

MUNICIPALITY OF THE DISTRICT OF ARGYLE POLICY AND ADMINISTRATION MANUAL	REFERENCE NUMBER <u> </u> C 49
SECTION ADMINISTRATION	SUBJECT INVESTMENT POLICY

1. PURPOSE

1.1. The purpose of this policy is:

1.1.1. To comply with Section 100 of the *Municipal Government Act*.

1.1.2. To act as the guiding direction and support for the Audit and Internal Control Committee in recommending investment activities to staff and thereafter the evaluation of such investments to ensure that funds entrusted to the Municipality by its residents are invested in such a way to preserve capital, allowing for the liquidating of assets when needed to reduce liquidity risk, and mitigate its future assets from market risks.

1.1.3. Audit and Internal Control Committee shall be the primary oversight of the investment policy and are therefore tasked with recommending strategy amendments to staff and Council when deemed necessary to do so.

2. DEFINITIONS

2.1. "Risk" or "Principal Risk" is the possibility that the Municipality will lose some or all of its original investment.

2.2. "CAO" means Chief Administrative Officer.

2.3. "Liquidity Risk" is the risk that the Municipality assumes if it is unable to liquidate its investment quickly enough when needed to meet its debt requirements and minimize financial losses.

2.4. "Market Risk" also known as Systemic Risk is the risk that the Municipality faces due to a decline in the market value of its investment caused by factors that affect the whole market and is not limited to a particular economic commodity.

2.5. "Interest Rate Risk" is a form of market risk that arises when the value of security falls because of the increase or decrease in the prevailing and long-term interest rates.

2.6. "Preservation of Capital" is a strategic plan for protecting the money the Municipality has available to invest by selecting insured funds or fixed-income investments that guarantee a certain rate of return.

2.7. "Liquidity" is the ability of an asset to be converted into cash quickly and without any price

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discount.

2.8. "Treasury Bill" is a financial instrument having a life of one year or less where backed by government security, yielding no interest but issued at a discount on its redemption price.

2.9. "Promissory Note" is a signed document containing a written promise to pay a specific sum to a specified person or the bearer at a specified date or on demand.

3. AUTHORITY

Section 100 of the MGA (Municipal Government Act) provides that

(1) Funds in a sinking fund, capital reserve fund, utility depreciation fund or other fund of a municipality shall be

- (a) deposited in an interest-bearing account at a bank doing business in the Province;
- (b) invested pursuant to an investment policy adopted by the council, as the case may be, and approved by the Minister; or
- (c) invested in investments in which a trustee is permitted to invest pursuant to the Trustee Act.

(2) Income arising from the investment of a fund is part of that fund unless the council otherwise provides.

(3) The council may pledge any investments to the credit of the capital reserve fund as collateral security for a borrowing for a capital purpose.

3. CONFLICT OF INTEREST

All actions and decisions of the Audit and Internal Control Committee shall be made with due consideration of the *Municipal Conflict of Interest Act*. For greater certainty, no member of the Committee shall participate in any discussions regarding policies, recommendations, or actions under consideration by the Committee, prior to, during, or after consideration by the Committee, when such discussions may relate to the pecuniary or non-pecuniary interest of a member according to the *Municipal Conflict of Interest Act* or the Municipality's Policy Number 74 - Code of Conduct for Members of Council and Public Committee Members.

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Employees, while not subject to the *Municipal Conflict of interest Act*, are required to exhibit a high degree of ethical consideration and should recuse themselves from any discussions, recommendations, or actions which would otherwise put them in a conflict of interest if that Act had applied to them.

Both Council and staff must acknowledge their conflicts according to the rules contained within the *Municipal Conflict of Interest Act*.

4. INVESTMENT OBJECTIVES

Pursuant to the requirements in the *Municipal Government Act* and the expectations of the Municipality's Audit and Internal Control Committee, it is established that this investment policy will achieve the following five objectives:

- a) To recommend to Council and staff a solid and well-planned investment strategy that allows for timely decisions.
- b) To provide advice and guidance on what markets for staff to invest in and the timing of such investments or movements within investments.
- c) To recommend to Council the engagement of external investment experts when Audit and Internal Control Committee feels it is necessary to obtain advice or direction related to future investments.
- d) To provide guidance to staff and make recommendations to Council on future investment policies.
- e) To invest all available surplus funds not required for immediate use in the upcoming six months, with investments in treasury bills, promissory notes, and other legally authorized investment funds to protect against loss of capital from market risk and mitigate against losses from interest rate risks.
- f) To monitor investment funds through the review of all investments not less than bi-annually, with a report being provided thereafter to Audit and Internal Control Committee to ensure investment objectives are being achieved.

5. ACCOUNTABILITY

- 5.1. Responsibility for the oversight and implementation of this policy shall lie with the Municipality's CAO, or their designate, according to the terms and conditions of this policy.

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5.2. This policy shall be reviewed with the Audit and Internal Control Committee no less than once every two years.

5.3. It shall be the responsibility of the CAO to bring forth clear recommendations to the Audit and Internal Control Committee for review related to strong investment objectives while maintaining the security of the Municipality’s capital investments.

6. PRESERVATION OF CAPITAL

6.1. All financial investments made on behalf of the Municipality must as its first investment criteria contain a provision for the guarantee of safety of its capital amount. Therefore, this policy clearly prohibits the purchase of any investment where there is any risk to the capital portion of any investment.

6.2. When determining the suitability of an investment the preservation of capital must always be the main emphasis before liquidity or investment returns.

7. LIQUIDITY

7.1. The municipality’s investment portfolio shall contain enough assets that are liquid to meet the regular operating and cash flow needs of the organization thus eliminating or reducing the need for temporary borrowings or short-term bank indebtedness.

7.2. To ensure liquidity is maintained, the CAO and the Director of Finance shall ensure that investment maturity dates are structured and staggered so that all anticipated future cash flow demands can be met with readily converted investments to cash with minimal cost impacts. This will be done through the development of quarterly cash flow assessments.

8. COMPETITIVE RETURN ON INVESTMENTS

8.1. The sole purpose of this policy is to ensure the protection of capital investment assets while leveraging the municipality’s assets to generate positive financial returns.

8.2. All investments shall be made with a goal of obtaining competitive and fair market rates of return considering the current market conditions in Nova Scotia and Canada.

8.3. Similar to the goals of capital preservation, obtaining a competitive rate on investments must be secondary to following our legal requirements, preservation of capital, while ensuring the liquidity of required asset funds is always available.

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9. INVESTMENT INCOME

9.1. Investment income including interest and dividends earned pursuant to any investments noted herein shall form part of the fund from which the investment is made unless otherwise provided for by Council and legally allowed pursuant to legislation or regulation.

10. INTERNAL BORROWING

10.1. Section 99(5) of the *Municipal Government Act* authorizes the Municipality to borrow internally from its own reserve funds to pay for capital acquisitions subject to a resolution of Council authorizing such use of these funds including the repayment terms and interest rate to be charged.

10.2. This interest rate cannot be less than the interest rate that the Municipality would pay to borrow the funds for a similar borrowing and term from its current financial institution or Municipal Finance Corporation.

11. INVESTMENTS

11.1. Investments made on behalf of the Municipality shall at all times adhere to this policy and shall only be made according to the portfolio diversification noted in Appendix "A", approved investment institutions noted in Appendix "B", and only with those with long term investment ratings of A- or above as noted in Appendix "C".

12. EFFECTIVE DATE

12.1. This policy shall take effect from the date of passage of this policy noted below.

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<u>Chief Administrative Officer's Annotation for Official Policy Book</u>	
Date of Notice to Consider (7 days minimum):	_____
Date of Passage of Current Policy:	_____
I certify that this Policy was adopted by Council as indicated above.	
_____	_____
Warden	Date
_____	_____
Chief Administrative Officer	Date

DRAFT

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APPENDIX A – PORTFOLIO DIVERSIFICATION

The Municipality of the District of Argyle assets shall be sufficiently spread between the following portfolios to ensure a strong and balanced diversification of capital to ensure their best chance of future investment growth.

Issuer	Portfolio Limit*	Individual Issuer Limit	Minimum Credit Rating Limit
Cash and cash equivalents (less than one year)	100%	-	-
Government of Canada	100%	100%	N/A
Province of Nova Scotia	100%	100%	N/A
Other Provinces in Canada	40%	10%	R-1 (Mid)
Schedule I Banks	75%	25%	R-1 (Mid)
Schedule II Banks	10%	5%	R-1 (Mid)
Fixed Income (more than one year)	75%	-	-
Government of Canada	100%	100%	N/A
Province of Nova Scotia	100%	100%	N/A
Other Provinces in Canada	50%	25%	A (High)
Other Municipal Governments	25%	5%	A (High)
Schedule I Banks	30%	15%	AA (Low)
Schedule II Banks	10%	5%	AA (Low)

* Portfolio limits are correct at the time of investment, and shall not be subject to immediate sale, at the Municipality's discretion, should the balancing of the portfolio change during one particular year because of investment fluctuations.

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APPENDIX “B” – APPROVED INVESTMENT INSTITUTIONS

The Municipality of the District of Argyle, with the CAO acting as its official agent, is authorized to make investments through the following financial institutions subject to federal, provincial and municipal laws and regulations, and the Municipality's Investment Policy.

- a. Government of Canada;
- b. Province of Nova Scotia, including Municipal Finance Corporation;
- c. Provincial Governments of other Canadian Provinces;
- d. Canadian municipalities or collective Canadian municipalities with a credit rating of AA (Low) or better;
- e. Chartered banks and trust companies with a credit rating of AA (Low) or better;
- f. Credit Unions insured by the Nova Scotia Credit Union Deposit Insurance Corporation, up to insured amount;
- g. Deposits covered by Canadian Deposit Insurance Corporation, up to insured amount; and
- h. Any other investments approved by the Minister of Municipal Affairs from time to time.

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APPENDIX “C” – CREDIT RATING SYSTEM

The Municipality of the District of Argyle will only make investments with financial institutions with credit ratings of A - or A (Low and above. Credit ratings at the B level and below are less likely to generate higher returns on capital investments.

Long Term Debt Credit Rating System

Investment Quality	Moody's	Standard and Poor's	Dominion Bond Rating Service	Fitch
Highest Quality	Aaa	AAA	AAA	AAA
Substantial Payment Capacity	Aa1	AA+	AA (High)	AA+
	Aa2	AA	AA (Middle)	AA
	Aa3	AA-	AA (Low)	AA-
High Payment Capacity	A1	A+	A (High)	A+
	A2	A	A (Middle)	A
	A3	A-	A (Low)	A-
Adequate Payment Capacity	Baa1	BBB+	BBB (High)	BBB+
	Baa2	BBB	BBB (Middle)	BBB
	Baa3	BBB-	BBB (Low)	BBB-
Payment Capacity Vulnerable to Adverse Changes	Ba1	BB+	B (High)	B+
	Ba2	BB	BB (Middle)	B
	Ba3	BB-	BB (Low)	B-
Payment Capacity Not Protected Against Adverse Changes	B1	B+	B (High)	B+
	B2	B	B (Middle)	B
	B3	B-	BB (Low)	B-
Substantial Default Risk	Caa1	CCC+	CCC (High)	CCC
	Caa2	CCC	CCC (Middle) CCC (Low)	
Very High Default Risk	Caa3	CCC-	CC (High)	CCC
	Ca	CC	CC (Middle)	
		C	CCC (Low)	
In Default	C	D	D	DD D D

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Short Term Debt Credit Rating System

Investment Quality	Moody's	Standard and Poor's	DBRS	Fitch
Highest Quality	P-1	A-1	R-1	F-1
Good Quality	P-2	A-2	R-1 (Mid) R-1 (Low)	F-2
Adequate Credit Quality	P-3	A-3	R-2 (High) R-2 (Mid) R-2 (Low)	F-3
Payment Capacity Vulnerable to Adverse Changes	Not Prime	B-1 B-2 B-3	R-3	B
High Default Risk	Not Prime	C	R-4 R-5	C
Under Regulatory Supervision	Not Prime	R	-	-
In Default	Not Prime	D	D	D