is attributable to operational and capital works expenditure payments exceeding operating income receipts. A schedule detailing all of the City's investments as at the end of July 2025 is provided at Attachment A.

4. It should be noted that the total Investment and Cash position includes approximately $76.2M received from developers in May and June 2025, related to the City of Sydney Affordable Housing contributions program. These funds are held as externally restricted cash and investments, pending distribution to Community Housing Providers, scheduled for the first quarter of the 2025/26 financial year. After allowing for these contributions, the City’s 'underlying' total Investment and Cash position was significantly lower at $655.7M at the end of July 2025.

5. A substantial portion of the City's cash and investments portfolio is held as internally restricted ($315.4M) or externally restricted ($152.5M) cash reserves, to satisfy the City's legislative responsibilities, to set aside specific funds for major initiatives within the Community Strategic Plan Delivering Sustainable Sydney 2030-2050 Continuing the Vision and to distribute the above-mentioned affordable housing contributions. The unrestricted balance of cash and investments ($264.0M) represents working capital, and funding required for the City's operating and capital expenditure commitments.

6. The City has known and projected commitments beyond amounts currently restricted, including much of its forward capital works program. The City's Long Term Financial Plan (LTFP) sets out details of the working capital, services, facilities, activities, capital works and acquisitions that will be funded by the City's accumulated cash and future revenue streams. Key commitments within the City's Long Term Financial Plan include asset renewals, public domain works in the CBD, infrastructure and community facilities in the Green Square urban renewal area and the acquisition of commercial property and open space.

7. The City achieved an annualised monthly return of 4.58% for July, which remains above the 30-Day Bank Bill Rate (BBR) of 3.71%, the latest AusBond Monthly Bank Bill Index of 3.60% and the enhanced benchmark of 4.16% (BBR + 0.45%).

8. The City's investment portfolio returns are comparable to those of cash-managed funds available in the market. Following the rate cut in February 2025, market rates have been falling, and banks have started lowering term deposit rates in anticipation of further cash rate cut from the Reserve Bank of Australia. This downward trend is expected to continue during the first half of the current financial year.

9. Since 2015, the City has utilised an additional strategic benchmark rate to measure its investment performance by exceeding the 30 day benchmark returns, by at least 45 additional basis points (0.45% p.a.). The 45 basis point increase is based on observed historical average increased credit spreads (or margins) over bank bill rates on offer in relation to 30 to 90 day investments.

10. The City's annual rolling return of 4.75% likewise continues to exceed the 12-month average 30 Day Bank Bill Rate of 4.12%, the latest AusBond 12 Month Average Bank Bill Index of 4.31% and the enhanced benchmark of 4.57% (BBR + 0.45%). The benchmarks were endorsed in the revised Investment Strategy approved by Council in November 2024.

11. The City aims to achieve returns equal to or above these benchmark rates for the period. However, this achievement remains secondary to the critical strategies of maintaining a prudent and conservative risk profile and ensuring adequate liquidity for operational purposes.

12. 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 effectively limit the City's investment profile to something similar to a cash managed fund, which produces lower returns but provides a high level of security.

13. Annual CPI inflation was 2.1% in the June quarter, down from 2.4% in the March quarter, and down from 2.8% in the September quarter. The RBA's preferred inflation measure, the 'trimmed mean', is at 2.7% down from 2.9% in the March quarter. The trimmed mean is the measure of inflation after excluding the largest price changes and focusing on the weighted average of the middle 70% of items with the basket of goods used. While global factors explain much of the variation in inflation, domestic factors also continue to play a role. Widespread upward pressures on prices remain in the economy due to strong demand, a tight labour market and capacity constraints in some sectors of the economy.

14. The RBA board lowered the cash rate by 25 basis points, to 3.85% on 20 May 2025. Returning inflation to 2-3% target range within a reasonable time frame has always remained RBA's highest priority. The RBA board will continue to base its decisions on data and an ongoing evaluation of risks. It closely monitors global economic and financial market developments, domestic demand trends, and the outlook for inflation and the labour market.

15. Most banks have predicted at least two more 25 basis point rate cuts in 2025 from the current cash rate of 3.85%, provided that the declining inflation trend continues. The financial institutions reduced medium term deposit rates since the rate cut by the RBA.

16. The report includes graphs depicting the City's portfolio returns over and above both the 90-day Bloomberg AusBond, and 30-day Bank Bill Rate benchmarks, to provide further insight into the City's total investment portfolio performance.

17. The structure of the City's investment portfolio continues to reflect the conservative approach outlined in the Investment Policy and Strategy which was last revised and approved by Council in November 2024 remains appropriate for the current global and domestic economic conditions.

Key Implications

Strategic Alignment - Sustainable Sydney 2030-2050 Continuing the Vision

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

19. This investment approach is within the City's risk appetite, which states:

    (a) The City has a responsibility to ensure that it has sufficient resources in the short, medium and long term to provide the levels of service that are both affordable and considered appropriate by the community.

    (b) We maintain a cautious appetite to financial risks, aiming to minimise the likelihood and impact of significant financial losses.

Financial Implications

20. The City's investments earned interest of $2.9M for the month of July 2025, aligning to the monthly budgeted earnings of $2.9M.

Relevant Legislation

21. Council is authorised to invest its surplus cash under section 625 of the Local Government Act 1993.

22. The Local Government (General) Regulation 2021 (section 212) requires the City to provide a written monthly report of all monies invested, under section 625 of the Act.

23. The Investment Policy and Strategy was last revised in November 2024, maintaining Council's commitment to give preference to sustainable investments where returns and risks are equivalent to other investments.

24. 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 25 November 2024.

Critical Dates / Time Frames

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

Public Consultation

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

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 legislative and risk parameters. City staff meet regularly with representatives of the 'Big 4' banks and NSW TCorp. At these meetings City staff actively advocate for Socially Responsible Investment (SRI) opportunities.

28. 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.

29. 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 $55.0M in eleven tranches with this Green Tailored deposit.

30. The City currently holds $5.0M in a sustainability bond/FRN with Bank Australia due to mature on 24 November 2025 and an additional $4.5M, invested in February 2023 and due to mature on 22 February 2027. This is based on an investment framework that is in line with the 2021 versions of the ICMA Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainability Bond Guidelines (SBG). This Socially Responsible investment opportunity meets both the credit risk and maturity profile requirements of the City.

31. The City invested $25M in March 2025, and an additional $5M in April 2025 in a new product with Westpac, a Social Tailored Deposit, which aligns with the Socially Responsible Investment principles set out in the City's Investment Policy. The City of Sydney is one of three cornerstone investors in this product. It has been independently certified to meet the International Capital Market Association (ICMA) Social Bond Principles while not compromising its credit risk. These Social Tailored Deposits are associated with a defined pool of eligible assets which may include affordable housing, public education and/or healthcare assets along with transport services to disadvantaged areas. These investments will be independently certified annually.

32. As per the investment policy and strategy endorsed by Council in November 2024, the City continues to explore opportunities for supporting environmentally and socially responsible investments within these constraints. The City will continue to encourage and give preference to these investments where they comply with the Ministerial Investment Order and satisfy the Council's policy and investment objectives. The investment climate is changing over time, and the City notes that many large-scale renewable projects are expected to evolve, which may result in additional sustainable investment offers in the medium-to-date long term.

JEAN-MICHEL CARRIERE

Executive Director Finance and Procurement