Item 7.

Investments Held as at 31 January 2025

File No: X020701

Summary

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

The City's total Investment and Cash position was $711.8M at 31 January 2025, with investments earning interest of $3.2M for the month.

Annual CPI inflation was 2.4 per cent in the December quarter, down from 2.8 per cent in the September quarter. This is the lowest annual inflation rate since the March 2021 quarter. Even though inflation has fallen within the Reserve Bank of Australia's (RBA) target range of 2 per cent to 3 per cent, the RBA's board have not, at the time of writing this report, moved to adjust official interest rates, citing a wider range of economic considerations. 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.

The RBA board last raised the official cash rate on 7 November 2023, by 25 basis points to 4.35 per cent, a 12-year high, up from the record low of 0.10 per cent level in May 2022. While inflation is declining, economic analysts note that the decline has been slower than anticipated. While official rates were held steady throughout 2024, the general expectation of a majority of banks is that official ratesare likely to be cut in early 2025, provided that the declining inflation trend continues. The financial institutions have reduced medium term deposit rates based on expectations of number of interest rate cuts by the Reserve Bank of Australia in early 2025.

The City's cash and investments portfolio includes restricted funds in both internal ($236.5M) and external ($89.9M) cash reserves, to satisfy the City's legislative responsibilities and to set aside specific amounts for major initiatives within the Community Strategic Plan Delivering Sustainable Sydney 2030-2050 Continuing the Vision. 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 commercial property and open space acquisitions. The balance of investment funds represents working capital and funding required for the City's operating and capital expenditure commitments.

The City achieved an annualised monthly return of 5.09 per cent for January, which remains above the 30-Day Bank Bill Rate (BBR) of 4.31 per cent, the latest AusBond Monthly Bank Bill Index of 4.56 per cent and the enhanced benchmark of 4.76 per cent (BBR + 0.45 per cent).

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 per cent 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 30–90 day investments.

The City's annual rolling return of 5.06 per cent continues to exceed the 12 month average 30 Day Bank Bill Rate of 4.31 per cent, the latest AusBond 12 Month Average Bank Bill Index of 4.48 per cent and the enhanced benchmark of 4.76 per cent (BBR + 0.45 per cent). The benchmarks were endorsed in the revised Investment Strategy approved by Council in November 2024.

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 a 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 January 2025 be received and noted.

Attachments

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

Attachment B. Investment Performance as at 31 January 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. Surplus cash is only invested in authorized 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 January 2025 was $711.8M, a decrease of $13.5M from 31 December 2024. The monthly movement reflects capital works expenditure and other operational payments for the period exceeding operating income. A schedule detailing all of the City's investments as at the end of January 2025 is provided at Attachment A.

4. A substantial portion of the City's cash and investments portfolio is held as internally restricted ($236.5M) or externally restricted ($89.9M) cash reserves, to satisfy the City's legislative responsibilities and to set aside specific funds for major initiatives within the Community Strategic Plan Delivering Sustainable Sydney 2030-2050 Continuing the Vision.

5. 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 commercial property and open space. The balance of investment funds represents working capital and funding required for the City's operating and other capital expenditure commitments.

6. The City achieved an annualised monthly return of 5.09 per cent for January which remains above the 30-Day Bank Bill Rate (BBR) of 4.31 per cent, the latest AusBond Bank Bill Index of 4.56 per cent and the enhanced benchmark of 4.76 per cent (BBR + 0.45 per cent).

7. 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 per cent 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.

8. The City's annual rolling return of 5.06 per cent continues to exceed the 12 month average 30 Day Bank Bill Rate of 4.31 per cent, the latest AusBond Bank Bill Index of 4.48 per cent and the enhanced benchmark of 4.76 per cent (BBR + 0.45 per cent). The benchmarks were endorsed in the revised Investment Strategy approved by Council in November 2024.

9. 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.

10. 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.

11. Annual CPI inflation was 2.4 per cent in the December quarter, down from 2.8 per cent in the September quarter. This is the lowest annual inflation rate since the March 2021 quarter. Even though the inflation has fallen within the target range of 2 per cent to 3 per cent, the RBA's assumption is that temporary measures have contributed to the decrease in inflation. The RBA's preferred inflation measure, the 'trimmed mean', is still high at 3.2%. Trimmed mean is the measure that averages inflation after excluding the largest price changes and focusing on the weighted average of the middle 70% of items. 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.

12. The Reserve Bank of Australia (RBA) board last raised the official cash rate on 7 November 2023, by 25 basis points to 4.35 per cent, a 12-year high, up from the record low of 0.10 per cent level in May 2022.

13. Recent CPI quarterly results indicate that inflation is trending down. Economic analysts note that the decline has been slower than anticipated, which, combined with other economic factors, has resulted in official interest rates remaining unchanged since November 2023. The general expectation of a majority of the banks is that official rates are likely to be cut in early 2025. Financial institutions have reduced medium term deposit rates based on expectations of number of interest rate cuts by the Reserve Bank of Australia beginning in early 2025.

14. 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.

15. 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 December 2024 remains appropriate for the current global and domestic economic conditions.

Key Implications

Strategic Alignment - Sustainable Sydney 2030-2050 Continuing the Vision

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

Risks

17. This investment approach is within the City’s risk appetite, which states:

    - 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.

- We maintain a cautious appetite to financial risks, aiming to minimise the likelihood and impact of significant financial losses. We prioritise the protection of our financial resources and our long-term financial sustainability. We strive to ensure that our financial decisions are well informed, based on sound financial analysis and are aligned with our strategic objectives.

- We are committed to complying with all applicable laws, regulations and financial reporting standards. We have no appetite for financial losses arising from non-compliance with legal and regulatory requirements

Relevant legislation

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

19. 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.

20. 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.

21. 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

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

Public Consultation

23. 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.

24. 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.

25. 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.

26. 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 $70.0M in fourteen tranches with this Green Tailored deposit.

27. 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.

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