

REPORT TO COUNTY COUNCIL

Investment Activity Report and Policy Review - 2023

To: Warden and Members of County Council

From: Director of Corporate Services

RECOMMENDATIONS

1. That Report CS 2024-07 entitled “Investment Activity Report and Policy Review - 2023”, for the year ended December 31, 2023, be received;
2. And that the updated Investment Policy 6.06, as attached to Report CS 2024-07, be approved.

REPORT HIGHLIGHTS

- Investment deposits and cash balances at December 31, 2023 - \$267,624,256
- Investment income earned in 2023 - \$11,824,739

IMPLEMENTATION POINTS

This report fulfills the Treasurer’s obligation to report to Council as required under O.Reg. 438/97 of the *Municipal Act, 2001* and the County’s Investment Policy Statement No. 6.06.

Financial Impact

Interest income for 2023 surpassed the 2023 budget estimate by \$4,388,335. The interest revenues are allocated among general taxation; designated reserves in accordance with the Reserves Policy; and Development Charge Reserves in accordance with the Development Charges Act. Final allocations are determined based on year-end balances and will be presented in the year-end financial statement report.

In response to persistent inflation pressures, in 2023 the Bank of Canada continued to increase the overnight lending rate increasing from 4.25% to 5.00%, resulting in higher than expected returns on the County’s fixed income investment portfolio.

Communications

It is the opinion of the Treasurer that all investments held during the 2023 fiscal year, as reported herein, are consistent with the Investment Policy.

Upon Council approval of the proposed updated Investment Policy, it will be posted on the County’s website and circulated to the authorized investment dealers.

2023-2026 STRATEGIC PLAN

Oxford County Council approved the **2023-2026 Strategic Plan** on September 13, 2023. The Plan outlines 39 goals across three strategic pillars that advance Council’s vision of “Working together for a healthy, vibrant, and sustainable future.” These pillars are: (1) *Promoting community vitality*, (2) *Enhancing environmental sustainability*, and (3) *Fostering progressive government*.

The recommendations in this report support the following strategic goals.

Strategic Plan Pillars and Goals

PILLAR 1	PILLAR 2	PILLAR 3
		
Promoting community vitality	Enhancing environmental sustainability	Fostering progressive government
		Goal 3.4 – Financial sustainability

See: [Oxford County 2023-2026 Strategic Plan](#)

DISCUSSION

Background

The Oxford County Investment Policy governs the investment activities of the County in accordance with section 418 of the *Municipal Act, 2001*, and Ontario Regulation 438/97, as amended.

The Policy states the following:

“The Treasurer will maintain an investment record and annually prepare a report for Council, outlining the investments held in each fund. The report will outline the issuer,

type of instrument, par value, maturity date, the purchase price and yield of each investment.

The investment report will conform to the requirements as set out in O.Reg. 438/97 of the *Municipal Act*, 2001.”

Further, the Policy requires that a regular review of the Policy be undertaken at the time the Treasurer prepares the annual investment report for Council.

Comments

2023 Investment Returns

Attachment 1 provides a summary of the cash and investments held by the County at December 31, 2023 along with comparative summary data for the years 2020 through to 2023. Total net investment income earned in 2023 was \$11,824,739 as compared to \$5,721,286 in 2022.

In summary, the County’s investment portfolio in 2023 generated a 4.8% return on cash balances; Scotia Wealth Management investment account realized an average return of 2.0%; various fixed GICs and term notes realized an average of 4.7% return; and the municipal loan investments earned an average return of 3.5% in 2023.

Attachment 2 to this report is the *Summary of Holdings by Category and Details of Holdings on December 31, 2023* reports prepared by Scotia Wealth Management providing details of the investments held in the managed portfolio.

The initial deposit of \$10,000,000 made in September 2004 was augmented with an additional \$2,500,000 deposit in February 2005 and a further \$1,500,000 in February, 2007 after receiving favourable year end reports. Late in 2010, approximately \$7.7M was reverted to cash from the Scotia Wealth Management investment account. Early 2016, an additional \$10.0M from general funds were invested in the investment account. The market value of the investment portfolio on December 31, 2023 of \$23,913,303 is the result of \$10,071,681 return since inception. For the 12 months ended December 31, 2023, the net investment income realized in the portfolio was 2.0%.

Policy Review

In 2023 the Canadian economy continued to experience a volatility in the investment market due to the prolonged restrictive monetary policy imposed to weaken inflation, resulting in unpredictable and unprecedented market reactions created by the pandemic. In spite of the foregoing, economists and investment advisors are currently generally of the opinion that rates will stabilize over the next 7 to 8 months as the economy softens and inflation is sustained in the target range to satisfy the Bank of Canada. Due to the nature of the County’s investment portfolio and cash balances being concentrated in bank deposits and GICs, proved to be advantageous in 2023, however that is unlikely to continue as the economy softens and interest rates begin to decline.

As we have experienced an unpredictable economy since the onset of the pandemic, staff have taken a careful look at the Investment Policy to ensure the County is well positioned for further unrest with a view to generate more investment revenue to assist in stabilizing the competing

financial challenges facing the County's services and infrastructure. In doing so, staff have reviewed investment policies of a number of other municipalities in southwestern Ontario and are proposing an updated policy that will assist in establishing a portfolio that will better withstand unforeseen economic and financial market developments, and that is appropriately diversified across asset classes, including stock, bonds and alternatives, all in keeping with the O.Reg. 438/97 of the *Municipal Act, 2001*.

Due to the significant changes in the policy provisions, attached to this report is a copy of the proposed new policy as Attachment 3 and the existing Investment Policy as Attachment 4 for comparative purposes. Some highlights of the content in the proposed new policy are described below.

Proposed Updated Investment Policy

Policy Statement

The County of Oxford strives for the optimum utilization of its cash resources within statutory limitations and the basic need to protect and preserve capital, while maintaining solvency and liquidity to meet ongoing financial requirements.

Objectives

The primary investment objectives, in priority order, shall be:

- Adherence to statutory requirements;
- Preservation of capital;
- Maintaining liquidity; and
- Earning a competitive rate of return.

Standard of Care

- Prudence – based on sound judgment and care, following the prudent person principle of investment management, seeking legal and/or financial advice when warranted
- Ethics and Conflicts of Interest – employees and officers shall not undertake personal investment transactions with the same individual conducting investment transactions with the County
- Delegated Authority – the County Treasurer has overall responsibility for the prudent investment of the County's portfolio, adhering to the Investment Procedures and Internal Control provisions; and Reporting to Council, as set out in the Policy.

Schedule 1 – Authorized Investments and Limitations at Time of Purchase

Schedule 1 to the Policy sets out the following qualitative and quantitative criteria established for investments by Sector:

- Approved sectors for investments
- Minimum S&P credit rating
- Maximum Term
- Maximum credit exposure limits for both individual and portfolio

The proposed new Investment Policy follows other municipal investment strategies that have historically returned earnings of approximately 4% and are expecting to see returns of more than 7% this year with anticipated interest rate reductions.

CONCLUSIONS

It is the opinion of the County Treasurer that all investments presently held by the County are consistent with the Investment Policy.

As most analysts expect the Fed and Bank of Canada to either keep interest rates at their current higher level for an extended period of time or cut them this year to avoid a deep recession, the proposed updated Investment Policy will position the County well for interest rate reductions by broadening the scope of sectors in the County's investment portfolio to provide better diversification and increased returns.

SIGNATURES

Report author:

Original signed by

Carolyn King, CPA, CA
Manager of Finance

Departmental approval:

Original signed by

Lynn S. Buchner, CPA, CGA
Director of Corporate Services

Approved for submission:

Original signed by

Benjamin R. Addley
Chief Administrative Officer

ATTACHMENTS

Attachment 1 – County of Oxford Investment Activity Report 2023

Attachment 2 – Scotia Wealth Management Summary of Holdings by Category and Details of Holdings on December 31, 2023

Attachment 3 – Investment Policy 6.06 - updated February 28, 2024

Attachment 4 – Investment Policy 6.06 – updated November 25, 2015