



Administrative Report

To: Warden MacDonald and Members of Essex County Council

From: Melissa Ryan, CPA, Director, Financial Services/Treasurer

Date: Wednesday, July 16, 2025

Subject: Update to Key Financial Governance Policies

Report #: 2025-0716-FIN-R16-MR

Purpose

To seek County Council approval for three updated corporate policies relating to financial governance. These include: Capital Financing and Debt Policy, Investment Policy and Commodity Price Hedging Policy.

Background

As per Section 224 of the *Municipal Act, 2001*, the role of Council includes the responsibility to develop and evaluate the policies and programs of the municipality and to ensure that the necessary administrative and controllership policies and procedures are in place to implement Council's decisions.

Further, Section 270 of the *Municipal Act, 2001* requires municipalities to adopt certain policies, including those related to financial operations. The Corporation of the County of Essex has adopted a **Policy and Procedure Governance Framework (Policy No. 2022-002)** which outlines the process for development, classification, and approval of policies. As defined within that framework, the attached policies (Appendices A-C) are deemed Corporate Policies, requiring Council approval.

Discussion

The updated policies included in this report are intended to improve consistency and clarity in how the County manages key financial areas. While each policy already existed, some updates were made to reflect current legislation, align with the County's standardized policy format, and

reinforce long-term financial planning principles. Together, these updates help ensure that our financial practices remain transparent and responsible.

Each policy addresses a specific aspect of financial governance, capital financing and debt management, investment of surplus funds, and mitigation of commodity price risk. A summary of each policy and the key changes made is provided below for Council's consideration.

Capital Financing and Debt Policy

This policy outlines the principles and framework for how the County manages the financing of its capital infrastructure investments, including the issuance and responsible management of debt. It defines the circumstances under which debt may be used, sets limits on debt levels, and ensures alignment with provincial legislation and best practices in municipal financial management.

Importantly, the policy reinforces that debt is not a funding source, it is a cash flow tool. While it provides access to capital when upfront cash may be unavailable, debt increases the total cost of projects due to interest and financing charges. While debt can help manage the timing of payments, it does not eliminate the need for sustainable long-term funding sources such as reserves, grants, development charges, or levy-supported contributions.

Key updates to this policy include:

- Clarified definitions of capital financing, debt, debentures, and debt service to improve understanding and consistency.
- Stronger language to emphasize that debt is a tool for managing timing of cash outflows, not a substitute for sustainable funding sources.
- Enhanced guidance on evaluating debt issuance based on long-term value, sustainability, and affordability.
- Alignment with the County's policy framework by updating formatting, terminology, and responsibilities in line with current templates and best practices.
- Expanded content on debt management practices, including monitoring, refinancing opportunities, integration with capital planning and clarification of Council's authority to approve or deny debt issuance decisions.

Investment Policy

This policy governs the investment of County funds that are not immediately required for operational or capital purposes. It establishes a structured framework that prioritizes the preservation of capital, maintains adequate liquidity, and seeks a competitive rate of return, within the parameters set out by the *Municipal Act, 2001* and *Ontario Regulation 438/97*.

Importantly, the County has opted to continue using the “legal list” approach outlined in Ontario Regulation 438/97, rather than adopting the Prudent Investor Standard at this time. While some municipalities have transitioned to the Prudent Investor framework to broaden their investment options, the County’s current strategy has consistently delivered strong returns with lower risk exposure. This approach has served the County well and continues to align with its overall financial objectives.

Key updates to this policy include:

- Updated language to reflect current legislation, terminology, and best practices in municipal investment management.
- Confirmation of continued use of the legal list framework under O. Reg. 438/97, with rationale for not adopting the Prudent Investor Standard at this time.
- Alignment with the County’s corporate policy format, ensuring consistency across the County’s financial governance documents.
- Inclusion of more detailed governance provisions, including defined roles and responsibilities for oversight and risk management.
- Enhanced guidance on risk management controls such as credit rating requirements, diversification, and liquidity.
- Clarification of reporting requirements including annual performance and compliance reporting to Council.

Commodity Price Hedging Policy

This policy outlines the County’s approach to managing financial risks associated with commodity price fluctuations, particularly in areas such as gas and electricity, through the use of legally authorized hedging agreements. It provides a framework to evaluate, implement, and monitor hedging strategies while ensuring compliance with the *Municipal Act, 2001* and *Ontario Regulation 653/05*.

Commodity prices can be volatile and difficult to predict, which creates uncertainty in municipal operating budgets. Hedging allows the County to fix or stabilize the future price of a commodity, helping reduce risk and support more accurate financial planning. However, hedging must be used carefully and only when it aligns with broader financial goals and risk tolerance.

At present, the County participates in a single commodity hedge, through LAS (Local Authority Services), for electricity and natural gas, with a 50% hedge level. This program, in place since 2010, has helped municipalities secure more predictable pricing, particularly for streetlights and facility accounts. Each year, participating municipalities have the option to adjust their hedge level, allowing for a balance between cost stability and market responsiveness.

Key updates to this policy include:

- Updated definitions and terminology to align with O. Reg. 653/05 and current industry usage.
- Clarified criteria for evaluating the appropriateness of entering into a hedge, including risk exposure, potential savings, and alignment with strategic financial goals.
- Alignment with the County's corporate policy template, promoting consistency and transparency in policy documentation.
- Expanded responsibilities to include CAO oversight and detailed annual reporting requirements to Council.
- Added a formal risk management framework emphasizing credit exposure limits, use of standardized agreements, and ongoing monitoring of hedge performance.

Financial Implications

There are no direct financial impacts associated with the approval of these updated policies, as they reflect modifications to existing policies rather than new initiatives. The updates clarify language, enhance consistency with legislative requirements, and improve alignment with the County's policy framework. Collectively, these policies continue to support accurate budgeting, long-term financial planning, and overall fiscal resilience.

Consultations

County Senior Leadership Team (SLT)

Strategic Plan Alignment

Working as Team Essex County	Growing as Leaders in Public Service Excellence	Building a Regional Powerhouse
<input type="checkbox"/> Scaling Sustainable Services through Innovation <input checked="" type="checkbox"/> Focusing “Team Essex County” for Results <input type="checkbox"/> Advocating for Essex County’s Fair Share	<input type="checkbox"/> Being an Employer with Impact <input type="checkbox"/> A Government Working for the People <input checked="" type="checkbox"/> Promoting Transparency and Awareness	<input type="checkbox"/> Providing Reliable Infrastructure for Partners <input type="checkbox"/> Supporting Dynamic and Thriving Communities Across the County <input type="checkbox"/> Harmonizing Action for Growth <input type="checkbox"/> Advancing Truth and Reconciliation

Recommendation

That Essex County Council receive report number 2025-0716-FIN-R16-MR, Update to Key Financial Governance Policies; and

That Council approve the Capital Financing and Debt Policy, as attached in Appendix A;

That Council approve the Investment Policy, as attached in Appendix B; and

That Council approve the updated Commodity Price Hedging Policy, attached as Appendix C.

Approvals

Respectfully Submitted,

Melissa Ryan

Melissa Ryan, CPA, Director, Financial Services/Treasurer

Concurred With,

Sandra Zwiers

Sandra Zwiers, MAcc, CPA, CA, Chief Administrative Officer

Appendix	Title
A	Capital Financing and Debt Policy (Draft for adoption)
B	Investment Policy (Draft for adoption)
C	Commodity Price Hedging Policy (Draft for adoption)