

## Revision to the Investment Policy

Presented To:	Finance and Administration Committee
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Type:	Managers' Reports
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Recommended by:	General Manager of Corporate Services

## Report Summary

This report provides a recommendation regarding amending the corporation's Investment Policy to adjust the balance between long-term and current investments and maximize the potential for investment income based on the current interest rate environment.

## Resolution

THAT the City of Greater Sudbury approves increasing the limit on long term investments as outlined in the report entitled "Revision to the Investment Policy", from the General Manager of Corporate Services, presented at the Finance and Administration Committee meeting on February 21, 2024;

AND THAT the City of Greater Sudbury directs staff to prepare the necessary by-law.

## Relationship to the Strategic Plan, Health Impact Assessment and Community Energy & Emissions Plan (CEEP)

This report refers to operational matters and has no direct connection to the Strategic Plan or the Community Energy & Emissions Plan.

## Financial Implications

If approved, changes to the Investment Policy will result in rebalancing the corporation's investment portfolio such that the maximum amount of funds eligible for investing in long-term securities will increase from \$150 million to \$250 million. Actual investment amounts will be based on available funds, which fluctuate according to daily operating requirements and funds required to support capital project delivery. Returns earned on invested funds will be based on market conditions. This policy change increases the potential for maximizing available returns.

## Background

The amount of revenue the corporation collects throughout the year reflects the requirements described in its annual budget. Funds are allocated to daily operations or capital projects, as required. Funds collected, but not immediately required for daily operations or capital project delivery, are invested so that the corporation can earn investment income.

The corporation's investments are subject to strict limits described in the Municipal Act and the corporation's own Investment Policy. The most important principle is to manage investments such that the risk to the corporation's capital is minimized. That is, the return *of* capital is more important than the return *on* capital. Investment terms reflect the corporation's daily operating requirements and funds required to pay for anticipated capital project needs.

Currently, the corporation's Investment Policy limits the amount that can be invested in "long term investments" to \$150 million. A long term investment is one where funds are invested, and there is a higher probability that some may be unavailable for other uses, for not less than one year. The resulting investment income helps reduce property tax levy requirements.

Other investments, known as "current investments" have terms that are less than one year. While the split between long term and current investments is informed by the corporation's Investment Policy, it also reflects market conditions. Recently, interest rates have favored a weighting toward current investments. That is, short-term rates have been higher than rates associated with longer-term investments, so funds invested in short term investment products have produced higher investment income.

Market conditions continually evolve. Current forecasts anticipate short-term rates will decline, increasing the potential for the corporation's investment revenues to also decline. This makes it prudent and appropriate for the corporation to adjust the proportion of its investment portfolio assigned to long term investments.

## **Analysis**

The current limit on long term investments is \$150 million according to the corporation's Investment Policy. This limit was last adjusted in 2013. Staff believe it is appropriate to increase the limit to \$250 million. This would support efforts to maximize investment income.

For the last several years, rates on current investments have provided higher returns than long term investments. This has resulted in higher investment income than typical levels. For example, since 2019, the budget for investment income has increased nearly \$10 million. Historically the budget for investment income was between \$3 million to \$5 million. This reflects both higher interest rates paid on investments and higher than normal funds available for investment, since several large projects remain underway and funds to support them remain unspent.

This period of higher current interest rates is anticipated to change such that short term rates will be lower starting in 2024. By increasing the maximum limit on long-term investments to \$250 million, the corporation will be able to earn investment income that takes advantage of the higher yield on long term investments and reduce the impact of a reduction in current interest rates.

The corporation's investment portfolio is expected to return to normal levels as the City uses the funds it has borrowed for projects such as Pioneer Manor Bed Redevelopment and the Cultural Hub. At the same time as the portfolio balance returns to normal, it is expected that the interest rates will also decrease. Changing the Investment Policy to increase the amount that can be invested in long term investments will help reduce the resulting upward pressure on the property tax levy.

Staff are confident that the long-term investment limit can be raised by the proposed \$100 million while not affecting the corporation's ability to meet its financial obligations. Staff will continue to monitor investments and adjust the budget to reflect expected investment income.

## **Resources Cited**

Bank of Canada Policy Interest Rate - <https://www.bankofcanada.ca/core-functions/monetary-policy/key-interest-rate/>

2013 Revision to Investment Policy <https://pub-greatersudbury.escribemeetings.com/filestream.ashx?documentid=18143>