

FINANCIAL MANAGEMENT COMMITTEE

TO: *MAYOR AND COUNCILLORS*

SUBJECT: **CITY INVESTMENTS - 2023 YEAR END REPORT**

RECOMMENDATION:

THAT the report titled “City Investments – 2023 Year End Report”, dated February 20, 2024, be received for information.

REPORT

The Financial Management Committee, at its meeting held on February 20, 2024, received and adopted the attached report providing an update on the 2023 Investment Program and presenting a forecast for 2024.

On behalf of the Financial Management
Committee,

Councillor P. Calendino
Chair

Councillor A. Gu
Vice Chair

TO: FINANCIAL MANAGEMENT COMMITTEE (FMC)
FROM: DEPUTY CHIEF ADMINISTRATIVE OFFICER AND CHIEF FINANCIAL OFFICER
SUBJECT: CITY INVESTMENTS – 2023 YEAR END REPORT
PURPOSE: To provide an update on the 2023 Investment Program and present a forecast for 2024.

RECOMMENDATION

THAT the report titled “City Investments – 2023 Year End Report”, dated February 20, 2024 be received for information.

1.0 POLICY SECTION

Part 6, Division 3, Section 183 of the Community Charter states that the City may invest or reinvest money that is not immediately required for expenditures. Council has assigned the responsibility for the management of the investment portfolio to the Chief Financial Officer (Amendment Bylaw No. 14408).

2.0 BACKGROUND

This report highlights events that have occurred in the investment program during 2023 and the forecast for 2024. The City of Burnaby’s Investment Portfolio on December 31, 2023 totaled \$2.23 billion (2022 – \$2.19 billion).

Diversification and a prescribed investment strategy have provided the City with a 2023 return of \$97.65 million at an annual yield of 4.04% (2022 – \$67.55 million at 2.89%). The income and yield earned in 2023 was higher than original projections as interest rates were higher than anticipated and funds marked for civic projects/capital spend were reinvested for longer periods than expected. A portion of these earnings - \$8.74 million - offset operating costs in 2023. For 2024, Treasury Services will continue to monitor markets for investment opportunities in the money market, fixed income securities and MFA pooled funds to provide liquidity, capital preservation, yield management and long-term growth for the City.

3.0 GENERAL INFORMATION

The City’s Investment Policy ensures the legislative requirements of the *Community Charter* are adhered to for the prescribed asset classes the City can invest in. Annual review of the City’s policy provides assurances that the City is abiding by a professional set of standards for the management of public funds and confirmation that the City is maintaining a policy framework that includes prudence, diversification, strong internal controls, delegation of authority, and reporting transparency.

The City invests in both short and long-term investment products to ensure adequate cash flow liquidity and as much as possible, long-term sustainable growth. The City of Burnaby Investment Portfolio is therefore directly impacted by changes in both short and long-term interest rates. To counteract these yield and diversification limitations, the City has continued to increase holdings into select Municipal Finance Authority of British Columbia (MFA) pooled funds.

The City of Burnaby’s investment portfolio may consist of debt issued by the Federal Government of Canada, approved Provinces of Canada, Canadian Banks and Credit Unions across Canada as identified in Attachment 1. The *Community Charter* also allows the City to invest in any of the investment pooled funds and High Interest Savings Accounts offered by the MFA. Pooled funds offered by the MFA can include corporate debt, which typically provides for increased yields. The *Community Charter* restricts the City from investing in corporate debt and other security types unless we invest directly into the MFA’s funds. In 2023, the City maintained our initial \$10 million investment in the Fossil Fuel Free Short-term Bond Fund, \$75 million in the Mortgage Fund and \$400 million in the Diversified Multi-Asset Class Fund.

The Bank of Canada conducts monetary policy through adjustments to the Target for the Overnight Rate, which affects deposit, loan, and other interest rates. The current Bank Prime Rate therefore is 7.20% which is a drastic and aggressive increase from the January 2022 rate of 2.45% as the central bank has maintained a targeted inflation control policy. Longer term investments have continued to provide income and yield stabilization for the portfolio year-over-year and we have been able to position ourselves more favourably for today and future years by taking advantage of the inflationary rate environment. The inverted yield curve has persisted in 2023 and poses challenges based on risk adjusted returns for longer term fixed income investments; thus limiting how far on the yield curve the City chooses to invest and at what acceptable yield. Table 1 provides 2023 average interest rates and comparable returns.

Table 1: Market Interest Rates - 2023

Benchmark/Portfolio	2023 Low %	2023 High %	2023 Average %
90 Day Banker’s Acceptance	4.65	5.35	5.02
3 Month Treasury bill	4.20	5.12	4.74
2 Year Government of Canada Bonds	3.42	4.97	4.27
10 Year Government of Canada Bonds	2.70	4.26	3.36
30 Year Government of Canada Bonds	2.77	3.99	3.27
MFA-BC Money Market Fund (term under 1 year)+			5.07
MFA-BC Gov’t Short Bond Fund (term 1–3 years)+			4.82
MFA-BC Bond Fund (term greater than 3 years)+			5.22
MFA Fossil Fuel Free Short-term Bond Fund (2+ years)+^			5.05
MFA Mortgage Fund (terms 3 + years)+^			6.97
MFA Diversified Multi-Asset Class Fund (10 + years)+^			8.49
City of Burnaby 2023 Return			

Source:+ MFA 2023 annualized returns as at 2023 December 31. All MFA values based on mark to market

^ MFA Funds the City holds investments

The MFA funds the City invests in performed well in 2023 compared to 2022 which saw negative returns. The Diversified Multi-Asset Class (DMAC) Fund in 2023 returned 8.49% based on a mark to market measurement (2022 negative 5.75%). The Fossil Fuel Free Short-term Bond Fund yielded 5.05% (2022 negative 3.59%) and the Mortgage Fund had a yield of 6.97% (2022 negative 5.36%). It is for these reasons that investment pooled funds should be invested into based on the funds targeted timeframe to protect from short-term market volatility and extreme interest rate changes.

3.1 Investment Limits and Banking Relationships

Treasury Services monitors the financial institutions we invest in as part of our ongoing risk mitigation strategy and investment procedures. The City's investment banking relationships remained consistent during 2023. For short-term money market investments, the City of Burnaby invested with British Columbia, Alberta, Saskatchewan, Manitoba and Federal Credit Unions, as well as High Interest Saving accounts at the Bank of Montreal, Canadian Imperial Bank Canada, Bank of Nova Scotia, National Bank of Canada and Royal Bank of Canada.

During the year, as tax revenues are received, the Chief Financial Officer may approve adjustments to the limits or the addition of new guarantors to meet portfolio needs. Mid-year adjustments are reflected in the 2024 limits. These are identified in Attachment 1 and include corresponding Dominion Bond ratings where applicable.

3.2 Socially Responsible Investing

The City's Investment Portfolio and Policy direction will continue to gradually implement strategies that support the City of Burnaby's Corporate Strategic Plan, Environmental Sustainability Strategy and Community Energy and Emissions Plan. The City's recognition of SRI and ESG strategies will continue to evolve as Canadian and global standards evolve, while simultaneously investing prudently to ensure long-term financial sustainability. The continued challenge is the disparity and lack of standardization within the industry and loosely based interpretations. Governance and a strong audit structure globally will be required to advance further, without causing detrimental earnings on the investment portfolio.

3.3 Outlook for 2024

The February 2022 Investment Report to Council noted the need for central banks to start removing stimulus by increasing interest rates, and this is exactly what the central banks did. Economic theory and more so economists, tie the ebbs and flows to economic events and prices to supply and demand. Since the end of 2019 there have been a plethora of events that have interrupted the supply chain including everything from household goods to travel, all culminating from factory shutdowns, production disruptions, government spending deficits and war - leading to quickly rising inflation. The speed and magnitude of the rate increases coming off historical lows were unprecedented but necessary; however, the increases have caused and will continue to cause economic challenges going forward as the higher rates trickle through the economy as presented over time through economic indicators.

Market expectations are for interest rates to decline in 2024 with the hopes of preventing a protracted recession. However, it is not expected that interest rates will be cut aggressively through monetary policy nor will rates reach the historical lows seen in recent years. The pace of rate reductions is currently projected as small increments through and into 2026. Economic conditions can deteriorate quickly and many Canadians are feeling cash flow pressures as food and housing costs have become an extremely high percentage of their incomes.

For the City of Burnaby in 2024, we will continue to benefit from our buy and hold strategy with the MFA Pooled Funds, which will provide interest income, dividends and capital gains through important market diversification. The City continued to take advantage of higher rates along the yield curve through 2023 but is limited going forward by operations and capital program costs and the need for liquidity. As maturities occur within the portfolio and are reinvested, the City will be shorting our term duration and will be subject to lower rates as the Bank of Canada and other global central banks pivot their strategies to economic stimulus.

The City is projecting an annual yield of 4.05% for 2024, translating to \$89 million in investment interest income which represents a decrease from the 2023 return. The portion from investment earnings to be contributed to operating costs for 2024 is \$8.4 million. This projection will also be affected by the returns generated by the MFA pooled funds and any fluctuation in the portfolio balance due to operating and capital expenditures and deposits - the timing of which is fluid.

4.0 COMMUNICATION AND COMMUNITY ENGAGEMENT

Not applicable.

5.0 FINANCIAL CONSIDERATIONS

Investment results can vary from the projected figures based on the City’s capital budget activities. Projections are based on expected budget spend on civic projects and affect the ability to improve earnings and liquidity as projects and activity timelines are modified and costs are adjusted for inflationary impacts.

Respectfully submitted,

Noreen Kassam, Deputy Chief Administrative Officer and Chief Financial Officer

ATTACHMENTS

Attachment 1 – City of Burnaby Investment Limits for 2024

REPORT CONTRIBUTORS

This report was prepared by Doug Spindler, Director of Treasury Services, and reviewed by Noreen Kassam, Deputy Chief Administrative Officer and Chief Financial Officer