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Report 2022-104

Report Title: Debt Management Policy

Committee Name: Finance and Audit

Committee Meeting Date: July 5, 2022

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Finance

Reviewed by: Glenn Dees
Director of Finance/Treasurer
Finance

Approved by: Jennifer Moore, CAO

Council Meeting Date: July 20, 2022

Strategic Plan Priorities: ☒ Economic Prosperity and Innovation
☒ Sustainable Growth
☐ Thriving and Inclusive Communities
☐ Leadership in Change

Recommendation

"That the Finance and Audit Committee, having considered Report 2022-104 'Debt Management Policy', recommend that County Council adopt the 'Debt Management Policy' by by-law at the July 20, 2022 County Council meeting."

Purpose

The purpose of this report is to present the Debt Management Policy to the Finance and Audit Committee and secure the Committee's recommendation that the policy be adopted and by-law be enacted by County Council.

Background

Debt is an important financial tool for a municipality, that needs to be managed in a careful and responsible way. By maintaining a healthy level of debt, the municipality has the capability to

fund future projects while saving other forms of funding for more appropriate purposes. The availability of debt also frees up reserve funds and allows the County to allocate the related tax burden over the life and use of the asset. Debt can also provide contingency funds in exceptional circumstances to absorb extraordinary shifts in revenue and expenditures. The effective use and management of debt is a critical aspect of the County's long-term financial planning process and it's continued financial sustainability. Northumberland County has a number of large projects underway (or coming in the near future) that require prudent financial management. It is important that the County have a formal policy (approved by Council) that will serve as a framework to make important decisions regarding the use of debt and to ensure that the County does not exceed the provincially mandated Annual Debt Repayment Limit (ARL). Staff have been working to formalize a policy for debt management as the County has not had a formal Debt Management Policy in place up to this point. The Finance department has used an informal set of guidelines, when dealing with debt management, and this policy will provide a formal framework going forward.

Consultations

The Finance Department has consulted with other municipalities who have enacted Debt Management Policies as well as benefitted from other municipalities who have provided their policies for review.

Legislative Authority / Risk Considerations

As allowed under section 401 of the Municipal Act, 2021, the Treasurer shall have the authority and responsibility to recommend to Council the most effective form of debt financing for any work/asset, in addition to the appropriate timing and duration.

Under section 403/02 of the Act, annual debt and financial obligation limits for municipalities are defined. This regulation provides the authority and imposes restrictions regarding a municipality's ability to issue debt such that the annual principal and interest payments cannot exceed 25% of own source revenues.

There are no risks to adopting the Debt Management Policy. The policy provides staff and Council with a formal framework for managing debt.

There is a risk associated with not developing a formal Debt Management Policy. By creating this policy, we are ensuring consistent application of a set of principles, to facilitate informed decisions regarding debt management practices.

Discussion / Options

Solid financial policies are needed to provide a comprehensive framework for County staff to follow. When these policies are effective, they help to preserve or enhance the fiscal health of the municipality. It is best practice to have a Debt Management Policy in place in order to provide a formal framework for staff and Council to make informed decisions anytime debt is being considered as part of a comprehensive financing strategy.

Financial Impact

There is no financial impact to enacting this policy and the related by-law.

Member Municipality Impacts

Member municipalities may benefit from the development of this policy as it may assist them if they are considering creating and/or updating their own debt management policies now and/or in the future.

Conclusion / Outcomes

Staff recommend that the Debt Management Policy and the accompanying by-law be brought forward to Northumberland County Council for review and approval.

Attachments

1. Debt Management Policy
2. By-Law XX-2022 'A By-law to Adopt the Debt Management Policy'
3. Schedule "A" to By-law XX-2022