

**Audit and Finance Standing Committee
September 18, 2013**

TO: Chair and Members of the Audit and Finance Standing Committee

Original Signed

SUBMITTED BY: _____
Greg Keefe, Director of Finance and Information Technology / CFO

DATE: September 6, 2013

SUBJECT: Bank Accounts for Investment Purposes

ORIGIN

Staff was recently made aware of potential opportunities to enhance the rate of return on temporarily surplus cash within the Objectives of the HRM Investment Policy. To pursue these opportunities requires the opening of bank accounts and the appointment of signing officers which require Regional Council approval.

LEGISLATIVE AUTHORITY

Section 121(1) of the HRM Charter requires that funds be invested pursuant to an Investment Policy adopted by Council and approved by the Minister of Service Nova Scotia and Municipal Relations or invested pursuant to the Trustee Act. Where HRM has chosen to adopt an Investment Policy and the Minister has approved the Policy investment activities are governed by this Policy.

RECOMMENDATION

It is recommended that Halifax Regional Council

1. Authorize staff to open accounts for investment purposes with the Canadian Imperial Bank of Commerce, Toronto Dominion Bank, Royal Bank of Canada and Bank of Montreal.

2. Authorize the HRM bank signing officers for these accounts to be the Chief Administrative Officer, the Deputy Chief Administrative Officer, the Director of Finance and Treasurer and the Deputy Treasurer.

3. Authorize any two of the HRM bank signing officers to execute any Agreements required and any disbursements from these accounts with the exception of transfers to other HRM bank accounts which may be authorized by one signing officer or individuals as designated by the Treasurer.

BACKGROUND

Staff was recently contacted by representatives of one of the 'Big 5' Canadian banks to determine if there would be any interest in HRM placing funds with this bank for investment purposes. Part of the motivation of this financial institution was to begin to address some of the liquidity requirements under the evolving Basel III bank regulations. Recognizing that all of the Canadian banks will be subject to the same regulatory requirements, staff contacted the other three of the Big 5 that HRM currently does not have a banking relationship with to determine if there was any interest in taking HRM funds for investment purposes. Two of the three banks contacted have expressed an interest in HRM funds while the third is currently reviewing the matter.

It may be of interest that the Canadian banking system has been ranked the most sound in the world by the World Economic Forum for five years in a row.

DISCUSSION

Under the current provisions of the HRM Investment Policy staff may invest up to 10% of the total portfolio in each of the Big 5 Canadian banks consisting of Bank of Montreal, Canadian Imperial Bank of Commerce, Toronto Dominion Bank, Royal Bank of Canada and Scotiabank. This provision of the Investment Policy is used quite extensively. Staff normally gets investment exposure to these Financial Institutions from the purchase of their Banker's Acceptances (BA's) and Bearer Deposit Notes (BDN's) which are Money Market instruments with fixed maturity dates. Staff frequently buys these instruments timed to mature on dates when funds will be required for debt payments, payroll, etc.

An exception is the current HRM banker Scotiabank which offers a relatively attractive interest rate on funds held on deposit as part of the contractual arrangements and as a result staff use the 10% exposure under the Investment Policy by holding funds on deposit rather than purchasing Scotiabank BA's and BDN's. Three of the other Big 5 Canadian Banks are currently offering indicative yields on deposit accounts or Term Deposits that are greater than what can be obtained from their BA's and BDN's of similar term lengths. The fourth bank is currently reviewing what may be offered. Staff is requesting the authority to open the accounts required with these institutions so that when funds are available for investment they may be placed, at staff's discretion, in these accounts when interest rates are relatively attractive versus their BA's and BDN's under the provisions of the HRM Investment Policy.

As staff believe these new accounts should result in additional investment income it was desirable to move this matter forward as soon as reasonably possible but subject to appropriate due diligence. Staff has requested initial feedback from the Investment Policy Advisory Committee (the Committee) by email of this approach with the consensus being that staff should continue exploring these options. This matter will be discussed in greater detail with the Committee at a meeting scheduled for September 13. Any relevant comments or concerns raised by the Committee will be discussed with the Audit and Finance Committee as part of the

consideration of this report. Should the recommendations be adopted it is staff's intention to track the incremental income received and report on this to the Committee on a Quarterly basis.

The recommended bank signing officers are as established by Council at the October 30, 2012 meeting being the Chief Administrative Officer, the Deputy Chief Administrative Officer, the Director of Finance and Treasurer with the addition of the Deputy Treasurer who has normally been delegated bank signing authority by the Treasurer under Section 41 (2) of the HRM Charter. Also as approved by Council on July 9, 2002 transfers between HRM bank accounts only require the approval of one signing officer. As these accounts will be for investment purposes only under the HRM Investment Policy they will be effectively a 'closed loop' with funds being transferred to and from the HRM banker Scotiabank hence the recommendation for only one signing officer to authorize the transfers. It should also be recognized that electronic means may be used to execute these transfers and that the Treasurer may designate other signing authorities to approve these transfers to meet investment operational requirements.

FINANCIAL IMPLICATIONS

Staff anticipates additional investment income will be generated from the use of deposit accounts and Term Deposits as an alternative to BA's and BDN's. The magnitude of this incremental income will depend on future market conditions however initial estimates suggest an additional \$200,000 annually in investment income may be generated with this approach. There may also be some very minor costs related to the maintenance of the accounts and transfers of funds as well as some minor savings in Investment Custodian fees.

COMMUNITY ENGAGEMENT

This matter has been discussed with the Investment Policy Advisory Committee. The majority of the members of this Committee (5 of 7) are volunteers from the general public.

ENVIRONMENTAL IMPLICATIONS

None

ALTERNATIVES

The Audit and Finance Committee could reject the staff recommendation to open the accounts discussed in this report. This is not recommended as staff believes additional investment income can be gained from the use of these accounts without any increase in credit risk and with potentially less liquidity risk.

Alternatively the Audit and Finance Committee could approve the opening of the accounts but modify the recommended signing officers. This is not recommended as the signing officers suggested by staff are consistent with the current HRM signing officers.

ATTACHMENTS

None

A copy of this report can be obtained online at <http://www.halifax.ca/commcoun/cc.html> then choose the appropriate Community Council and meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

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