

City of Whitehorse

Council Policy

Policy: Fiscal Management – Cash Management

Purpose: To provide guidelines for the investment of money of the City of Whitehorse.

Authority: Resolution #2003-10-08 dated May 26, 2003

Investment of Public Funds Policy

BACKGROUND

The City of Whitehorse is charged with ensuring the safety, liquidity and yield in the investment of public funds. In order to ensure these objectives are achieved in order of priority, a policy statement is required.

DEFINITIONS

In this policy,

Agency - A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the Government. Federally sponsored agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. An example of federal agency is the Canadian Wheat Board.

Commercial Paper - An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.

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

Diversification means a process of investing assets among a range of security types by sector, maturity, and quality rating.

Government Securities - An obligation of the Canadian government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the Canadian securities market.

Interest Rate means the annual rate of interest received by an investor from the issuer of certain types of fixed-income securities.

Internal Controls - An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not

exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management.

Investment Policy - A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

Liquidity - An asset that can be converted easily and quickly into cash.

Local Government Investment Pool (LGIP) - An investment by local governments in which their money is pooled as a method for managing local funds.

Market Value – The current market price of a security.

Maturity - The date on which payment of a financial obligation is due.

Par - Face value or principal value of a bond, typically \$1,000 per bond.

Principal - The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

Prudent Person Rule - An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices.

Safekeeping - Holding of assets (e.g., securities) by a financial institution.

Total Return - The sum of all investment income plus changes in the capital value of the portfolio.

Yield means the current rate of return on an investment security, generally expressed as a percentage of the security's current price.

SCOPE

1. This policy applies to the investment of operating, capital, and reserve funds.

Pooling of Funds

2. The City of Whitehorse will consolidate all funds to maximize investment earnings. Investment income will be allocated to the various reserves based on their respective participation and in accordance with Reserve Fund Bylaw 2001-34.

GENERAL OBJECTIVES

3. The primary objectives of investment activities shall be, in priority order, safety, liquidity, and yield.

Safety

4. Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

Credit Risk

5. The City of Whitehorse will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:
 - (1) Limiting investments to the safest types of securities
 - (2) Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business
 - (3) Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

Interest Rate Risk

6. The City of Whitehorse will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:
 - (1) Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity
 - (2) Investing operating funds primarily in shorter-term securities, money market funds, or similar investment pools.

Liquidity

7. The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. A portion of the portfolio also may be placed in money market funds or local government investment pools that offer same-day liquidity for short-term funds.

Yield

8. The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity unless liquidity needs require it.

STANDARDS OF CARE

Prudence

9. The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an

overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

10. 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 capital as well as the probable income to be derived.

Ethics and Conflicts of Interest

11. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City of Whitehorse.

SAFEKEEPING AND CUSTODY

Authorized Financial Dealers and Institutions

12. A list will be maintained of financial institutions authorized to provide investment services. In addition, a list also will be maintained of approved security broker/dealers selected by creditworthiness.
13. All financial institutions and broker/dealers who desire to become qualified for investment transactions may be required to supply the following as appropriate:
 - (1) Audited financial statements
 - (2) Proof of territorial/federal registration
 - (3) Confirmation of having read and understood and agreeing to comply with the City of Whitehorse's investment policy.
 - (4) Confirmation of membership in good standing in the Investment Dealers Association

Internal Controls

14. The investment officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City of Whitehorse are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that
- (1) the cost of a control should not exceed the benefits likely to be derived and
 - (2) the valuation of costs and benefits requires estimates and judgments by management.

Delivery vs. Payment

15. All trades where applicable will be executed by delivery vs. payment to ensure that securities are deposited in an eligible financial institution prior to the release of funds. A third-party custodian as evidenced by safekeeping receipts may hold securities.

SUITABLE AND AUTHORISED INVESTMENTS

Investment Types

16. Consistent with the GFOA Policy Statement Concerning Investment Practices, the following investments will be permitted by this policy and are those defined by Section 243 of the *Yukon Municipal Act*:
- (1) Government obligations, Government agency obligations, and Government instrumentality obligations, which have a liquid market with a readily determinable market value;
 - (2) Certificates of deposit and other evidences of deposit at financial institutions, bankers' acceptances, and commercial paper, which must be rated in the highest tier by two nationally recognized rating agencies;
 - (3) Investment-grade obligations of provincial and local governments and public authorities;
 - (4) Local government investment pools administered through joint powers statutes and other intergovernmental agreement legislation.

INVESTMENT PARAMETERS

Diversification

17. The investments shall be diversified by:
- (1) limiting investments to avoid over concentration in securities from a specific issuer or business sector (excluding Treasury securities),

- (2) limiting investment in securities that have higher credit risks,
- (3) investing in securities with varying maturities, and
- (4) continuously investing a portion of the portfolio in readily available funds such as local government investment pools to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

Maximum Maturities

18. To the extent possible, the City of Whitehorse shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five (5) years from the date of purchase.

REPORTING

Methods

19. The investment officer shall prepare an investment report annually including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last year. This management summary will be prepared in a manner that will allow the City of Whitehorse to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will include the following:
 - (1) Listing of individual securities held at the end of the reporting period.
 - (2) Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
 - (3) Listing of investment by maturity date.
 - (4) Percentage of the total portfolio that each type of investment represents.

Performance Standards

20. The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. During the annual budget process benchmarks shall be established against which portfolio performance shall be compared on a regular basis.

Marking to Market

21. The market value of the portfolio shall be calculated annually and a statement of the market value of the portfolio shall be issued annually.

LIST OF ATTACHMENTS

22. The following documents, as applicable, form part of this policy:
- (1) Listing of authorized personnel,
 - (2) Relevant investment statutes,
 - (3) Listing of authorized broker/dealers and financial institutions
 - (4) Wire transfer agreements,
 - (5) Sample investment reports, and
 - (6) Methodology for calculating rate of return.

Attachment (1) – Authorized Personnel

Personnel authorized to perform investment transactions		
Transaction	Deputy Treasurer	Accounting Supervisor
Sign Documents	Yes	No
Give Instructions	Yes	Yes
Purchase Securities	Yes	Yes
Sell Securities	Yes	Yes

Attachment (2) – Relevant Investment Statutes

Municipal Act, Chapter 19 (Revised Statutes of Yukon 2002)

Investments

243. The council may by bylaw authorize that the money of the municipality, other than money the municipality holds in trust or money required immediately for payments, may be invested in any of the following:
- (a) securities that are obligations of or guaranteed by Canada or a province,
 - (b) fixed deposits, notes, certificates, and other short term paper of or guaranteed by a bank, credit union, or trust corporation, which may include swapped deposit transactions in currency of the United States,
 - (c) commercial paper issued by a company incorporated under the laws of Canada or a province or territory, the securities of which are rated in the highest rating category by at least two recognised security rating institutions, and
 - (d) units in pooled funds managed by provincial municipal finance authorities.

Attachment (3) – Authorized Broker/Dealers and Financial Institutions

Authorized Financial Institutions: RBC Securities

Authorized Investment Broker/Dealers: Canaccord Capital Corporation

Municipal finance Authority of BC