



## Financial Services Staff Report

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Report Title: LTFF - 2024 Finance Policy Update  
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### **Recommendation:**

That the Council of the Township of Woolwich, considering Report F16-2024 respecting LTFF - 2024 Finance Policy Update approve:

1. the Reimbursement of Personal Vehicles (Mileage) Policy outlined in Attachment 1;
2. the Debt Management Policy outlined in Attachment 2; and
3. the updated Township Investment Policy outlined in Attachment 3.

### **Background:**

Financial policies form a key component in the overall financial management and sustainability of the Township. Following the development of the Long-Term Financial Framework presented in report F14-2024, significant gaps were identified in the overall financial policy framework for the municipality.

Many existing financial practices have not been formally documented while others have not been updated for many years. Best practices recommended financial policies are updated at each term of Council or every 4 years.

This report, and the attached policies, are the next step in the development of the Long-Term Financial Framework. It is anticipated that the existing financial policies outlined in attachment 5 will be updated over the next couple of years.

## **Comments:**

### **Reimbursement of Personal Vehicles (mileage) Policy**

The Township has no current policy in relation to the reimbursement of staff personal vehicles (mileage). Past practice involved reviews of the current mileage rates on an ad hoc basis as staff time permits. This approach has resulted in updates only twice in the past 10 years (in 2014 and in 2022). This resulted in unpredictable changes to the mileage rate and makes budgeting more difficult.

Current best practice involves setting a formula to automatically adjust the mileage rate. The most common method ties mileage increases to the CRA maximum reimbursement rate which is published annually. The proposed policy sets the mileage rate to the lower bound of the CRA guideline rate effective January 1<sup>st</sup> each year. To provide for more predictability and to reduce the financial impact, Staff recommend the rate be set one year in arrears. For clarity, this would mean that the 2025 Township rate would be based on the previous years (2024) CRA rate.

When the current mileage rate was set in 2022, the CRA rate was \$0.61/km for the first 5,000 kilometres driven, and \$0.55/km thereafter. The Township chose the lower bound (or the over 5,000 km rate) at \$0.55/km to set its mileage rate.

For 2024, the CRA has updated this rate at \$0.70/km for the first 5,000 kilometres driven, and \$0.64/km thereafter. Staff now recommend the lower bound of this rate to be used again to set the Township's rate to \$0.64 as of January 1, 2025.

Staff have also reviewed the mileage rates set at neighbouring municipalities, which currently have a reimbursement rate between \$0.50 and \$0.68. Most regional municipalities use a higher rate than the lower bound of the CRA maximum with the most common rate for 2024 set at \$0.68 per km in 2024. Woolwich's current rate of \$0.55 is among the lowest among our regional peers and there is no current process for adjusting the rate.

### **Debt Management Policy**

The Township does not have a formal Debt Management Policy and has taken an ad hoc approach to the use of debentures to fund capital works in the past. There have not been consistent criteria for the use of debt financing and minimal long-term forecasting of potential impacts of debt repayments on the capital program.

The proposed Debt Management Policy formalizes the criteria when debt should be used and lists several ratios to ensure that debt is used in a responsible manner. Finance staff are also working on developing long term debt schedules as part of the overall long-term financial model to track and forecast future debt impacts and cashflow needs.

The following ratios are recommended to track debt utilization. The hard limits are policy maximums that cannot be breached without impacting the financial health of the

Township. The soft limits are best practices and will be tracked and reported but would not prevent the issue of debt upon Council approval if the soft limits are breached.

## **Hard Limits**

### Debt to Own Source Revenue

This ratio is a measure of the principal and interest payable annually as a proportion own source revenue. It should not exceed a target of 10% of the total revenues in line 2610 of the FIR. The Township currently is well within this guideline of with current debt of approximately 2% of own source revenues.

### Debt to Own Source Revenue (Growth)

The ratio above includes several deductions to arrive at own source revenue including the exclusion of development charges. For debt that is being used to support growth only, development charge revenue can be used to support debt repayments. In this case total debt payments can be up to 15% of own source revenues, provided at least 25% of total debt payments are funded by external sources such as development charges.

## **Soft Limits**

### Total Debt to Operating Revenue

This measure identifies the percentage of annual operating revenues that would be required to retire the Township's net debt. A target rate of less than 55% should be maintained. The Township currently is within this guideline of with total debt of approximately 13% of total revenue.

### Debt Servicing to Discretionary Reserve Ratio

This ratio is used to determine how many years the Township could pay for debt servicing obligations in the absence of new revenue.

- A target of 1:14 annual debt costs / discretionary reserves should be maintained.
- A target of 1:1 of total debt outstanding to discretionary reserves should be maintained.
- For DC debt, a target of 1:1 of total debt development charge debt outstanding to development reserves should be maintained.

### Debt per Capita

This calculates the total debt burden divided by population.

In 2009 Council set the approved debt per capita a \$230. The 2024 level was adjusted to \$372 as there had been no adjustment to account for inflation. The current debt per capita is \$129 which is within this limit.

Each municipality has different structures with services provided by different levels of government. For example, the Township only funds 31% of municipal services with the majority provided by the region.

Debt per capita does not account for these differences and does not automatically adjust for inflation. Finance staff do not recommend formally monitoring this metric, but it can be reported at Council's request.

### **Township Investment Policy**

The purpose of the Investment Policy is to outline the investment goals and objectives of the Township of Woolwich and define the parameters within which staff may invest funds not required immediately.

Best practice suggests this policy should be updated every four years with each change of Council. The Township's investment policy was last updated in 2003. While the core tenants of the previous investment policy are still relevant today, a refresh of the investment policy is required.

The major changes of this policy is to provide more clarity of the investment goals, and to enhance risk and duration limits of specific investment options. The Township's investments are currently managed by an external agent and the existing policy does not provide detailed guidance on specific investment limits.

Having a formal investment policy which sets out those limits reduces potential risk and ensures the external agent makes investments in line with the Township investment goals. In addition, a policy update ensures any future internal investment management will also be aligned with the objectives and limits of the external agents. Additional staff would be required to manage investments internally, but this may also see an increase in investment revenue.

### **Interdepartmental Impacts:**

These policies will apply to all departments in the Township. Having more formalized financial policies will improve the fiscal health and sustainability of the Township. Imposing necessary debt limits may reduce the capacity of departments to undertake projects and will require a more robust approach to capital planning and funding.

### **Financial Impacts:**

Financial policies are part of the overall financial framework and contribute to the overall health of the organization but may also have direct financial impacts:

The adoption of the mileage policy and the change to the mileage rate is projected to be approximately \$7,500 to \$8,000 based on estimated mileage usage in 2025. 50% of this will affect the tax supported operating budget with the remainder being borne by self

funded operating budgets (i.e. Building and Development Engineering). The increase in costs will be reflected in future operating budgets.

The Debt Management Policy will not have a direct financial impact but will ensure debt is issued and managed more responsibly.

The approval of the Investment Policy will not have an immediate financial impact but should reduce the overall portfolio risk. If investments are managed in house following this policy, a greater rate of return will likely be realized.

### **Strategic Plan Impacts:**

Setting appropriate mileage rates allows the Township to achieve its Corporate Strategic Plan related to cultivating long-term prosperity. Having effective up to date financial policies will ensure fiscal sustainability and long-term prosperity.

### **Conclusion:**

Financial policies form a key component in the overall financial management and sustainability of the Township as outlined in the Long-Term Financial Framework.

This report, and the attached policies is a critical update to the Township financial policies and the next step in the overall Long Term Financial Framework. It is anticipated that the remainder of financial polices will be updated over the next couple of years and will be reviewed on regular basis, ideally with each term of Council, to ensure they are kept up to date.

### **Attachments:**

1. Attachment 1 – F12 - Reimbursement for the use of Personal Vehicles (Mileage) Policy
2. Attachment 2 – F11 - Debt Management Policy
3. Attachment 3 – FI-06 - Statement of Investment Policy and Goals (updated)
4. Attachment 4 – FI-06 - Statement of Investment Policy and Goals (previous)
5. Attachment 5 – Financial Policy List 2024