

Subject: Update of C-F-009 Investment Policy

Report to: Corporate Services Committee

Report date: Wednesday, September 11, 2024

Recommendations

1. That C-F-009 Investment Policy, attached as Appendix 1 to Report CSD 42-2024, **BE APPROVED.**

Key Facts

- The purpose of this report is to seek Committee's approval to amend the current Investment Policy. The Niagara Region's Investment Policy was last updated in 2012. As part of this review Staff referenced municipal best practices through a review of peer region and municipality investment policies and legislative requirements for investments as outlined in the Municipal Act.
- Staff are recommending several changes to the Investment Policy, many of which represent administrative changes to align with the updated corporate policy template. Additional administrative changes are recommended to better reflect current practices and legislative requirements. These include the addition of Sinking Fund detail, update to the authority to invest section and removal of capital gains section.
- In addition to the administrative changes recommended, Staff are also recommending revisions to the investment portfolio limitations chart to reflect changes in the types of investment and how much we can invest in each category, while staying in line with legislative requirements and the addition of a chart describing limitations on the length of investments within the portfolio, as a control mechanism to further manage risk by ensuring liquidity and appropriate maturity timing into future years.
- A statement was added to grant the Treasurer the ability to approve temporary deviations from the set portfolio limitations when deemed necessary to obtain higher returns on the Region's investments. This is in alignment with best practices seen in the policies of our peer regions and municipalities to support flexibility in portfolio activity to maximize income levels.
- At Q2 2024, the Region's investment portfolio had a total value of \$872M. This portfolio consists primarily of funds held in reserve related to development charges

and rate reserves. Investment income further supports these fund balances as a portion of the investment income is allocated to these reserve funds in accordance with our Reserve and Reserve funds Policy.

Financial Considerations

The changes allow for better returns on our investment dollars to ensure we maximize our income within set limitations of the Municipal Act. This income is used to fund reserve funds and deferred revenue (Development Charges) and thus has a direct impact on the funding levels within these existing reserve accounts.

The Niagara Region's investment portfolio consists primarily of reserve funds related to development charges and rate reserves. Per the Niagara Region's Reserve and Reserve Funds Policy reserves and reserve funds are to be invested in accordance with the Region's Investment Policy. All interest earned as a result of maintaining balances in Reserves or Reserve Funds shall be initially allocated as earnings of the general operating fund and then allocated where appropriate to Reserve and Reserve Funds. As the Region's investment portfolio consists of funds held in reserves these funds cannot be utilized for other purposes and must remain restricted to meet a specific purpose as required by legislation. As the Region's reserves represent an important tool in supporting and managing the Region's capital and growth funding requirements it is important that the Investment Policy be updated and maintained to reflect our current practices and allow for better returns while maintaining the limitations of the Municipal Act.

Analysis

The Niagara Region's investment portfolio is an important tool to help mitigate budget pressures by ensuring long-term returns on the Region's financial assets. The Niagara Region's Investment Policy governs the use and management of surplus funds, trust funds and sinking funds as it relates to investment activities. This portfolio is managed in a way that aligns with our Region's specific goals and risk profile and the policy establishes procedures and practices for an Investment Program designed to maximize the use of funds held in Niagara Region accounts through a program of term investments. The Region's Investment Policy was last updated in 2012, many of the items included within the current policy are not in alignment with the Region's current practices and includes several outdated administrative items which require an update.

It is important for Council to note that the Municipal Act is highly prescriptive regarding the types of investments that municipalities and regions can purchase. The changes

proposed to the investment policy ensure alignment with the Region's current practices as well as the regulations outlined in the Municipal Act.

Many of the changes to the policy as recommended by Staff relate to administrative changes. Since the policy was last update in 2012 the Region has developed a revised corporate policy template. Therefore, several changes proposed relate to ensuring alignment with this revised template. These include:

- The proposed policy has been updated to utilize the updated corporate policy template which involves the addition of three sections: Purpose (section 2), Glossary of Terms (section 5) and Roles & Responsibilities (section 3.2).
- Updates were made to the following three sections within the existing policy: Scope, Authority to Invest & Reporting:
 - The Scope section revision allowed for a more robust description of the different types of funds and how we utilize Investment income dollars. In particular, the General Fund portfolio and the Sinking Fund portfolio are distinguished from each other. A new Roles & Responsibilities section was also added.
 - The Reporting section revision was initiated to seek alignment with legislation and current quarterly reporting practice. Two bullets were clarified, and two others were removed as they were not required under legislation.
- Movement of specific sections occurred to align structure with new template:
 - The sections within the Standards of Care area moved to the Policy section (section 1) under the Guiding Principles subsection (section 1.1).
 - The Objectives section and all related subsections moved to the Purpose section (section 2) under the new Objectives section (section 2.1).
 - Authority to Invest, Legal Advice, and Investment Guidelines moved under References & Related Documents section (section 4).

Further to the administrative changes required to ensure alignment with the revised corporate policy template some additional administrative changes are proposed as follows:

- Revision to the Authority to Invest section was made in alignment with existing bylaws related to authority.
- The header Investment Advisors/Brokers in the previous policy was changed to Competitive Selection to better reflect the content of the section and align with other municipal policies.
- Capital Gains section was removed due to irrelevance to current practices and investment strategy.

- A section has been added for Sinking Fund (section 4.5) including a description of the fund and how it differs from the General Fund in terms of investment activity and utilization of the funds. Sinking Fund investments are specific to repayment of debt and must follow a different set of investment rules from the General Fund. This distinction not included in our current policy as the Region’s Sinking Fund was set up after policy creation.

As part of the proposed revised investment policy, Staff are proposing additions to the policy for further alignment with the Niagara Region’s investment strategy and in consideration with other municipality and regional best practices.

- A statement was added (end of section 4.2.1 Permitted Investments) granting the Treasurer the ability to approve temporary deviations from the set portfolio limitations of investment activity. This was adopted within the new policy to ensure investment decisions are made in the best interest of the Region and funds are utilized to optimize returns. Most municipal investment policies that were reviewed in the investigation contain this type of statement.
- Staff recommend that a chart (Table 4) has be added to describe the limitations of investment maturity term compositions to ensure liquidity is maintained and maturity dates are spread out according to cash flow requirements in future years. Most municipal investment policies that were reviewed in the investigation include this type of chart. This type of chart acts as a control mechanism to further mitigate risk. This is a mechanism that Staff currently utilize to assess new investment purchase options, however including in our policy ensures that this practice continues. See below table 1 for the proposed new chart.

Table 1 – Investment Maturity Term Composition Limitations

Term Length	Minimum	Maximum
0 – 5 years	10%	100%
5 years – 10 years	n/a	50%
10+ years	n/a	20%

- The investment category limitations chart was updated to separate out Banks from the Corporate category and the portfolio weighting limit was adjusted to be higher for banks for additional investment flexibility and strategy alignment. It was also updated to include Credit Unions and Equity/Growth type investments to allow for further diversification within the portfolio. Credit Unions & Equity/Growth type

investments are allowable under legislation with some restrictions and are typically found in other municipal policies. See Table 2 below for specific revisions.

Table 2 – Investment Category Limitations

Investment Category/Type	Existing Policy Category Limit (Max)	Existing Policy Individual Limit (Max)	New Policy (Proposed) Category Limit (Max)	New Policy (Proposed) Individual Limit (Max)
Federal and federal guaranteed	100%	100%	100%	100%
Provincial and provincial guaranteed	75%	25%	75%	25%
Niagara Region	100%	100%	100%	100%
Municipal and municipal guaranteed	25%	5%	40%	10%
Other government types	5%	1%	15%	5%
Total: Government Fixed Income	N/A	N/A	100%	N/A
Banks (Schedule I, II & III)	N/A	N/A	60%	25%
Corporate	50%	15%	25%	10%
Credit Unions	N/A	N/A	15%	10%
Total Non-Government Fixed Income	N/A	N/A	75%	N/A
Equity & Growth Investments	N/A	N/A	20%	10%

Alternatives Reviewed

All upper-tier municipalities administer investment programs differently from each other, within the parameters of the Municipal Act requirements. Strong consideration was given to best practices amongst our peer municipalities however Staff's recommendations for revisions to our policy are aligned to our own strategy at the Niagara Region. The option to stay status quo was reviewed and decided against for several reasons, mainly due to misalignment to current investment practices and strategies.

Relationship to Council Strategic Priorities

The Niagara Region's Investment Policy supports Council's strategic priority of Effective Region by ensuring our investment program is running as efficiently as possible and aligned to short and long-term strategies. This policy further supports the strategic

priority of Prosperous Region by promoting economic welfare and a healthy business environment as we strive to maximize our returns while safeguarding our assets.

Other Pertinent Reports

C-F-013 Reserve and Reserve Funds Policy (copy available upon request)

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Appendices

Appendix 1 C-F-009 Statement of Investment Policy and Goals

Policy Category	Name of Policy
Financial	Statement of Investment Policies & Goals

Policy Owner	Corporate Services, Finance, Director, Financial Management & Planning
Approval Body	Council
Approval Date	
Effective Date	
Review by Date	Within five years of effective date

1. Policy

This policy governs the use and management of surplus funds, trust funds and sinking funds as it relates to investment activities for The Regional Municipality of Niagara’s (Region) Investment Portfolio in accordance with the Municipal Act, 2001 (Act) and O.Reg. 438/97.

1.1. Guiding Principles:

The primary standards of care related to investment activities shall be:

1.1.1. Prudence

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their principal as well as the probable income to be derived.

Investment staff acting in accordance with this investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security’s credit risks or market change.

1.1.2. Ethics and Conflict of Interest

Staff involved in the investment process shall refrain from personal business activity that could, or may reasonably be perceived to, conflict with the proper execution and management of the Investment Policy, or that could impair their ability to make impartial decisions. Such staff shall

Policy Category	Name of Policy
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not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the Region.

1.1.3. Safekeeping and Custody

All investments shall be held for safekeeping in the name of the Regional Municipality of Niagara by financial institutions approved by the Region as provided in this Policy. The depository shall issue a safekeeping receipt to the Region for each investment transaction that lists all pertinent information. The depository shall also provide monthly reports for each account, indicating all investment activity, book value of holdings, market value as of month-end and income earned by the investments.

2. Purpose

The purpose of this policy is to establish procedures and practices for an Investment Program designed to maximize the use of funds held in Region accounts through a program of term investments.

2.1. Objectives:

The primary objectives of the Investment Program, in priority order, shall be:

2.1.1. Adherence to Statutory Requirements

All investment activities shall be governed by applicable legislation, including primarily the Municipal Act and Trustee Act and their associated regulations as amended. Investments and rating agencies, unless limited further by Council, will be those deemed eligible under Ontario Regulation 438/97 or as authorized by subsequent provincial regulations.

2.1.2. Preservation of Principal

Safety of principal is of paramount importance. Investment shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Should the rating of any investment be downgraded below the minimum rating, it shall be sold within 180 days after the day the investment rating was downgraded. Staff shall endeavor to mitigate credit risk and interest rate risk as outlined in Table 1 below.

Table 1: Investment Credit & Interest Rate Risk Mitigation

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Credit Risk	<ul style="list-style-type: none"> ○ Limiting investment to safer types of securities; ○ Diversifying the investment portfolio so that potential losses on individual investments will be minimized; and ○ Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which Niagara Region does business.
Interest Rate Risk	<ul style="list-style-type: none"> ○ Structuring the investment portfolio so that securities mature to meet ongoing cash flow requirements, thereby reducing the need to sell securities on the open market prior to maturity; ○ Investing operating funds primarily in shorter-term securities or approved investment pools; and ○ Diversifying longer-term holdings to match term exposures to requirements of underlying reserve funds and to mitigate effects of interest rate volatility.

2.1.3. Maintaining Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating and cash flow requirements and limit temporary borrowing requirements. This shall be done where possible by structuring the portfolio such that securities mature concurrent with anticipated cash demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio shall consist largely of securities with active secondary or resale markets.

2.1.4. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return, considering the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

3. Scope

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This Policy applies to the investment activities of the operating, capital, trust, reserves, Reserve funds, sinking funds and trust funds and any new fund(s) created by the Region unless specifically exempted.

- General Fund Portfolio: includes the assets of current, capital, trust, reserves, and Reserve Funds.
- Sinking Fund Portfolio(s): used to retire the Region’s sinking fund debentures as they become due. A municipality may not combine sinking funds with any other fund for investment purposes and all investments as well as bank accounts will be kept separate and distinct from the General Fund Portfolio.
- Other fund(s) as required.

3.1. Roles and Responsibilities

The Region’s positions and related accountability regarding Investment decision making have been outlined below in Table 2.

Table 2: Investment Activity Roles & Responsibilities

Role	Responsibility
Regional Council	<ul style="list-style-type: none"> ○ Approve the Investment Policy and related amendments. ○ Receive Investment Reports.
Commissioner/Treasurer, Corporate Services	<ul style="list-style-type: none"> ○ Provide oversight of Treasury function. ○ Recommend changes to the Investment Policy to Council.
Director, Financial Management & Planning/Deputy Treasurer	<ul style="list-style-type: none"> ○ Responsible for ensuring legislative requirements are met. ○ Responsible for developing internal controls that ensure the investments are properly managed and adequately protected.

3.2. Authority to Invest

Specific Investments require approval by one of the following approved staff:

- Commissioner of Corporate Services / Treasurer;
- Director Financial Management and Planning / Deputy Treasurer;

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- Staff appointed as Acting Treasurers in accordance with By-law No. 2018-45, as amended from time to time

3.3. Investment Guidelines

3.3.1. Permitted Investments

Permitted investments and their term to maturity, if any, are as outlined in Ontario Regulation 438/97, to the Municipal Act, as amended from time to time.

In order to ensure maximum security and proper diversification in the Region’s portfolio, limitations have been set in Table 3 below. The table contains maximum exposures for each category and type of investment, and each individual investment within the category. These limitations are displayed as a percentage of the total investment portfolio (excluding cash held in the bank accounts of the Region).

Table 3: Investment Category & Type Limitations

Investment Category/Type	Category Limit (Max)	Individual Limit (Max)
Federal and federal guaranteed	100%	100%
Provincial and provincial guaranteed	75%	25%
Niagara Region	100%	100%
Municipal and municipal guaranteed	40%	10%
Other government types	15%	5%
Total: Gov’t Fixed Income	100%	n/a
Banks (Schedule I, II, & III)	60%	25%
Corporate	25%	10%
Credit Unions	15%	10%
Total: Non-Gov’t Fixed Income	75%	n/a
Equity & Growth Investments	20%	10%

Policy Category	Name of Policy
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The Region will also apply portfolio term composition guidelines and hold sufficient funds in short-term instruments to maintain adequate liquidity and meet investment objectives (see Table 4 below). To the extent possible, the Region shall balance investment terms with anticipated cash flow requirements to match maturities as closely as practicable with the expected use of funds.

Table 4: Investment Maturity Term Composition Limitations

Term Length	Minimum	Maximum
0 – 5 years	10%	100%
5 years – 10 years	n/a	50%
10+ years	n/a	20%

Category weighting, term range, or investment type limitations may be exceeded at the discretion of the Treasurer when deemed appropriate. Should a limitation be exceeded, the Revenue team will develop a plan to bring the portfolio back within required limits in accordance with any applicable legislation.

3.3.2. Reporting Requirements

On a quarterly basis, staff will provide an Investment summary report to Council which will include the following, per legislation:

- A statement about the performance of the investment portfolio during the period covered by the report;
- Percentage of the total portfolio by investment category, individual organization, term composition, and investment type.
- Listing of investment and disposal transactions in the Region’s own securities at the end of the reporting period including date and purchase or sale price for each;
- A statement by the Treasurer as to whether or not, in his or her opinion, all investments were made in accordance with the Investment Policy and goals adopted by the Region.

3.3.3. Performance Standards

The Region’s investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

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3.3.4. Competitive Selection

All securities' purchases/sales will be transacted through a competitive process only with financial institutions approved by the Treasurer. Transactions will be executed in accordance with the stated portfolio objectives and must use a competitive process of obtaining multiple quotes given the required investment terms and conditions where practical and appropriate. The Revenue team will maintain appropriate documentation and rationale for investment decisions.

3.4. Sinking Funds

The Region's sinking funds consist of investments accumulated on a regular basis in a separate safekeeping and/or bank account that will be used to retire associated debentures at maturity. These funds are administered in accordance with investment limitations in Table 3.

3.5. Trust Funds

The Region's trust funds are grouped and maintained in a Region chequing account of the financial institution that provides Region banking services. All trust funds are to be insured through the Canada Deposit Insurance Corporation as legislated. No interest earned will be allocated to trust funds as legislated.

4. References and Related Documents.

The Municipal Act, 2001 (S.O. 2001, c. 25) provides in Section 418, the legislative authority for the Region to invest funds in accordance with certain prescribed rules. Section 420 permits the Region to enter into agreements to invest money jointly with other municipalities and prescribed bodies. The prescribed rules governing investment are contained in Ontario Regulations 77/97 and 438/97.

Trust Fund investments shall be made in accordance with the assigned responsibilities given to the Region under the Trustees Act.

5. Glossary of Terms

Credit Risk: the risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

Credit Union: A financial institution that is organized and carries on business on a cooperative basis and is a corporation incorporated or continued as a credit union or caisse populaire under the *Credit Unions and Caisses Populaires Act, 1994*.

Debenture: a marketable security that businesses can issue to obtain long-term financing without needing to put up collateral or dilute their equity.

<p>Policy Category</p> <p>Financial</p>	<p>Name of Policy</p> <p>Statement of Investment Policies & Goals</p>
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Depository: a facility or institution where something is deposited for storage or safeguarding, or an organization that holds currency or securities and assists in the trading of securities.

Diversification: process of allocating capital in a way that reduces the exposure to any one particular asset or risk.

Economic Cycle: refers to economic fluctuations between periods of expansion (growth) and contraction (recession).

Fixed Income Investments: a class of assets and securities that pay out a set level of cash flows to investors, typically in the form of fixed interest or dividends.

Interest Rate Risk: a change in the value of an asset resulting from fluctuations in interest rates.

Investment Pools: funds in a portfolio from many individual investors that are aggregated for the purposes of investment.

Investment Portfolio: a collection of investments that reflect your risk tolerance, return objectives, and time horizon.

Investment Program: Investment management of Regional funds, including decision making and implementation.

Liquidity: a measure of an asset's convertibility to cash without causing a drastic change in the asset's price.

ONE Investment: a professionally managed group of investment funds composed of pooled investments that meet eligibility criteria as defined by regulations under the Municipal Act.

Market Risk: the risk that the value of a security will rise or decline as a result of changes in market conditions.

Market Value: current market price of a security.

Maturity: the date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder.

Rating Agency: a company that assigns credit ratings, which rate a debtor's ability to pay back debt by making timely principal and interest payments and the likelihood of default.

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Reserve Fund: also known as a budget reserve, is a dedicated pool of money set aside for specific purposes, typically to cover unexpected expenses or emergencies.

Revenue Team: Associate Director of Budget Planning & Strategy and Manager, Revenue Planning & Strategy or other staff as delegated to implement the investment mandate.

Safekeeping: holding of securities by a qualified financial institution on behalf of the investor.

Schedule I banks: domestic banks authorized under the *Bank Act* to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation.

Schedule II banks: foreign bank subsidiaries authorized under the *Bank Act* to accept deposits, which may be eligible for deposit insurance provided by the Canada Deposit and Insurance Corporation. Foreign bank subsidiaries are controlled by eligible foreign institutions.

Schedule III banks: foreign bank branches of foreign institutions that have been authorized under the *Bank Act* to do banking business in Canada. These branches have certain restrictions.

Security: A financial asset (i.e. investment).

Sinking Fund: securities and/or deposits accumulated on a regular basis in a separate safekeeping and/or bank account that will be used to retire associated debentures at maturity.

Trust Fund: a legal arrangement that allows a person or institution, known as the trustee, to hold and manage assets on behalf of another party, referred to as the beneficiary.

6. Related Policies

C-F-009 Investment Policy

7. Document Control

The electronic version of this document is recognized as the only valid version.

Approval History

Policy Category	Name of Policy
Financial	Statement of Investment Policies & Goals

Approver(s)	Approved Date	Effective Date

Revision History

Revision No.	Date	Summary of Change(s)	Changed by
1		Changed structure of policy to new template outline	
2		Added new sections as required	
3		Moved sections to better align with new template structure	
4		Updated sections to align with current practices	
5		Adjusted Investment Category Limitations chart	
6		Added Investment Term Composition Limitations chart	

