

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