

# Council Policy

Policy Name: Debt Management Policy  
Department Name: Financial Services  
Policy: Insert Policy Number  
No.:

Effective Date: Insert Date Review Date: Insert Date (3 years or less)

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## POLICY

The purposes of this Policy are to:

- I. Establish responsible governance for Debt Management;
- II. Establish governance roles and responsibilities for Debt Management;
- III. Define principles and objectives for Debt Management that are appropriate for the City's financial position, and are reasonable, logical and necessary for delivery of sustainable, affordable services; and
- IV. Ensure the City's Debt Management is compliant with the statutory and legal requirements of the *Local Government Act* and the *Community Charter* and in accordance with Canadian public sector accounting standards.

## REASON FOR POLICY

The City of Nanaimo (the City) is committed to sustainable, prudent and transparent financial management, including utilization of debt, to provide valued community services.

The primary objectives for the City's use of Debt are to:

- I. Provide funding for large capital expenditures with long-term benefits;
- II. Maintain service levels by providing a funding option for needed equipment and infrastructure replacement investment;
- III. Provide funding for capital expenditures required for service delivery innovation or change;
- IV. Minimize impact of capital investment on property tax and user fee increases; and
- V. Minimize need to reduce the City's reserves below prudent levels.

## AUTHORITY TO ACT

Delegated to Staff.

## PROCEDURE

### 1. Definitions

- I. Alternative Approval Process (AAP): One of the two forms of electoral approval to support a loan authorization bylaw. Pursuant to the *Community Charter*, Section 86 and after a specified public notice period, alternative approval is obtained if no more than 10% of

eligible electors have signed elector response forms indicating that Council may not proceed with the loan authorization bylaw.

- II.    Business Cases: Prepared to help decision makers evaluate proposals for new investment, changes in service delivery or new services. Typically includes description of business issue, options, benefits, challenges and financial impacts of each option and recommendation.
- III.   Capital Expenditures: Expenditures incurred to acquire, develop, renovate or replace capital assets as defined by Public Sector Accounting Board section 3150. May also be referred to as Capital Projects or Projects.
- IV.   Community Charter: Refers to legislation that delegates specific authorities and responsibilities to municipal governments by the Province of British Columbia.
- V.    Debt Servicing: Annual required debt repayments including interest and principal.
- VI.   Debt Term: Period of time during which debt payments are made. At the end of the Debt Term, the debt must be paid in full.
- VII.   Electoral Approval: Electoral assent to support a bylaw is obtained by either a referendum or with alternative approval process. External borrowing requires elector approval under most circumstances as defined in *Community Charter*, Section 180.
- VIII.   External Debt: Borrowing usually provided by the Municipal Finance Authority of BC (MFA) pursuant to security issuing bylaws under authority of the *Community Charter* to finance certain capital expenditures. The MFA provides long and short term financing to communities and public institutions in BC.
- IX.   General Fund Debt: Debt issued for capital expenditures related to operations funded from General Fund Revenues.
- X.    Five Year Financial Plan: The City's annual budget required under the *Community Charter*, Section 165.
  - I.    Funds: The resources and operations of the City are segregated into General, Sanitary Sewer Utility, Waterworks Utility and Reserve Funds for accounting and budgeting purposes. The General and Utility Funds also have corresponding Capital Funds.
  - II.   General Fund Operations: Non-utility operations that include Public Safety, Parks and Recreation, Transportation, Drainage, Community Development and Corporate Administration services.
  - III.   General Fund Revenues: Revenues generated to pay for General Fund Operations. These revenues include property taxes, non-utility user fees, permits and investment income.
  - IV.   Infrastructure: Includes a wide range of assets that are used to deliver City services. These assets include transportation amenities, drainage, sanitary sewer, water, recreation amenities and buildings.

- V.     Internal Borrowing: The City may borrow between Reserve Funds under specific conditions in compliance with the *Community Charter*, Section 189.
- VI.    Liability Servicing Limit: The City is subject to 'Liability Servicing Limits' as outlined in the *Community Charter*, Section 174. The maximum value of liability servicing cost for a given year is 25% of a municipality's controllable and sustainable revenues for the previous year.
- VII.   Long-Term Debt: Debt with repayment terms greater than five years. Long-term debt is usually undertaken for twenty years.
- VIII.   Municipal Finance Authority (MFA): The Municipal Finance Authority of British Columbia provides long-term, short-term and equipment financing to communities and public institutions in BC.
- IX.    Short-Term Debt: Debt with repayment terms of five years or less.
- X.     Sustainability: The pillars of sustainability include ensuring that current socio-cultural, economic and environmental commitments are considered in investment decisions and do not compromise the ability of future generations to meet their own needs.
- XI.    Utility Debt: Debt issued for capital expenditures related to operations funded from Utilities Revenues.
- XII.   Utilities: Self-funded operations providing a service to its customers at rates regulated by Council. The City's current self-funded operations are the Water Utility Fund, the Sanitary Sewer Utility Fund and Solid Waste Collection services.
- XIII.   Utilities Revenues: Revenues generated to pay for water, sewer and solid waste collection services.

## **2. Acronyms and Abbreviations**

- I.     CAO: Chief Administrative Officer
- II.    The City: City of Nanaimo

## **3. Responsibilities**

To implement the Debt Management Policy the appropriate level of governance must be in place throughout the organization for decision-making.

### **3.1 Council is responsible for:**

- 3.1.1 Adoption, periodic review and updating the Debt Management Policy; and
- 3.1.2 Approval of new debt and internal borrowing.

### **3.2 The CAO is responsible for implementing the Debt Management Policy.**

### **3.3 The Director of Finance is responsible for:**

- 3.3.1 Implementing internal processes and systems in compliance with this Policy;

3.3.2 Ensuring the use of debt complies with this Policy;

3.3.3 Ensuring utilization of debt is clearly disclosed in the City's Five Year Financial Plan and other long-term financial plans; and

3.3.4 Recommending revisions or amendments to this Policy due to changes in applicable statutes, accounting standards or to support the City's long-term financial management.

#### **4. Scope and Applicability**

##### **4.1 Scope**

The City delivers services to the community through a wide range of City-owned assets as well as some assets managed through co-management agreements. In addition to these existing assets, the City may receive or construct new assets. Provision of new assets and renewal of existing assets requires significant long term planning and investment for capital projects. The City utilizes annual revenues, reserves, grants, private contributions and Debt to fund these capital projects.

##### **4.2 Corporate Context**

This Policy applies to Debt utilized by the City to fund capital infrastructure and equipment investment. To support Debt planning, management and reporting, Debt is categorized into two groups as follows:

- General Fund Debt
- Utility Debt

##### **4.3 Implementation, Review and Reporting**

The implementation, review and reporting associated with this policy will be integrated within City business processes.

#### **5. Benefits of Compliance**

Implementing this Policy will improve the City's governance through:

- Improvements to decision making and financial performance;
- Improvements to financial preparation for future commitments; and
- Improvements to transparency and accountability.

#### **6. Principle Statements and Objectives**

The City will strive to ensure the following principles and objectives are applied to all Debt Management strategies, processes and reporting.

##### **6.1 Affordability**

6.1.1 The City will consider impact on property taxes, utility and other user fees when considering new debt.

## **6.2 Debt Management and Decision Making**

6.2.1 The City recognize that the utilization of debt may be needed to provide funding for needed capital investment.

6.2.2 The City will utilize Business Cases where appropriate to provide necessary information regarding capital investment and new debt for decision makers.

6.2.3 The City will utilize the financing options offered by the Municipal Finance Authority for debt.

6.2.4 The City may consider and utilize financing options through other appropriate institutions where it is demonstrated to be beneficial.

6.2.5 The City may consider internal borrowing between statutory reserves, in compliance with the *Community Charter*, Section 189, where it is prudent and does not impair the capacity of the lending reserve to fulfill its purpose.

6.2.6 The City will utilize Debt with a term that is less than the expected life of the underlying asset.

6.2.7 The City will not issue Debt to finance annual operating expenditures.

6.2.8 The City will ensure that new General Fund Debt Service costs will be funded by long-term sustainable General Fund revenues or reserves.

6.2.9 The City will ensure that new Utility Debt Service costs will be funded by related long-term sustainable utility revenues or reserves.

6.2.10 The City will review and consider cost saving opportunities through prepayment or refinancing of existing debt.

## **6.3 Transparency and Accountability**

6.3.1 The City recognizes that Debt must be managed, monitored and reported upon.

6.3.2 The City's utilization of Debt will be reported to Council through regular performance reporting including against the City's current Liability Servicing Limit.

6.3.3 The City will ensure utilization of new debt, the projected annual repayment costs for current and new debt, and the impact on the City's Liability Servicing Limit is clearly disclosed in the annual Five Year Financial Plan.

## **6.4 Debt Approval**

6.4.1 The City will ensure new debt is approved by Council and receives appropriate electoral approval as outlined in the *Community Charter*, Sections 178 and 180 and as outlined in this Policy.

6.4.1.1 The annual Five Year Financial Plan bylaw includes utilization of internal debt.

6.4.1.2 The annual Five Year Financial Plan bylaw includes utilization of external debt.

6.4.1.3 All issuance of external short-term debt requires a Council bylaw or resolution.

6.4.1.4 All issuance of external long-term debt requires a loan authorization bylaw.

6.4.1.5 All issuance of external long-term debt requires electoral assent.

6.4.2 New external debt under a loan authorization bylaw must be undertaken by the Regional District of Nanaimo in compliance with the *Community Charter*, Section 182.

## **6.5 Statutory and Legal Requirements**

6.4.1 The City will ensure that the maximum amount borrowed from external sources is compliant with the *Community Charter*, Section 174.

6.4.2 The City will only use debt in compliance with the *Community Charter*, Sections 178, 179 and 181.

6.4.3 The City will ensure that electoral approval is obtained in compliance with the *Community Charter*, Section 180.

6.4.4 The City may consider temporary borrowing under loan authorization bylaw in compliance with the *Community Charter*, Section 181.

## **6.5 Accounting Standards**

6.5.1 The City will ensure that administration and reporting of Debt is in accordance with Canadian public sector accounting standards.

## **7. Administration**

The following key administrative processes will support implementation of the Debt Management Policy. Additional information is provided in the City's Debt Management Processes document.

### **7.1 Business Cases**

The City will utilize business cases where appropriate for a proposed investment that requires new external debt financing. The business case will: provide a robust analysis of the investment, be prepared according to best practices and include relevant financial and non-financial information. Key components of a business case include a comprehensive explanation of the business need, reasonable options, the benefits, challenges and expected outcomes or measures for each option, a recommendation and the decision criteria used.

### **7.2 Internal Borrowing**

Internal borrowing from Statutory Reserve Funds is allowed pursuant to the *Community Charter*, Section 189.

- The City will ensure that internal borrowing does not impair the purpose of the lending reserve.
- The City will ensure that repayment of internal borrowing includes interest that would have been earned on the amount had it remained in the lending reserve.

The City will clearly disclose a prudent repayment plan for internal borrowing as part of the Five Year Financial Plan bylaw approved by Council.

### **7.5 Reporting**

The City will develop and maintain annual reporting processes that provide decision makers with all relevant debt information.

## 8. Review Date

This Policy should be reviewed every 4 years.

### **MANAGEMENT, REFERENCES AND APPROVAL:**

This policy shall be reviewed in 3 years from its effective date to determine its effectiveness and appropriateness. This policy may be assessed before that time as necessary to reflect organizational change.

Approving Authority:

Council

Approval Date:

Insert Approval Date

Revision Approval Dates:

Insert Date if applicable

Review Due:

Insert Date

Policy Manager:

Director of Finance

Department Contact:

Director of Finance

Legal References:

Insert if applicable

Cross References:

Insert if applicable

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Insert Name, Mayor

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Insert Name, Corporate Officer

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Insert Date