

**Audit and Finance Standing Committee
October 17, 2012**

TO: Councillor Russell Walker, Chair, and Members of the Audit and Finance Standing Committee

SUBMITTED BY:



Greg Keefe, Director of Finance and ICT / CFO

DATE: October 3, 2012

SUBJECT: Annual Review of the Investment Policy

RECOMMENDATION REPORT

ORIGIN

The Halifax Regional Municipality Investment Policy requires that Policy be reviewed annually by the Investment Policy Advisory Committee

RECOMMENDATION

It is recommended that the Audit and Finance Standing Committee forward this report to Halifax Regional Council as an information item.

BACKGROUND

The Halifax Regional Municipality Investment Policy (the Policy) was adopted by Council April 23, 2002 and was approved by the Minister of Service Nova Scotia and Municipal Relations (the Minister) on May 14, 2002. Amendments to the Policy, as recommended by the Investment Policy Advisory Committee (the Committee) were approved by Council and the Minister in 2005, 2007, 2008, 2010 and early 2012 based on the 2011 Policy review.

DISCUSSION

The Committee discussed a number of suggestions by staff for potential changes to the Investment Policy at its meeting of September 27 2012. For the most part the changes involved incremental adjustments to the Sector Weight Schedules of the Policy that would increase exposure to Non-Government Investments both in magnitude and length of term. While over time it was anticipated that a modest increase in investment income should result from these changes it was also recognized that they would also represent an incremental increase in risk over the current exposure in the Policy. After a full discussion the consensus of the Committee was that due to the current precarious situation in financial markets and the economic outlook as evidenced by recent announcements by central bankers in the United States and Europe of more exceptional measures to support their markets and economies, it was not an appropriate at this time to add any incremental risk. However the Committee agreed to review the suggested measures in the future.

In a related discussion the Committee considered a number of ideas to increase the rate of return on Trust Fund assets. While the vast majority of HRM investments are short term as the maximum holding period is the time funds are collected versus when they are expended, Trust Fund assets are often perpetual in nature with only the income earned being spent. This creates the opportunity to consider longer term investment vehicles. The Committee discussed the potential use of various Exchange Traded Funds and Preferred Shares the use of which would require changes to the Investment Policy. While these investment vehicles have the potential to increase investment income to the Trust Funds they are also subject to much greater market volatility. Should the market value of these instruments suffer a prolonged decline Public Sector Accounting Standards may require that their value be written down on the Financial Statements of the Trust Funds. Again because of the current precarious state of markets and economies the Committee decided that it was not appropriate to further consider changing the Policy to accommodate exposure to these instruments at this time. Other options to enhance the income of the Trust Funds such as Real Return Bonds and longer term Government bonds are available under the current provisions of the Investment Policy. However the consensus was that these investments are not particularly attractive on a risk reward basis in the current market environment.

Staff want to thank the volunteer members of the Committee for their time and the diligence they show in reviewing the Investment Policy and the investment activities of staff. They are instrumental in the good governance of the HRM investment program.

BUDGET IMPLICATIONS

N/A

FINANCIAL MANAGEMENT POLICIES / BUSINESS PLAN

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Project and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Project and Operating reserves, as well as any relevant legislation.

COMMUNITY ENGAGEMENT

Investment activities are reported quarterly to the Investment Policy Advisory Committee. The majority of members of this Committee (4 of 6) are volunteers from the general public. The Committee reports to Audit and Finance Committee of Council quarterly on staff's compliance with the Investment Policy. In addition, the Committee conducts an annual review of the Investment Policy and makes recommendations for any changes considered appropriate.

ALTERNATIVES

N/A

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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