

TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON TUESDAY, APRIL 8, 2014
FROM:	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	PROCUREMENT OF GOODS AND SERVICES POLICY REVISIONS

RECOMMENDATION

That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer, the attached proposed by-law to amend Schedule "C" to By-law No. A.-6151-17, being "A By-law to establish policies for the sale and other disposition of land, hiring of employees, procurement of goods and services, public notice, accountability and transparency, and delegation of powers and duties, as required under section 270(1) of the *Municipal Act, 2001*", **BE INTRODUCED** at the Municipal Council meeting on April 15, 2014 in order to revise the Procurement of Goods and Services Policy as follows:

1. To Add "Investment Management Services" to the Procurement of Goods and Services Policy in Schedule "B" as Item 3.x, and;
2. To Move "Employee Group Benefits" in Schedule "B" from Item 8.v to Item 3.xi and reword as "Employee Group Benefits, Compensation, Programs, Consulting and Reviews", and;
3. To Move "Legal Services" and "Labour Relations Services" in Schedule "B" from Item 8. ii and ix, to create a new Item 12 with a \$250,000 limit, and;
4. Add Construction relocations as approved by the City Utilities Co-ordination Committee to Schedule "B" as a new Item 13, and;
5. Add Services provided for City construction projects within a railway right-of-way as required by the rail authority having jurisdiction to Schedule "B" as a new Item 14, and;
6. To remove wording related to Dispute Forms under Section 18.2 Program Administration, Audit and Monthly Reconciliation for Purchasing Cards.

BACKGROUND

1. Schedule "B", Item 3.x - Investment Management Services

Rationale: The Corporation of the City of London (the City) invests public funds in a manner that maximizes investment return and minimizes investment risk while meeting the daily cash requirements of the City and conforming to legislation governing the investment of public funds. All investment activities are governed by the Ontario Municipal Act, 2001 as amended, and investments are those eligible under Ontario Regulation 438/97 or as authorized by subsequent provincial regulations.

The City has an Investment Policy in place to ensure integrity of the investment management process. The objective of the Investment Policy is to maximize investment income at minimal risk to capital. The primary objectives of the City's Investment Policy, in priority order, are as follows:

- i. Adherence to statutory requirements;
- ii. Preservation of capital;
- iii. Maintenance of liquidity; and
- iv. Competitive rate of return.

Schedule "B" of the Procurement of Goods and Services Policy provides for goods and/or services NOT subject to this policy. The Managing Director, Corporate Services and City Treasurer, Chief Financial Officer recommends adding Investment Management Services to Schedule "B" of this Policy. For the purposes of this report and the procurement policy, investment management services include any of following:

- a) Actively managing the City's investment portfolio including, buying and selling securities, portfolio monitoring, settling transactions, performance measurement, and client reporting;
- b) Providing brokering services in order for the City to purchase an investment on the open market, (compensation to brokers is a commission fee on trades that they execute on instruction from the City);
- c) Providing advisory services, including market research and forecasting; and
- d) Providing the City with recommendations and strategies for investing that align with the investment objectives and parameters defined by the City's Investment Policy.

The following reasons support the proposed recommendation for providing an exemption for investment management services in the City's Procurement of Goods and Services Policy:

Competitive Bidding Process

The goal of competitive bidding is to achieve the "best value" using a process that is open, transparent and fair. In procuring investment management services, the City would achieve "best value" through credit worthy institutions that are knowledgeable in the unique restrictions for investments imposed on Municipalities through legislation. These requirements stipulate the type of investments that are eligible to be purchased by the City along with the minimum credit rating, i.e. the amount of "risk" that is acceptable is dictated by the regulation.

A competitive bidding process creates an environment of risk, which conflicts with the City's Investment Policy to reduce risk associated with investing. Firms competing for the City's business will want to present a portfolio of products with high rates of returns and low fees, which results in higher investment yields. Higher yields are associated with an increased risk to capital. This contravenes the City's goal of reduced risk and preservation of capital. In addition, it is likely that a reduction in fees, as a way of increasing yield, may result in a lack of senior advisor attention, which will affect the quality of the service required by the City.

Another important consideration is the "timing" of purchasing investment management services. The market fluctuates on a daily basis and timing is extremely important. A 0.1% change in rate on a \$10,000,000 investment over a five-year term is a \$50,000 loss of income. This rate change can occur within hours of the initial quote. It is beneficial that the City have the ability to expedite the process of closing transactions in order to maximize the income earned on investments.

Investment Management Fee Structure

Fees charged to professionally managed investment portfolios are structured on basis points (bps, 1 bps = 0.01%) per market value therefore as the market value of the portfolio increases, the dollar amount of fees also increases. For example, the fee per market value on a \$20 million portfolio might be 20 bps or \$40,000, as the portfolio grows, through reinvestment of income or addition of new funds, to \$50 million the dollar value of the fee is \$100,000. Without the exemption, once the fees reach \$100,000, the City would have to go through the RFP process. At this point, going through the RFP process would not be beneficial to the City because if the City had to transfer investments to a different institution it could result in losses to our capital investment.

In addition, a better rate for investment management services is expected with a larger portfolio, therefore, it is beneficial to the City to consider consolidation of investment portfolios within particular institutions in conjunction with the City's strategy of diversification.

The City expects that the yield on a professionally managed fund will outweigh the additional costs associated with the service provided.

Investment Policy

The City has a comprehensive policy in place that provides clear direction with respect to the City's investment program and investment management services. The direction in place ensures that there is diversification in the portfolio to minimize credit risk. In addition, the investment policy provides guidance on obtaining competitive rates of returns within the boundaries set by the three foregoing objectives, adherence to statutory requirements; reservation of capital; and maintenance of liquidity. We believe this policy ensures integrity of the investment management process including procuring investment management services.

2. Schedule "B" Item 3.xi - Employee Group Benefits, Compensation, Programs, Consulting and Reviews

Rationale: Currently, costs associated with employee group benefits and compensation fall within Schedule B Section 3 and potentially under Schedule B Section 8. This amendment is necessary in order to provide clarity within the policy with respect to employee group benefits to ensure that there are no duplicative provisions regarding costs related to the provision of employee group benefits. The amendment will allow for all costs related to employee group benefits and compensation to be considered under one clearly identified section. The amendment doesn't substantively change the policy.

3. Schedule "B" Item 12 - Legal Services and Labour Relations Services

Rationale: During the current review of the Procurement Policy, it was noted that the \$100,000 maximum for legal and labour relations matters may not be sufficient given the growing complexity of these types of matters. For example, interest arbitration can be very intricate and involve costs that exceed the current threshold. Given the time sensitive, personal and confidential nature of the work public procurement processes are not appropriate. As such, the amendment to \$250,000.00 provides recognition of the confidential nature of these matters and allows Civic Administration to continue to deal with these issues in a timely manner having regard to unique circumstances of these services.

4. Schedule "B" Item 13 - Utility Relocations as Approved by the City's Utility Coordinating Committee (UCC)

Rationale: Utility relocations are undertaken as preparatory work in advance of or during City construction projects to clear the right of way of any obstructions or conflicting utilities/infrastructure as required by the Public Service Works on Highways Act or Municipal Access Agreements. Utility owners are responsible for their physical plant, including their relocation as they have the expertise and the understanding of safety measures necessary to maintain service. The UCC provides a forum for City representatives and utilities to meet, discuss project related matters, and develop solutions. All projects constructing new infrastructure and the coordination of utilities on City assumed property are approved by the UCC.

5. Schedule "B" Item 14 - Services Provided for City Construction Projects within a Railway Right-of-Way as Required by the Rail Authority Having Jurisdiction.

Rationale: Rail companies must provide design, construction and flagging services for all City construction projects within the rail right of way. Flagging services must be provided by the rail company having jurisdiction to the rail right of way. No alternatives exist for reasons of security, safety measures and maintaining services along the rail corridor.

6. **Section 18.2 Program Administration, Audit and Monthly Reconciliation for Purchasing Cards.**

Rationale: This section of the Policy should be amended to remove the wording related to Dispute Forms (see Appendix "A" for specific changes) as they are no longer used with the current Procurement Card Program.

SUBMITTED BY:	
JOHN FREEMAN MANAGER OF PURCHASING AND SUPPLY	
CONCURRED BY:	RECOMMENDED BY:
MIKE TURNER DEPUTY CITY TREASURER	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER

Attachments: By-law to Amend By-law A.-6151-17
 Procurement of Goods and Services Policy
 Appendix "A" – Specific Changes to Section 18.2

Bill No.

By-law No.

A By-law to amend By-law A.-6151-17, being a by-law to establish policies for the sale and other disposition of land, hiring of employees, procurement of goods and services, public notice, accountability and transparency, and delegation of powers and duties, as required under section 270(1) of the *Municipal Act*, 2001.

WHEREAS section 5(3) of the *Municipal Act*, 2001 S.O. 2001, c.25, as amended, provides that a municipal power shall be exercised by by-law;

AND WHEREAS section 9 of the *Municipal Act*, 2001 provides that a municipality has the capacity, rights, powers and privileges of a natural person for the purpose of exercising its authority under this or any other Act;

AND WHEREAS on December 17, 2007 Municipal Council of The Corporation of the City of London enacted By-law A.-6151-17, being a by-law to establish policies for the sale and other disposition of land, hiring of employees, procurement of goods and services, public notice, accountability and transparency, and delegation of powers and duties, as required under section 270(1) of the *Municipal Act*, 2001 (the "Council Policy By-law");

AND WHEREAS it is deemed expedient to amend the Council Policy By-law;

NOW THEREFORE the Municipal Council of The Corporation of the City of London enacts as follows:

1. Schedule "C" to By-law No. A.-6151-17, being the "Procurement of Goods and Services Policy", is hereby repealed and replaced with the attached revised Schedule "C" - Procurement of Goods and Services Policy which is attached hereto and which shall be Schedule "C" to By-law A.-6151-17.
2. This by-law shall come into force and effect on the day it is passed.

PASSED in Open Council on April 15, 2014

Joe Fontana
Mayor

Catharine Saunders
City Clerk

First reading – April 15, 2014
Second reading – April 15, 2014
Third reading – April 15, 2014