



Subject: *Investment of Reserves in GIC Products*
To: Council
Date Prepared: May, 29th, 2024
Related Motions: N/A
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Approved by: Kim Ramsay, CAO

Summary

Currently the reserves held by the municipality are entirely held in cash accounts with RBC. These funds earn a rate of return slightly less than prime. As the prime rate moves, so does the rate of interest earned on these bank accounts. Prime rates are relatively high at present but are expected to move lower in the next year or more. By investing some of the reserves in Canadian Schedule 1 bank Guaranteed Investment Certificates the municipality could lock into these higher rates.

Financial Impact Statement

The net financial impact is expected to be positive. Projections indicate the financial benefit could range from zero to \$200,000 per year based on a \$20,000,000 investment.

Whether or not a financial benefit is realized depends upon where interest rates go over the period of the GIC investments. If interest rates drop, a benefit will be realized. If interest rates stay relatively the same there will be zero or minimal benefit. If interest rates increase a loss will be realized.

Recommendation

Staff recommend Council authorize the CAO to invest up to \$20,000,000 million of reserve cash in Canadian Schedule 1 Bank Guaranteed Investment Certificates having a term of no longer than two years.

Recommended Motion

Move that Council authorize the CAO to invest up to \$20,000,000 million of reserves cash in one or more of the largest five Canadian Schedule 1 Bank Guaranteed Investment Certificates having a term of no longer than two years.

Background

Interest rates in Canada increased significantly in 2022. The municipality of East Hants has benefited from this as over \$40,000,000 in reserves has been held in RBC bank accounts that earn interest tied to the prime rate (less a % factor).

Many economists and banks now believe that interest rates will start to lower significantly over the next one to two years. If this happens, the Municipality of East Hants will no longer earn the high interest rates it has been earning. They will drop as the prime rate drops.

There currently exists a window of opportunity to lock in some of these higher rates for a period of one to two years by investing in locked in guaranteed investment certificates.

Reserve balances at March 31, 2024 were in excess of \$40,000,000. Cashflow requirements of the municipality will not be negatively impacted by this GIC investment as the recommendation is to invest to a maximum of \$20 million. This amount is still very conservative relative to cashflow requirements. Combined bank balances of the municipality have ranged from 39 million to 54 million in the past two fiscal years.

Guaranteed investment certificates are guaranteed by the Bank they are issued by. Risks of investing in Canadian Schedule 1 bank GICs are no higher than holding a cash account in one of these banks.

If approved and the municipality proceeds with this strategy, a finance staff member will be responsible for monitoring current and projected cashflows. In addition, a line of credit can be obtained with a bank should this be required. This is seen as a highly unlikely/very low risk.

Discussions with our bankers (and their competitors) indicated they feel this strategy is sound, and that other organizations have already completed it or are considering it.

Should we proceed with this strategy, it will be possible to provide Council with regular reports on the results thereof.

Relevant Sections of the MGA:

Investment of Funds

100 (1) Funds in a sinking fund, capital reserve fund, utility depreciation fund or other fund of a municipality or village shall be

- (a) deposited in an interest-bearing account at a bank doing business in the province;
- (b) invested pursuant to an investment policy adopted by the council or village commission, as the case may be, and approved by the Minister; or
- (c) invested in investments in which a trustee is permitted to invest pursuant to the Trustee Act.

Relevant Sections of the Trustee Act:

Permitted investment

3 (1) A trustee may invest trust property in any form of property or security in which a prudent investor might invest, including a security issued by a mutual fund as defined in the Securities Act. R.S., c. 479 trustee 5 DECEMBER 28, 2017
(2) Subsection (1) does not authorize a trustee to invest in a manner that is inconsistent with the trust.

(3) A trustee may have regard to the following criteria in planning the investment of trust property, in addition to any others that are relevant to the circumstances:

- (a) general economic conditions;
- (b) the possible effect of inflation or deflation;
- (c) the expected tax consequences of investment decisions or strategies;
- (d) the role that each investment or course of action plays within the overall trust portfolio;
- (e) the expected total return from income and the appreciation of capital;
- (f) other resources of the beneficiaries;
- (g) needs for liquidity, regularity of income and preservation or appreciation of capital

FINANCIAL CONSIDERATIONS

Cashflow and risk considerations have been noted above.

Alternatives

Council may decide not to proceed, or to proceed with a lower amount of an investment.
