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Council Meeting – July 22, 2025

Subject:	December 31, 2024 Investment Update and Policy Revision
Report Number:	CS-25-089
Division:	Corporate Services
Department:	Finance
Ward:	All Wards
Purpose:	For Information

Recommendation(s):

That Report CS-25-089 December 31, 2024 Investment Update and Policy Revision be received as information; and

That Policy FS 23- Corporate Investment Policy be repealed and replaced with Policy GP-33 Corporate Investment Policy, effective immediately.

Executive Summary:

Purpose of the Report: The purpose of this report is to provide an update on the investment activity for Norfolk County, as of December 31, 2024. Additionally, a review of the County's Corporate Investment Policy has been completed and based on a few recommended changes to the content of the policy, staff are seeking approval of Policy GP-33 Corporate Investment Policy.

Key Findings, Analysis and Conclusions:

2024 Investment Returns

The County's investments provided total returns of $21.1 million in 2024, of which, $11.9 million was provided from the short/medium-term portfolio, and $9.2 million was provided by the Legacy Fund.

In terms of performance, 2024 represents a very successful year for the County's investment portfolios. Strong performance is attributed to high interest rates, solid performance of the Canadian equity market, and elevated investment balances leading to sizeable returns (anticipated to be short term for the short/medium-term portfolio).

Corporate Investment Policy Review

As the final step in the comprehensive review of investment strategies, a number of key changes are being recommended to the Corporate Investment Policy. These changes are in the areas of investment limitations and investment trading authority and are based on a comparative review of municipal policies and County practice. Staff feel it is prudent to bring forward in policy to ensure these key requirements remain in place for the future.

Financial Implications:
As outlined in the Finance comments, the returns from the short/medium-term investment portfolio were distributed to a number of key areas, including: development charge reserves, levy and rate capital reserves, other legislative reserves, and the operating budgets.

Withdrawals were also completed from the Legacy Fund, which are supporting: contributions to the roadway reserve, the purchase of waste management equipment, and debt mitigation.

These returns have provided a substantial improvement to the County's financial position, as a portion of these distributions were not included in prior reserve forecasts. As a result, the funds will reduce pressure to future operating budgets, will support future capital expenditures and importantly, will mitigate future debt issuances.

Discussions:

Background:

Norfolk County has short-term investments such as Guaranteed Investment Certificates (GICs) that mature in under 1 year and High Interest Savings Accounts (HISAs), medium-term investments such as Bonds, Notes, and GICs that mature in 1 year or more, and a long-term investment strategy with the Legacy Fund.

Legislative Requirements

Municipalities are required to follow investment regulations as set out under the *Municipal Act, 2001* and *Ontario Regulation 438/97*. Within the investment regulations, municipalities have the option of two investment streams, Legal List and Prudent Investor.

Norfolk County follows the Legal List stream, which governs the investments that the County is able to make. The requirements for municipal investing for those following the Legal List stream are outlined in section 418 of the *Municipal Act*, *2001,* and in Part I of *Ontario Regulation 438*. A high-level summary of the eligible investments is below.

Investments are primarily limited to conservative investments, including government bonds (Federal, Provincial, and Municipal), bank deposits and banker's acceptances, and notes. Controlling the investment's risk through the allowed level of credit risk or the minimum ratings for the security.

Higher risk instruments for investments in Canadian equities and Canadian corporate bonds is possible. However, only if the municipality has entered into an agreement with the Local Authority Services and CHUMS Financing Corporation, through the One Investment Program. For municipalities that have been rated by one of the prescribed rating agencies, and achieves a minimum rating of “AA-“ or higher, investments can be made in Canadian corporate bonds, that meet minimum ratings for the security, and must have a remaining term to maturity of not more than 5 years.

All of the County’s investments in 2024 met compliance with the *Municipal Act, 2001*, and *Ontario Regulation* requirements.

2024 Investment Results:

Short-Term Investments:

Short-term cash availability is the result of regular ebbs and flows within the County’s operations. Tax revenue is Norfolk County’s primary source of cash in-flow, which spikes four times a year on or around the tax due dates. Expenditures throughout the year are mostly uniform, and on average weekly expenditures of $5.4 million for regular operations and capital expenses are paid out. The timing difference in cash in- and outflows results in certain times during the year where excess cash is available for investment. On a regular basis, staff monitor cash flow and complete projections to ensure sufficient funds are available in the bank for the County’s commitments.

Excess funds, forecasted in the short-term are invested in GICs (with a term of less than 1 year) and HISAs. If the County reaches a point where cash available is to have a balance past the short-term commitments, then medium term investment instruments are used.

Norfolk County has a competitive short-term investment process, involving numerous financial institutions and brokers contacted on a regular basis for rates related to GICs or HISAs. Prior to making short-term investment decisions, staff review: investment rates offered, investment composition compared to targets, risk of investment options, and ensure appropriate portfolio diversification between issuers.

In 2024, short-term investment returns included interest from operating bank accounts, HISAs, and GICs (with a term of less than 1 year).

2024 Average Investment balance: $41,200,000
2024 Return: 4.86% or $2,384,665

Short-term investment performance is relative to the Bank of Canada policy rate. If the policy rate is low, returns on short-term investment products will be low. If the policy rate is high, returns on short-term investment products will be high. In 2024, the Bank of Canada Policy rate started the year at 5.00% and finished at 3.25%. In 2025, the Bank of Canada Policy rate has fallen further to 2.75%. This is anticipated to impact the returns on the short-term portfolio in 2025, which is projected to have a lower average return than experienced in 2024. The short-term portfolio returns experienced in 2024 were lower than those experienced in 2023 (5.21%), but higher than other years in recent history.

<u>Medium-Term Investments:</u>

When Norfolk County's cash flow is in excess of paying current year expenditures, investment options over and above GICs and HISAs are generally used. In 2024, medium-term investments were held in GICs (with a term of greater than 1 year), notes (including PPNs), and bonds. The type of investment selected depends on cash flow projections (5-year projections), investment rates offered, investment composition compared to targets, risk of investment options, and ensuring appropriate portfolio diversification between issuers.

One way for municipalities to expand their investment options and get exposure to equity-linked returns, while complying with the *Municipal Act, 2001*, is through investment in Principal Protected Notes (PPNs). A PPN is a note designed to provide investors with returns linked to the positive performance of a selected index or basket of shares. The investor benefits from the positive performance of the index, while having the principal fully protected from any negative performance. PPNs are popular with municipalities because they give municipalities a chance at earning higher returns, which equities can provide, without risking any of their principal.

As consistent with the last few years, one of the investments held in the medium-term investment portfolios included PPNs. PPN returns are variable depending on their performance and are paid out on maturity. In 2024, all purchased PPNs included a fixed coupon leading to an improvement in returns in this category as compared to the prior year (4.55%). Longer term GIC's were purchased in 2024, based on favourable rates (averaging over 5%), with the goal of guaranteeing higher rates for a longer period. This was to protect the County's medium portfolio against a falling interest rate in 2025 and beyond.

2024 Average Investment balance: $170,775,000
2024 Return: 5.58% or $9,529,910

<u>Long-Term Investments – Legacy Fund:</u>

The ONE Investment Program managed the County's Legacy Fund in 2024, which represents the County's long-term investments. The initial investment in the Legacy Fund was $67.7 million and was the result of the proceeds the County received from the sale of Norfolk Power.

The overall strategy for these funds is to be similar to a long-term investment portfolio. Wherein the principal will remain intact, and income from the investment is used for municipal purposes and more specifically for the funding of capital projects. Based on Policy FS-29 Norfolk County Legacy Fund being in place in 2024, the portfolio targets the following investment mix: 25% government bonds, 25% corporate bonds, 50%

equities. Withdrawals from the Legacy Fund were based on the approved commitment to transfer $2 million to the Roadway Construction Reserve, as well $6.35 million was withdrawn as a special withdrawal as the principal value of the investment was over 120% of the initial value. Since 2015, the County's reserves have had approximately $24.15 million contributed to them from income earned on the Legacy Fund.

Principal Amount: $67,708,240

2024 Returns and Average Balance:
2024 Average Investment Balance: $80,640,000
2024 Return: 11.36% or $9,163,511

The strategy for the Legacy Fund was re-evaluated in 2024 and 2025, which brought changes to the investment management services provider, Policy, reporting, and portfolio mix. The goal of these changes is to reduce the portfolio risk, offer greater diversity, lower fees, potentially increase returns, and provide a more meaningful involvement from the County's external investment management services provider (CIBC Private Investment Counsel). The repositioning of investments has been completed in 2025, and staff look forward to providing a more fulsome update of the 2025 results, alongside the investment management services provider upon the completion of the calendar year. An update on the year to date (YTD) returns and portfolio value has been provided below.

2025 YTD Returns and Value:
2025 YTD Portfolio Value – June 30: $80,802,717
2025 YTD Return – June 30: 3.9% or $3,127,007
(Definition of Portfolio Value included in the Finance Comments)

<u>Investment Policy Updates:</u>

In 2023, staff initiated a comprehensive review of investment strategies on both the short/medium- term investment portfolio, as well as the long-term investment portfolio. Progress has continued through 2024 and 2025, with accomplishments including: review of the Legacy Fund portfolio goals, investment mix, hiring of an investment management services provider, adoption of a revised Legacy Fund investment policy (GP-25), and a refreshed Legacy Fund Performance Report which is e-mailed to Council monthly. The final step planned within this review is to complete an update on the Corporate Investment Policy (FS-23).

The revised Corporate Investment Policy has been attached to this report for approval (Attachment 1 – Policy GP-33 – Corporate Investment Policy). A number of improvements are being recommended for this Policy update, based on a review of comparative municipalities, and to formalize some limitations currently followed within the County's current process. A listing of the major Policy updates, including information on current policy as compared to the revised policy, have been highlighted below.

Investment Limitations:

- Current Policy: The types of investment authorized were further restricted beyond the limits set by the *Municipal Act, 2001* and *Ontario Regulation 438/97.* However the Policy did not restrict the amounts able the be held by institution types or for an individual institution.

- Revised Policy: The type of investments permitted by the Policy will be restricted by *Ontario Regulation 438/97*, and the *Municipal Act, 2001,* with no further limitations placed by the County. Instead of restricting investment by type, which is inherent due to the Policy requirements to limit credit and interest rate risk, staff are recommending formalizing institutional category and individual limits. In addition, a two-year limit is also being placed for investments with credit unions. These recommendations will work to ensure proper portfolio diversification, and ensure appropriate limits are placed on institutions considered higher risk. These limits have been followed by staff within the last few years, and adding these key elements to the Policy will ensure these requirements continue to be followed.

Investment Trading Authority:

- Current Policy: Any individual assigned responsibility by the Treasurer was permitted to engage in investment transactions. Procedures for effective control were required to be developed and maintained by the Treasurer.

- Revised Policy: Requires authorization by two individuals for investment transactions, and specifies the positions, which include: Treasurer, Deputy Treasurer, Payables & Cash Management Analyst, or Mayor. Procedures for effective control are still required to be developed and maintained by the Treasurer.

Several minor wording updates/housekeeping adjustments were also made to the Policy.

As County staff are already following the provisions outlined above, it is not anticipated this will impact returns of the short/medium- term portfolio.

Finance Comments:

The *Municipal Act, 2001* and *Ontario Regulation 438/97* provide that the Treasurer shall submit an investment report to Council, at least annually with the Treasurer's declaration that Norfolk County is in accordance with the investment policy.

Treasurer's Declaration:
As reviewer of this report, I hereby certify that all investments completed are in accordance with the County's Investment Policy.

2024 Investment Income Distributions:

The investment income for the short/medium- term portfolio is distributed in line with the provisions outlined in Policy CS-23 Reserves and Reserve Funds. The distribution is completed in the following order, and with the methodology as outlined below:

1. Allocated to Interest-Bearing Reserve/Reserve Funds:
    - Investment income is allocated based on the average bank rate and average fund balance of specific Reserves and Reserve Funds.
2. Allocated to Operating Budgets:
    - Investment funds are allocated to the operating budget in line with specific budget allocations and proportionate to the expenditures within rate and levy operations.
3. Excess Investment Income is Allocated:
    - Any investment income generated above the levels allocated within steps 1 and 2 is called excess investment income. Excess investment income was allocated to levy and rate capital reserves based on capital service areas that have future debt needs outlined in the capital plan. The allocation was based on the average balances of the respective service area reserves within the year, to ensure appropriate allocation between the areas of County's operations.

A summary outlining this distribution has been presented in Table 1 below.

Table 1: Distribution of Short/Medium- Term Portfolio Investment Income

Area of Distribution:	**Amount $**
Allocations to Interest-Bearing Reserve/Reserve Funds:	
Development Charge Reserve Funds	781,360
Other Legislative Reserve Funds	837,061
Levy Capital Reserves	2,633,911
Rate Capital Reserves	1,996,040
Allocated to Operating Budgets	925,000
Excess Investment Allocation	
Levy Capital Reserves	3,226,628
Rate Capital Reserves	1,514,576
Total Short/Medium- Term Investments Income	**$11,914,575**

Due to favorable rates experienced, allocations to interest bearing reserve/reserve funds were higher than those anticipated. In addition, excess investment allocations are not included in reserve forecasts, so these distributions represent additional funding available for future capital expenditures; importantly debt will be able to be mitigated as these funds will be available to be allocated to projects within the 2026 Capital Plan.

Unlike the short/medium- term portfolio, amounts distributed from the Legacy Fund are based on the approved annual withdrawals within the Legacy Fund Policy. The distribution of withdrawals in 2024 has been recorded in Table 2 below.

Table 2: Distribution of Legacy Fund Special Withdrawals

Area of Distribution:	Amount $
Annual Withdrawal – Roadway Reserve Contribution	$2,000,000
Special Withdrawals	
Waste Management Equipment	5,029,000
Debt Mitigation	1,321,000
Total Legacy Fund Withdrawals in 2024	**$8,350,000**

In addition to the withdrawals shown in Table 2, $500,000 has been recorded as committed to the Norfolk General Hospital in 2024, which remains invested within the Legacy Fund.

Additional information has been included below related to the special withdrawals from the Legacy Fund:

Waste Management Equipment – Consistent with report EIS-25-025 Award of Curbside Waste Collection, presented at the July 8th Council-in-Committee meeting, a portion of the special withdrawals completed in 2024 was set aside as a provision for waste management equipment. These funds have been temporarily allocated to the New/Incremental Capital Reserve, until a tender is awarded for the procurement of garbage and organics carts. The carts purchased will be distributed to homes in Norfolk County to facilitate an automated service delivery method, which is projected to result in savings on the operating budget, as compared to the future projected costs for continuing the non-automated service delivery method. If the special withdrawal was not allocated toward this purpose, additional tax increases and/or debt issuances would be required to absorb the cost of purchasing the carts.

Debt Mitigation – As previously presented in the 2025-2034 Capital Plan, staff have projected considerable debt pressures as a result of significant planned infrastructure requirements in the near term and overall limited reserve capacity. In effort to reduce the pressure on the debt limit $1,321,000 of the special withdrawal has been allocated to fund projects that were previously funded by debt. This has been outlined in Table 3 below.

Table 3 – Projects recommended for debt mitigation from the Legacy Fund Special Withdrawal

Project	Debenture Budget ($)	Reduction ($)
3331605 Accessible Parking Norview Lodge	900,000	900,000
7432601 Pump 5 – Fire Station #5 Delhi*	441,402	421,000
Total	**$1,341,402**	**$1,321,000**

*Note: In Report CS-25-092, 2024 Audited Financial Statements and Year End Performance Measures, $0.98 million of project 7432601 was approved to be funded by debt mitigation from the year end surplus. Staff anticipate by project closure the minor debt funding remaining will be mitigated; due to the minor amount remaining it will be recommended to be funded through the Fleet Reserve.

Debt Mitigation Impacts

Based on short/medium- term excess investment income distributions, and the special Legacy Fund withdrawal allocation to debt mitigation, a total principal amount of $6.06 million in debenture issuance is being mitigated. On an annual basis, this means principal and interest payments of $575,800 are not required to be included in the Levy Operating Budget.

These mitigation impacts were included in the impacts presented in staff report CS-25-092, 2024 Audited Financial Statements and Year End Performance Measures.

Debt payment calculations are based on 20-year serial debentures, annual repayments and 4.50% interest rate.

Financial Statement Investment Income

Within the County's 2024 Financial Statements, Note 14 – Other Income, outlines the investment income generated in 2024. The annual investment income for Financial Statement purposes ($19.49 million), is slightly lower than the investment returns presented within this report ($21.08 million) due to timing differences of two components: deferred revenue recording for distributions to development charge reserve funds, and remeasurement gains/losses for the Legacy Fund.

When investment income is allocated to development charges reserves, it is recorded as deferred revenue until it is utilized for the required purpose. Therefore, it is excluded from investment income in the Financial Statements until it is utilized, resulting in a timing difference from when income was generated to when it was used or recorded. The amount recorded as deferred revenue in 2024 was $0.74 million.

When investment income for the Legacy Fund is due to an improvement in market value, and it has not yet been realized for accounting purposes, it is recorded as a remeasurement gain within the Financial Statements. These remeasurement gains (or if a loss occurs, a remeasurement loss), are recorded within the Consolidated Statement of Remeasurement Gains and Losses until they are realized. Essentially, this investment return is temporarily recorded in a separate area of the Financial Statements instead of as investment income. The 2024 net remeasurement gain was $0.85 million.

Definition of Portfolio Value:

As outlined within the section pertaining to the Legacy Fund returns, the definition of Portfolio Value has been included below.

Portfolio Value (Legacy Fund): The portfolio value reflects the market value of Canadian equities, bond funds, and short term/high interest savings, plus the principally protected value of bond and note investments. Any accrued, unpaid guaranteed interest is also included. It is important to note that the market value of investments for individually held bonds and notes may be higher/lower, as compared to the portfolio value. However, the portfolio value for these investment types reflects the principally protected value, which is the lowest value the County would accept to sell these investments and is the lowest value guaranteed to be returned at maturity.

Interdepartmental Implications:

N/A

Consultation(s):

ONE Investment Annual Statement

Strategic Plan Linkage:

Sustaining Norfolk - Creating a sustainable community and a positive legacy

Explanation: As Norfolk continues through a period of significant financial pressures and increasing capital and operating costs, it is imperative that each available investment dollar be utilized and maximized as efficiently as possible. The updates to the County's Investment Policy will support maximization of this revenue source and will ensure a high level of care and due diligence is maintained.

Attachment(s):

- Attachment 1: GP-33 – Corporate Investment Policy (as updated)
- Attachment 2: FS-23 – Corporate Investment Policy (to be repealed and replaced)

Approval:

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