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Council-In-Committee Meeting – June 12, 2025

Subject:	Norfolk County Historical Financial Review
Report Number:	CS-25-080
Division:	Corporate Services
Department:	Financial Management and Planning
Ward:	All Wards
Purpose:	For Information

Recommendation(s):

That Council receive Report CS-25-080 Norfolk County Historical Financial Review for information.

Executive Summary:

At the October 16, 2024 Council meeting, Council passed a motion that included the following excerpt:

Norfolk County Council directs staff to prepare a report on the County's historical financials, including a high-level summary that provides an overview of the following:

1. *Status of reserves over time, including growth, depletion, and annual balances;*
2. *Annual tax increases*
3. *Annual debt levels*
4. *Annual operating and capital budgets*
5. *Annual actual operating and capital expenditures*
6. *Annual contributions to reserves*
7. *The County's investments, including how they have been allocated and any returns or losses;*
8. *Investments spent within the community and their impact;*
9. *Analysis of spending habits, including any notable trends or shifts;*
10. *Policy improvements made in response to financial challenges;*
11. *The County's current financial position, including debt levels, revenue sources, and expenditures;*

AND THAT the report include an explanation of how these factors have contributed to the current infrastructure gap and financial challenges;

The full motion has been included in Appendix 1 for reference. The purpose of this report is to provide a response to the motion, with the goal of demonstrating in a single location and as simply as possible, the historical financial challenges faced by Norfolk County and how these challenges have translated into the County's current financial position. More importantly, this report will detail initiatives staff have undertaken to ensure the progress made on improving the County's Financial Sustainability continues into the future.

Discussion:

This section of the report will walk through each of the 11 areas requested in the motion, reviewing performance from 2015 through to 2024 (unaudited). In each section, information will be presented in a graphical form followed by an explanatory note which highlights any key results, past decisions, and/or related policy adjustments.

1. Reserve Balances

Reserves and reserve funds are important long term financial planning tools used to set aside funds for a future purpose. They play a crucial role in the County's long term financing plan and represent a significant sources of funding for proposed capital projects and operating expenditures.

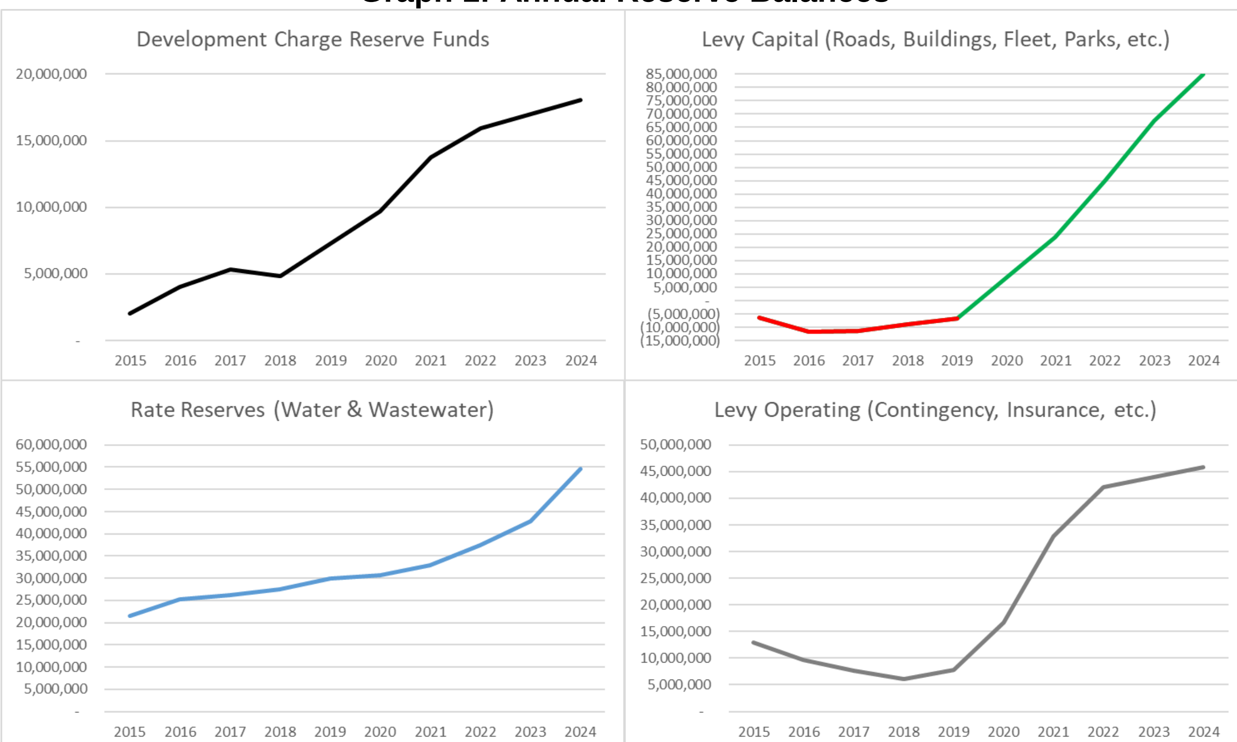
In terms of capital financing, in an ideal scenario, contributions are made to reserves over the life of an asset (e.g., an ambulance). In each annual levy operating budget a portion of the anticipated replacement cost of the asset, in this case an ambulance, is contributed to Norfolk's Fleet Reserve and at the end of the useful life of the ambulance a sufficient balance has been accumulated in the reserve to purchase a new ambulance. Effectively all the residents who benefited from the use of that ambulance paid for it over its useful life. If the reserve balance was not sufficient and the ambulance needed to be replaced in order to continue to provide service to residents, then debt would have to be issued to replace the ambulance. This means that through the repayment of the debt principle and interest, residents will end up paying more than what the appropriate reserve transfers would have cost. This is a relatively simple example which can be extrapolated across all the County's assets and reserves to demonstrate the importance of establishing healthy reserve balances. Healthy reserve balances when established with proper reporting also enable more effective investing and cash management practices which allows for residents to earn interest which is then re-invested back into reserves thereby lowering future tax increases associated with increased reserve transfers.

Year-end balances for different categories of the County's reserves, excluding the Legacy Fund and reserve funds created to administer grant programs (e.g., CCBF, OCIF, Prov. Gas Tax), have been listed and graphed below.

Table 1: Annual Reserve Balances

Year	DC-related	Rate	Levy Capital	Levy Operating	Total
2015	$2,046,093	$21,458,089	($6,428,745)	$12,909,817	$29,985,254
2016	4,027,825	25,204,695	(11,767,099)	9,650,902	27,116,323
2017	5,359,611	26,269,911	(11,379,217)	7,605,446	27,855,750
2018	4,845,179	27,531,697	(8,793,724)	6,131,127	29,714,279
2019	7,242,667	29,851,561	(6,829,740)	7,727,209	37,991,697
2020	9,730,586	30,683,133	8,497,543	16,623,594	65,534,857
2021	13,738,367	32,878,627	23,921,585	32,898,294	103,436,873
2022	15,928,368	37,331,567	44,962,018	42,105,594	140,327,547
2023	17,014,637	42,840,583	67,570,100	43,961,704	171,387,024
2024	18,063,212	54,707,511	85,085,037	45,753,883	203,609,642

Graph 1: Annual Reserve Balances



As seen above, the balances of all four of the County's reserve categories have grown considerably in the last 10 years. In the case of levy capital reserves, the balances have grown to $85 million, from a negative balance which persisted for multiple years in Norfolk's recent history, indicated by the red line in that graph. Corporate-wide, a $200+ million total balance at the end of 2024 may seem like a large store of funds, but it's important to keep in mind two considerations;

1. Most of this money (approx. $130 million of the total $200 million) is currently committed to approved projects / initiatives, with the rest earmarked for projects in future years as well. Large capital works take years to complete, meaning

reserve contributions may temporarily grow reserve balances, but they are often already allocated to a specific purpose and just not expended yet.

2. Secondly, the County's total budgeted spending exceeds $300 million every year. This means the funds are not sitting idle for no reason but rather the majority is being cycled every year to complete projects / initiatives, and furthermore, there may not be much left over, in comparison to the County's annual spending, to continue providing services in the event of an unforeseen or urgent situation.

Regarding how reserve balances have contributed to the financial challenges Norfolk County is facing today, practices such as spending beyond the County's means over the course of many years, allowing capital replacement reserves to persist in a negative position, or funding several consecutive annual deficits has gotten the community used to a level of service that County didn't yet recognize it could not afford. As asset management processes evolve and mature, the County is coming to recognize that the true cost to maintain services at such a level cannot co-exist with negative balances. In fact, the County requires a balance large enough to at least deliver the increasing amount of approved projects each year, while also accumulating enough to plan for projects / initiatives in future years.

Another example of a challenge the County has navigated in the ten-year window would simply be liquidity. Liquidity reflects the County's ability to meet short term obligations, in simple terms – how quickly can assets be converted to cash to meet financial obligations? When for-profit businesses have a bad year, they can rely on their accumulated equity or raise more equity to continue operating, but in municipalities, deficits have to be funded from somewhere and that is one of the purposes of the Contingency Reserve. At one point the Contingency Reserve reached a balance of less than $1 million dollars despite the County having annual budgeted (levy) expenditures eclipsing $125+ million. This results in less than a 1% float, which is insufficient in comparison to the County's annual operating needs. Relatively low levels of uncommitted funds meant that the County was facing a liquidity challenge. Staff have addressed this challenge by setting target balances and increasing the reserve balance to target levels while also integrating more conservatism into budgets to reduce the likelihood of deficits needing to be funded. These practices demonstrate a thorough understanding of municipal needs, and reduce risk for the organization, which in turn will improve financial outlook and bring stability to the organization.

2. Tax Increases and Rate Increases

Table 2a includes historical levy and rate increases compared to Consumer Price Index (CPI) increases and the Non-Residential Building Construction Price Index (NRBCPI)

Table 2a: CPI VS Levy/Rate Increases (Rounded)

Year	CPI	NRBCPI	Net Levy Increase	Net Rate Increase
2015	1.9%	1.8%	4.8%	0%
2016	2.2%	2.9%	4.6%	-9.6%
2017	2.0%	3.1%	3.6%	7.5%
2018	2.6%	4.6%	5.8%	2.2%
2019	1.9%	3.8%	6.7%	0%
2020	0.3%	2.6%	12.2%	16.8%
2021	4.7%	9.6%	6.1%	6.1%
2022	6.0%	16.2%	3.2%	7.7%
2023	4.2%	8.2%	8.0%	11.5%
2024	1.8%	4.2%	7.7%	11.2%
Avg. Annual	**2.8%**	**5.7%**	**6.3%**	**5.3%**

**The net impact of the net rate changes from 2015 to 2019 was a 0% change in rates*

It is important to consider that the CPI typically focuses on factors such as shelter, food, and transportation while the NRBCPI is a measure of the changes in what clients would pay contractors to build a non-residential building, including labour and construction materials. Recognizing that both potential comparator indices have some weaknesses in terms of what can be directly compared to municipal operations, there are a few municipalities who have developed a municipal price index (MPI) to more closely reflect costs associated with municipal needs. However, an MPI is difficult to administer and maintain, can be fraught with subjective decisions on what is an appropriate basket of goods and does not take into account the year-to-year changes which can occur in cost categories making a consistent basket of goods challenging. It is also difficult to compare MPI results from one municipality to the next.

Additionally, it is essential to understand that the information contained in Table 2 does not take into consideration the effects of growth. This means that the numbers presented reflect the net levy increase and do not necessarily reflect the increase to the average residential property. It is also critical to review Norfolk's taxation against the trends in comparable municipalities. Importantly, according to the 2016 BMA Study (Norfolk did not participate in 2015) Norfolk had the lowest property taxes for a single detached bungalow of all participating municipalities with a population between 30,000 and 99,999 people (26 municipalities). According to the 2024 BMA study Norfolk had the 7th lowest property taxes for a single detached bungalow of all participating municipalities with a population between 30,000 and 99,999 people (30 municipalities). When we look at location comparisons instead of population comparisons Norfolk is part of the Southwest group and the following is noted:

Table 2b: Property Taxes for Detached Bungalows in Southwest Ontario

	2016 BMA Study	2024 BMA Study
# of Municipalities in Southwest	40	23
Norfolk County	$2,170	$3,602
Southwest Average	$2,918	$3,587
Southwest Median	$3,021	$3,602

While levy increases have been significant in some years, Norfolk is still at or below the average when compared to both our population comparator group as well as our location comparator group. This demonstrates the changing nature and extreme pressure on municipal budgets over time and direct comparisons to indices like CPI are not necessarily a reflection of those pressures.

Finally, it is necessary to consider that the budgets presented most recently have included recommended 4% increases to infrastructure funding to begin addressing the forecasted funding shortfall between the County's asset renewal needs and current reserve contributions. There will be continued pressures related to infrastructure funding for years to come as Norfolk County, as well as all other municipalities across Ontario, continue to experience maturity in asset management practices.

In terms of overall financial sustainability in the last ten years, Norfolk began the period with taxation that was very low in comparison to other municipalities in our population and category comparators. The first several years of this time period also saw water and wastewater rates from 2015 to 2019 essentially at a zero percent increase. With depleted reserves, significant capital needs and increasing debt trajectory it was necessary for Norfolk to take a strong stance on budget improvements and recommend increases to reserve transfers that would help to address the backlog of asset replacements required. While CPI and NRBCPI are beneficial to review they are not necessarily direct comparisons for municipal spending and Norfolk has performed well financially to begin addressing infrastructure needs while maintaining average or median standing among comparator municipalities in terms of property taxes charged.

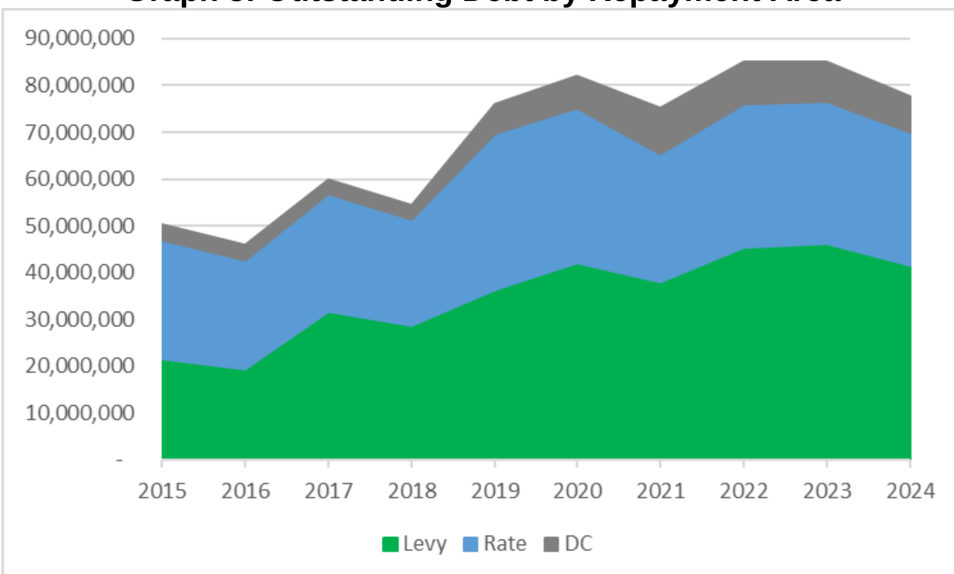
3. Debt

Total outstanding debt as at the start and end of the last 10 years, along with new issuances that occurred during each year (increasing outstanding debt), and principal repayments made during each year (decreasing outstanding debt) are provided in the table below. A graph follows breaking down the closing balances by how they are being repaid (taxes, user rates, or development charges).

Table 3: Outstanding Debt

Year	Opening Debt	Debt Issuances	Debt Repayments	Closing Debt
2015	$40,026,424	$14,159,000	($3,982,569)	$50,202,856
2016	50,202,856	-	(4,388,306)	45,814,550
2017	45,814,550	19,077,000	(4,972,135)	59,919,415
2018	59,919,415	-	(5,580,497)	54,338,917
2019	54,338,917	27,124,500	(5,477,966)	75,985,452
2020	75,985,452	21,302,000	(15,319,544)	81,967,908
2021	81,967,908	-	(6,818,927)	75,148,980
2022	75,148,980	16,439,500	(6,516,633)	85,071,847
2023	85,071,847	7,400,280	(7,425,338)	85,046,790
2024	85,046,790	-	(7,446,937)	77,599,853

Graph 3: Outstanding Debt by Repayment Area



In reviewing Table 3 and Graph 3, it is clear that the amount of outstanding debt has continually increased over time. The peaks and valleys noted in the graph show that debt has been issued approximately every other year, which reflects the County's practice of issuing debt only when projects are completed and allowing some flexibility in timing to take advantage of administrative efficiencies. Completing a debt issuance is a heavily administrative process as there are a number of steps that follow strict timelines which must be completed in sequence. Historically speaking, the proportion of levy funded debt has increased slightly over the last decade and this has been offset by a slightly lower proportion of rate funded debt.

Although this report focuses on historical patterns, it may be relevant to understand that approved but not yet issued debt and forecasted debt over the next ten years may follow a different trend. For example, in addition to what has been shown in the table above, Norfolk has approved slightly more than $130 million in debt which has not yet been issued, and approximately 75% of that is to be borne by the County's ratepayers.

The currently approved capital plan also includes approximately $280 million in debt to be issued between 2026 and 2034. These forecasts can and will change as projects and priorities are in flux over time and alternative funding sources may be found, but suffice it to say that the County's debt trajectory is very concerning.

There are two key contributing factors for how debt has contributed to Norfolk's financial challenges:

1. Debt has been issued for asset renewal projects, which is not a municipal financial best practice. Ideally an asset is replaced and then the residents benefitting from the use of that asset are taxed over the useful life of the asset to raise reserve contributions that eventually replace the asset. However in Norfolk's case (and in many others), the reserve contributions were not sufficient to replace the asset, so with limited financial mechanisms to increase revenue, debt was issued to replace existing assets. Using debt to replace assets contributes to setting levels of service that cannot be self-sustained over the long-term. What has occurred as a result is debt payments being made for these assets at the same reserve contributions are being raised to replace them at the end of their service life, causing increased taxes or rates.
2. Planned capital spending levels increased dramatically in recent years and no long-term asset management planning was undertaken in the past. As noted in Table 4a below, the total 10-year forecast for the capital plan increased from $423 million to more than $1 billion in a 10-year timeframe. Given that reserve contributions were based on capital spending, it would have been impossible for increases in reserve contributions to keep pace with the dramatic increases in forecasted spending. While the County can utilize debt mitigation measures like extending the life of assets, applying for grants, lobbying for external funding, repurposing funding from under-budget projects, utilizing investment and/or surplus income, and constantly re-evaluating funding options, these measures can only accomplish so much.

There are times when utilizing debt as a funding mechanism can be a useful tool, providing flexible options for municipalities when considering new assets or expanded services levels where assets are not being replaced or where favourable interest rates can be achieved. However, municipalities cannot budget deficits and cannot obtain debt for operating costs, so with limited capability to increase revenues and significant asset replacement needs it is best to use debt only when strategically appropriate and to avoid the added cost strain on operating budgets when possible.

4. Capital Budgets

The Approved Capital Budgets and Final 10-Year Capital Plan totals from the last 10 years are provided below, along with the annual change in 10-Year Capital Plan.

Table 4a: Change in Capital Plans

Year	Total Capital Budget (1-Year)	Levy Capital Plan (10-Year)	Rate Capital Plan (10-Year)	Total Capital Plan (10-Year)	% Change in Capital Plan
2015	$50,342,000	$313,625,000	$110,357,000	$423,982,000	6%
2016	32,239,000	259,722,000	45,232,000	304,954,000	-28%
2017	28,118,000	289,210,000	42,159,000	331,369,000	9%
2018	38,711,000	322,532,000	77,596,000	400,128,000	21%
2019	52,612,000	376,656,000	88,922,000	465,578,000	16%
2020	119,664,000	400,393,000	141,365,000	541,758,000	16%
2021	48,791,000	397,339,000	182,702,000	580,041,000	7%
2022	43,906,000	464,293,000	206,912,000	671,205,000	16%
2023	61,083,000	495,164,000	342,560,000	837,724,000	25%
2024	167,516,000	609,124,000	413,359,000	1,022,483,000	22%

Graph 4a: Change in Capital Plan

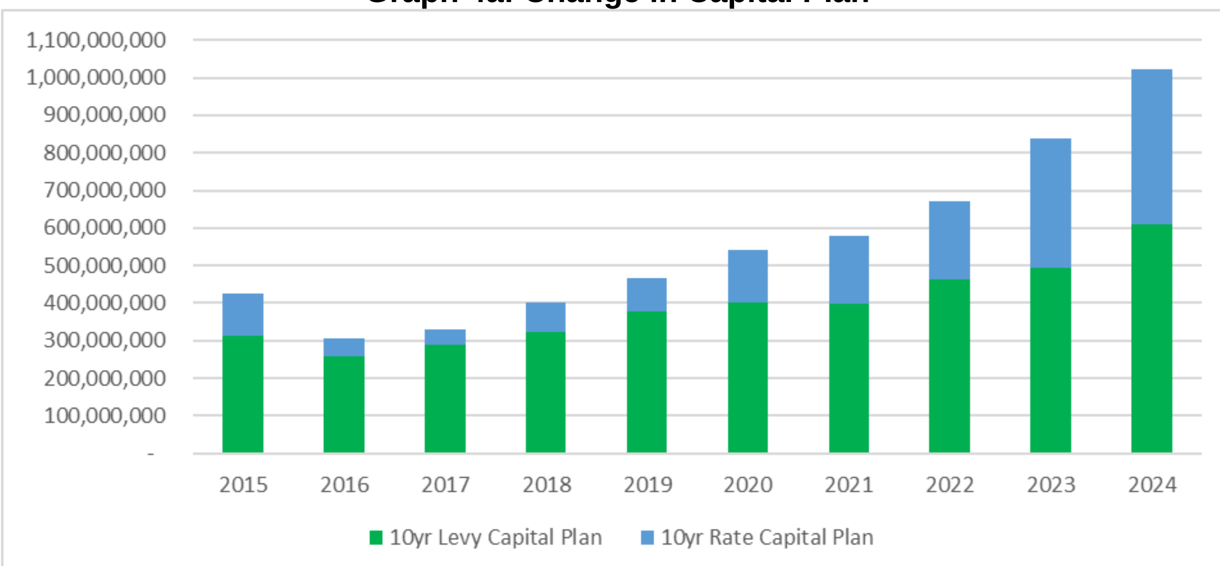


Table 4a and Graph 4a demonstrate the intense growth in planned capital expenditures that has occurred over the last decade. This is partly a product of inflation as construction prices have gone up far more quickly than other types of spending. More than that though, the County now has a better handle on asset renewal needs, budgeting practices have become more sophisticated, and infrastructure changes are being contemplated to meet future challenges. Specifically;

- As asset management becomes more ingrained in municipal operations, managers across the County are becoming more aware of their asset needs and of the importance of budgeting for the renewal of those assets. The Province has legislated asset management practices, and all municipalities in Ontario must have an approved financial strategy tied to their asset management plans this year. Norfolk is not alone in realizing that capital forecasts and therefore reserve contributions were too low in the past. As asset management continues to grow and service levels evolve there may be more growing pains from a financial perspective.

- The finance team has continued to review budgeting practices and to work with departments across the organization on how budgets are built, what data is available to substantiate estimates, how contingencies are being factored in, and considering if financing sources have been optimized. In the past, departments were responsible for their own capital plan input and the finance team reviewed submissions after they were input. Now, the finance team takes more ownership over budget development and works alongside Managers and Directors to develop the budget together. This leads to more financial review and a deeper understanding of the rationale behind projects.
- The manner in which infrastructure is utilized to deliver services is being reviewed and reconsidered, for example, the IUWS program may change how water is provided to Norfolk residents in a dramatic way, which comes with a significant budgetary commitment. This change is responsible for a large increase in rate-related forecast costs.
- It is also important to consider service levels, and potentially reducing the number of assets carried by Norfolk County in order to subsequently reduce associated operating costs and eventual replacement needs.

The approved funding sources of the Final 10-Year Capital Plan from the last 10 years are provided below.

Table 4b: Change in Budgeted Funding Sources

Year	Debt		Reserves or DCs		Other (Grants, Donations, etc.)	
	$	%	$	%	$	%
2015	$63,500,000	15%	$339,830,000	80%	$20,652,000	5%
2016	28,165,000	9%	251,545,200	83%	25,243,800	8%
2017	50,575,000	15%	244,116,200	74%	36,677,800	11%
2018	90,654,000	23%	269,431,000	67%	40,043,000	10%
2019	92,682,000	20%	298,572,000	64%	74,324,000	16%
2020	146,457,700	27%	328,174,000	61%	67,126,300	12%
2021	202,288,100	35%	332,254,000	57%	45,498,900	8%
2022	249,424,000	37%	367,636,000	55%	54,145,000	8%
2023	381,767,000	46%	401,751,700	48%	54,205,300	6%
2024	330,821,000	32%	507,317,000	50%	184,345,000	18%

Graph 4b: Change in Budgeted Funding Sources (2015 to 2024)

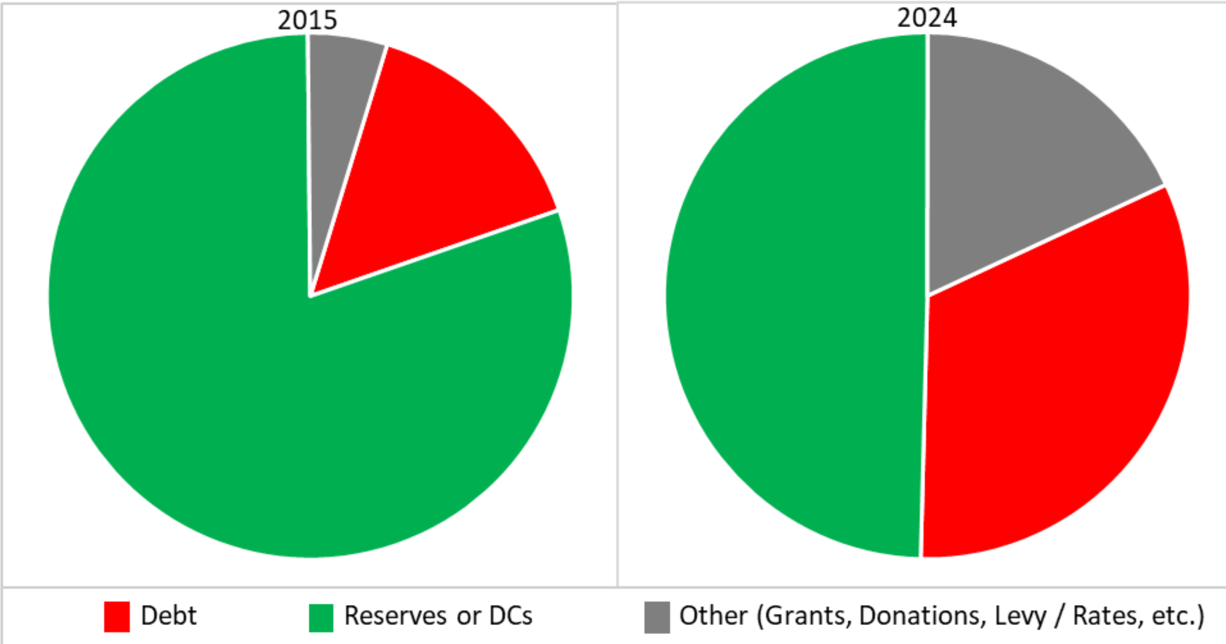


Table 4b and Graph 4b both demonstrate the same trend. The 2015-2024 Capital Plan's funding contained more reserves or development charges funding (80%) and less debt (15%). Fast forwarding, the 2024-2033 Capital Plan now forecasts less reserves or development charges funding (50%) and more debt (32%) than previously. So, while reserve transfers have increased over this time period, which is a great step in the right direction, this trend shows that the increases have not kept pace with the growth in expenditures in the capital plan. While it also appears that grant funds have increased from 5% to 18% it is important to note that much of this funding is unconfirmed and tied to the Inter-Urban Water Supply program. There is fluctuation across the categories each year and worth noting that DC's also play a part, albeit relatively minor, but overall, Norfolk is funding a greater percentage of its 10-Year capital forecast debt and less reserves in 2024 than it did in 2015. This is a trend that should be monitored, specifically as the County moves forward with improvement and further maturity in asset management planning and the proliferation of the asset management function throughout the County's senior leadership team. As service levels are adopted this could lead to further increasing capital costs, and reserve contributions will need to continue to increase over time in order to close the funding shortfall and shift funding sources for asset renewal projects toward more reliance on reserves in future.

5a. Capital Variances

Over the last 10 years, approved capital budgets (the first year of the 10-year plans), have totaled approximately $643 million (sum of first column in Table 4a). During that period, capital expenditures have totaled $430 million. This generally suggests projects are being completed under budget, however a couple factors should also be considered;

- The timing of cash flows often does not match the timing of budget approval. For example, while Council approves construction of a major treatment plant project in a single year, it could take 3+ years for all expenditures to materialize.
- Certain items in the capital budget, such as studies, cannot be capitalized, leading to items counted in the capital budget but reported as operating expenditures.
- Projects which were cancelled and re-budgeted due to revised bid expectations or scope changes would be double counted in the budget but not the expenditures.
- There are many projects approved in the last few years which have not reached completion yet.

Specifically, to the latter reason, the discrepancy could point to a trend of proposing more capital work than what is feasible. If more projects are being approved each year than project managers can finish, a significant amount of capital budget would remain outstanding without decreasing over time. This seems to be the case based on Table 5a, which examines the amount of capital projects reported as open and active at December 31st of each of the last eight years' Capital Status Reports.

Table 5a: Amount of Outstanding Capital Projects

Dec 31 CSR of:	# of Projects	Budget	Expenditures to Date	Remaining Expenditures
2017	111	$111.9M	$29.8M	$82.1M
2018	172	97.9M	24.5M	73.4M
2019	135	111.2M	46.7M	64.5M
2020	175	193.3M	62.8M	130.5M
2021	227	216.4M	92.0M	124.4M
2022	206	167.9M	51.1M	116.8M
2023*	432	309.0M	71.8M	237.2M
2024*	499	348.7M	98.6M	250.1M
Average	**243**	**194.5M**		**134.9M**

**Full capital plans approved prior to Dec 31. Previously portions of the capital plans funded by the levy and rate requirements would not be approved until January, meaning their budgets would not appear on the Dec 31 capital status reports.*
***CSRs exclude Drainage spending*

Based on the balance of capital project budgets, the County has carried an average of $194.5 million in outstanding capital projects at any given time. This number has mostly followed an increasing trend over the period which could indicate a backlog of projects has been ongoing, or more and more projects are being approved each year.

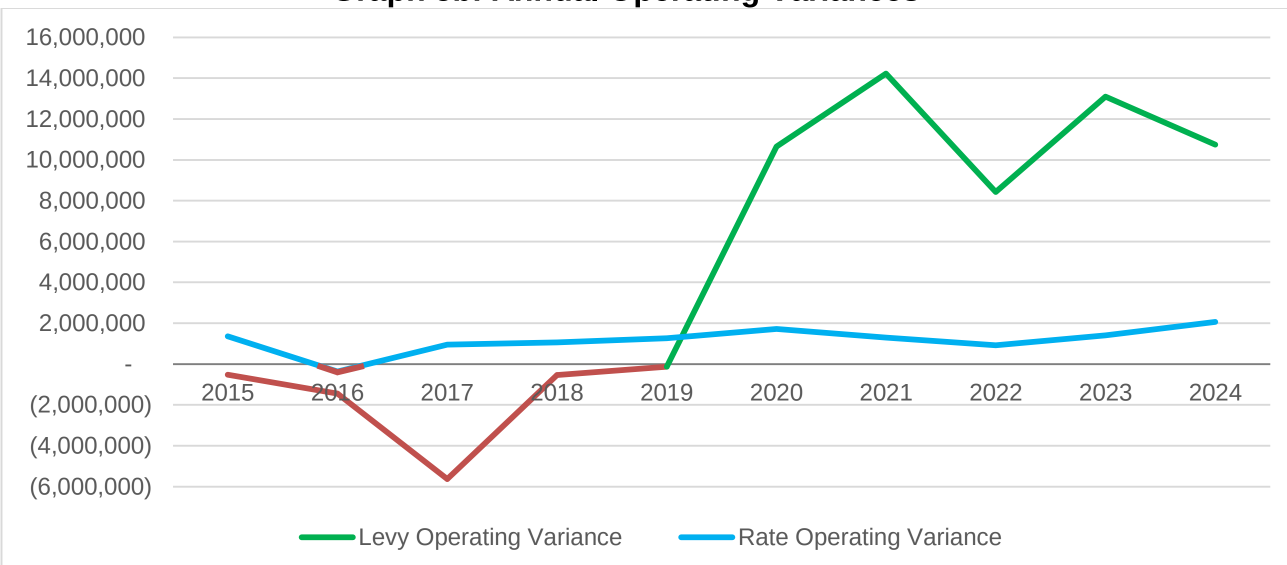
5b. Operating Variances

Operational results can fluctuate significantly on a year-over-year basis due to a variety of internal and external factors, as well as the degree of conservatism or risk incorporated into the annual budget.

For rate-supported operations, the average annual operating variance over the past 10 years has been approximately $1.2 million. Notably, only one year–2016–ended with a deficit.

Levy-supported operations have experienced more pronounced variability over the same period, with an average annual variance of approximately $4.9 million. As illustrated in Graph 5b below, the first five years of the period were characterized by operating deficits, while the most recent five years have shown consistent surpluses.

Graph 5b: Annual Operating Variances



Just like Norfolk's operations, understanding the evolution of the financial picture at the County is also a complicated puzzle to put together. Several years of deficits prompted staff to take a hard look at budget practices and several process changes and improvements were made including:

- Review of revenue estimates. In previous years there were a number of budgets including estimated revenue targets that were not met consistently, which led to under-levying and deficits. These items and basis for revenue estimates were reviewed and corrected.
- Under estimating expenses leading to deficits and ineffective levy amounts. In certain areas where costs are difficult to control and unpredictable, past practice included establishing estimates that introduced some risk into the budget and this risk level often led to deficits. After staff review, new estimation methods were employed taking a more conservative approach, ensuring that annual costs could be covered adequately.
- Mid-year budget amendments used to be a common practice, if budgets were insufficient staff would come forward with a report seeking an amendment. The problem is that municipal operating budgets do not contain flexibility to accommodate amendments in this manner, so without alternate funding these amendments would contribute to deficits. It is now staff practice to recommend

that any new or mid-year initiatives must have identified funding, offsetting savings, or wait until the following year's budget process begins.

- It was also a regular occurrence that the County failed to adequately consider the future expenditures that were tied to a current decision, for example, the future levy requirements for an NBI or for a new initiative that was started mid-year. The current practice is to ensure that the full impact of decisions are included in the budget immediately, for example, NBI's are presented at their full annual value.
- Using one-time funding sources for ongoing costs also occurred on a few occasions. This makes upfront levy costs appear lower, however does not take into account what the increase will be when the funding is removed but the costs continue. Staff have reviewed and continue to review any areas where ongoing costs have non-levy funding sources to ensure that the funding is appropriate according to the nature and timing anticipated for the related expenditure.
- It was also a past practice for the County to contract out the creation of annual audited financial statements. This led to a lack of knowledge internally on how accounting requirements that were not operational would impact the year end operating results, but were not included in the annual budgeting exercise. The County re-organized resources within Finance and financial statements are now completed in-house, ensuring that staff have a thorough understanding of all the impacts on annual results.

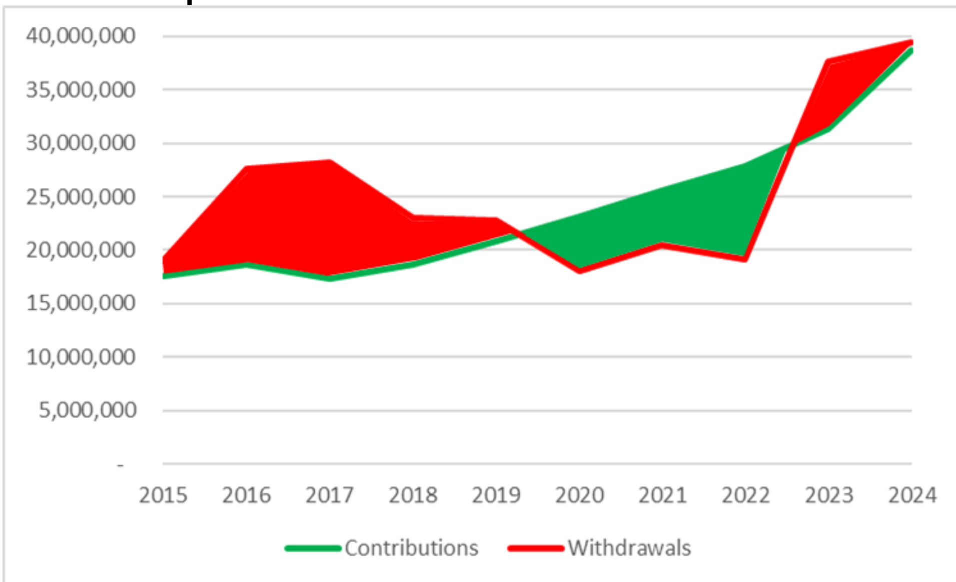
6. Reserve Contributions

The annual contributions made to reserves from 2015 to 2024 from the levy and rate budgets have been listed in Table 6 below, as well as the total withdrawals from all reserves in the right. Levy contributions have been further broken down into capital and operating contributions. The information is further presented in Graph 6, with years where contributions exceeded withdrawals represented in green, and years where contributions fell short of withdrawals represented in red.

Table 6: Annual Reserve Contributions

Year	Rate	Levy Capital	Levy Operating	Total		Withdrawals
2015	$5,200,000	$11,873,500	$482,000	$17,555,500		($19,101,713)
2016	7,177,200	11,343,400	180,000	18,700,600		(27,632,927)
2017	5,867,400	11,325,400	190,000	17,382,800		(28,248,791)
2018	6,238,700	12,305,380	90,000	18,634,080		(22,998,949)
2019	6,438,700	13,312,800	1,080,000	20,831,500		(22,961,716)
2020	6,633,800	14,820,400	1,727,600	23,181,800		(18,148,729)
2021	7,035,800	17,441,100	1,106,400	25,583,300		(20,508,027)
2022	6,370,300	20,206,700	1,225,000	27,802,000		(19,200,155)
2023	7,022,800	23,227,500	1,096,500	31,346,800		(37,631,945)
2024	6,424,000	30,116,600	2,209,000	38,749,800		(39,436,080)

Graph 6: Annual Contributions vs Withdrawals



Total contributions over the 10 years were approximately $239 million while total withdrawals were approximately $256 million. While contributions have steadily increased over the last few years, which is very positive, the County is still in a situation where more was being withdrawn than added in most years. This leads us to the question, if more is being withdrawn, how are balances increasing? The above chart does not take into account other inflows such as unbudgeted contributions, investment income, operating surpluses, unused debt payment budget allocations, and timing of construction cash flows etc. The County has been fortunate in recent years to have experienced a number of years of operating surpluses and a period of dramatic interest rate increases leading to increased investment income, and these factors have directly impacted the trend in the last few years. Overall, while the comparison between budgeted contributions and actual withdrawals may not be a perfect comparison, it is still a strong indicator of whether progress is being made if there were an absence of the unsustainable/unanticipated inflows.

It is also important to note that, as municipalities are not able to operate at a deficit, the County was required to utilize its Contingency Reserve to fund operating deficits from 2015 to 2019, depleting this reserve to less than $1 million. This meant that the County had no available funding sources for any unforeseen circumstances mid-year, or to fund any future deficits. Since that time, the Finance team has established target balances for the contingency reserve and monitors this balance regularly.

The past few Levy Supported Operating Budgets presented to Council have all recommended a 4% increase in the net levy just to make up for infrastructure funding needs, as noted above. These are difficult decisions, due to the impact on tax payers and Council is to be commended for approving staff’s recommendations to increase reserve contributions. As the County’s asset management planning process continues to refine and mature the County’s funding shortfall will be quantified in future reports and the County will be in a much better position than it otherwise would have been because of these important contributions.

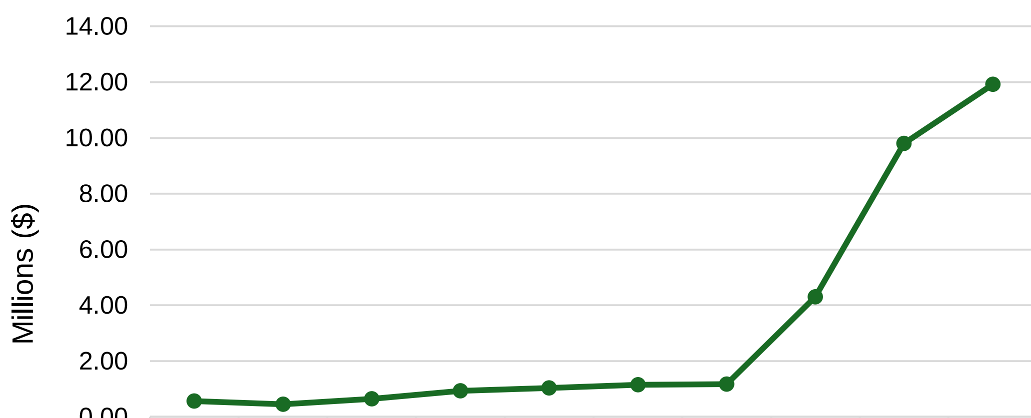
Lastly, and leading into the next section of this report, it is valuable to note that had reserve transfers not been increased in such a meaningful way, Norfolk would not have had significant funds to invest in the County’s short-term portfolio. With significant interest rate increases in recent years Norfolk was able to earn greater than expected investment income and further build reserve balances by attributing investment income to prioritized reserves, compounding the value of contributions and mitigating future tax increases. More than $60 million has been contributed to reserves in the last 5 years in unanticipated contributions which includes surplus funds from both Levy and Rate Supported Operating Budgets including interest income.

7a. Short- and Medium-Term Investments

This portion of the County’s investment portfolio is made up of cash available in excess of current cash flow needs. Finance staff maintain a cash flow forecast on a month-to-month basis over a rolling 5-year term. Excess cash is available for many reasons including tax and rate cash inflows compared to timing of outflows, grants or development charge contributions received but not yet utilized, and savings in reserves committed for current or future capital projects.

The available funds are invested through various means, including guaranteed investment certificates (or GICs), high interest savings accounts (HISAs), notes and bonds. Funds not invested generate interest in the County’s bank account.

Graph 7a: Short-/Medium- Term Investment Income (in Millions)



	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Investment Income	0.57	0.46	0.64	0.93	1.03	1.15	1.18	4.30	9.80	11.91

The green line on Graph 7a, shows the investment income generated annually. Since 2015 there has been a dramatic increase in the level of investment income which was less than $1 million in 2015 to $11 million in 2024. The improvement in investment income is due to a number of factors, but most notably improvement in reserve and reserve fund balances and changes in the rate of return (increased substantially between 2022 and 2024 comparatively from the rest of the period). Interest rate earnings on the short-term portfolio are closely tied to the Bank of Canada Policy Rate.

The beginning balance of short and medium term investments and cash in 2015 was $29.7 million, which has increased by over $227.5 million (unaudited) at the end of 2024.

Rates for short-term investments were at period high in 2023/2024, where it was common for 1 or 2-year GICs to earn between 4% and 6%, whereas during many earlier years rates for the same investment type were below 2%. The recent incredible level of return provided by the short and medium term investments is not anticipated to continue for a long period, as the County has many large value projects which are currently or will soon be underway. It is projected that the forecasted capital expenditures will utilize a significant portion of the available cash flow, resulting in fewer funds being available to invest.

Additionally, though rates quoted during 2023/2024 were favourable, due to the short-term nature of the cash flow, staff were unable to lock in these rates over longer term investment options. Subsequently, the Bank of Canada has lowered its Policy Rate and as a result, funds being invested in this portfolio will earn lower returns in future.

Over the last 5 years, staff have placed more emphasis on cash management and focused on improvements to cash flow forecasting, which also contributed to positive returns. These funds have been utilized for a number of purposes, which are shown in Table 7a below.

Table 7a: Uses of Short/Medium Term Investment Income from 2015 to 2024

Investment Income Use	Value ($ Millions)
Lowered Tax Budget	$5.7M
Contributions to Operating Results	3.4M
Contributions to Reserves	22.9M
Short/Medium Term Investment Income – 2015 to 2024	**32.0M**

Between 2015 and 2024 a total of $32.0 million was generated from short and medium term investments.

Table 7a describes the uses of funds over three categories, these categories are further described in the following list:

- Lowered tax budget – funds in this category represent amounts budgeted as revenue within the levy supported operating budget. As a result, property taxes required to be raised were lower than if no investment income was budgeted.
- Contributions to operating results – funds in this category represent amounts above or below the budgeted allocation, which were included in the annual operating results for the year. This figure is net positive, meaning over the 10-year period operating results were improved by a net amount of $3.4 million.

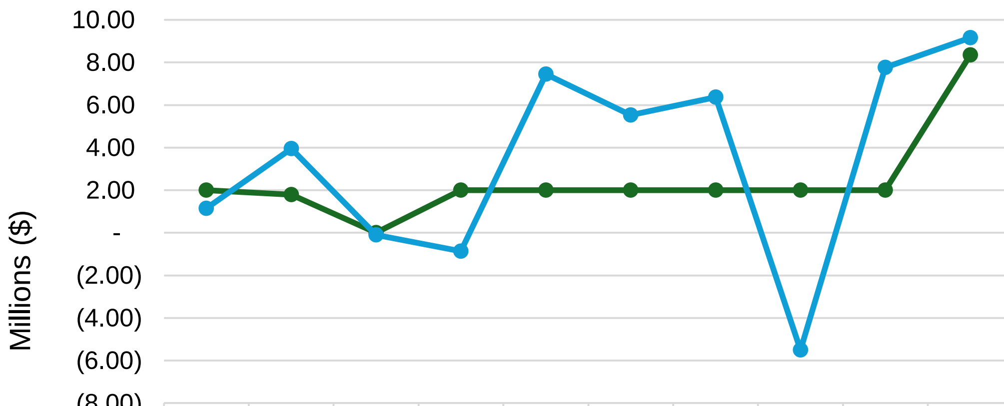
As the positive operating variances were largely contributed within 2022 and 2023, and a large portion of the operating surpluses in those years were used to mitigate debt issuances, it can be assumed that these funds were utilized for that purpose as well.

- Contributions to reserves – Obligatory reserve funds (such as development charges, CCBF, Provincial Gas Tax, etc.) are required to generate interest which means that a portion of the investment income is contributed to these reserve funds. Interest earned is typically at an amount close to the bank interest rate. In 2023 and 2024 additional contributions were also made to capital reserves to stabilize balances and mitigate future debt requirements based on the Treasurer’s discretion, as enabled within the Reserve and Reserve Fund Policy.

7b. Long-Term Investments (Legacy Fund)

This portion of the County’s investment portfolio is made up of from the proceeds of the sale of Norfolk Power. The available funds are invested through various means including fixed income securities, principally protected notes, and equity funds.

Graph 7b: Legacy Fund Change in Fund Value vs Withdrawals (in Millions)



	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Annual Withdrawls	2.00	1.80	-	2.00	2.00	2.00	2.00	2.00	2.00	8.35
Change Fund in Value	1.14	3.95	(0.09)	(0.86)	7.45	5.53	6.36	(5.50)	7.77	9.16

The blue line on Graph 7b, change in fund value, represents the annual returns of the Legacy Fund in the year in millions. The change in fund value is calculated by adding together the annual withdrawal with the year-over-year change in the market value of the fund. Over the course of the timeframe being considered, the fund value increased from $68.9 million to $79.7 million.

Due to the significant investment in equities, the returns varied significantly from year-to-year. However, over the long-term, positive results were experienced. Between 2015 and 2024, the Legacy Fund produced an increase in total value of $34.9 million. This represents an average annual return of 5.2% on the initial principal value. Note that the return since the inception of the fund is 4.8%. The uses of the investment income have been presented in Table 7b below.

Table 7b: Uses of Legacy Fund Investment Income from 2015 to 2024

Investment Income Use	**Value ($ Millions)**
Withdrawals for the Roadway Construction Reserve	$17.8M
Special Withdrawal – New/Incremental Capital Reserve	6.4M
Remains in Fund – Capital Reinvested	6.2M
Remains in Fund – Norfolk General Hospital Commitment	4.5M
Total Legacy Fund Investment Income – 2015 to 2024	**34.9M**

Table 7b supplies total dollar amounts utilized from Legacy Fund earnings between 2015 and 2024. A further breakdown of these categories is provided below:

- Withdrawals for the Roadway Construction Reserve have supported and continue to support significant capital needs including ongoing projects like the Port Royal Bridge Rehabilitation, the Reconstruction of Grace Street or Blue Line Road, along with parking lot and storm water pond rehabilitations. If the Legacy Fund investment income was not used to support the Roadway Construction Reserve, capital projects like those listed may have gone unaddressed allowing assets to deteriorate into a worse condition, or additional debt would have been issued.
- Special Withdrawal – New/Incremental Capital Reserve: Based on capital reinvestments, and favourable investment returns, a series of special capital withdrawals were completed in 2024 totaling $6.4 million. These funds are planned to be allocated within the presentation of the 2024 financial results, and will be utilized to support County needs, resulting in lower debenture issuances and lower tax levy increases.
- Remains in Fund - Capital Reinvested: These funds are maintained in the portfolio to provide for increased returns, allowing for additional special withdrawals in future or provide for withdrawals in years of unfavourable performance.
- Remains in Fund - Norfolk General Hospital Commitment: Though these funds currently remain within the Legacy Fund, it is estimated that they will be withdrawn in 2025. These funds are anticipated to have significant impacts in supporting NGH to provide improved services to the residents of the County. If these community investments could not be provided by the Legacy Fund returns, Levy increases would have been required or Norfolk may not have been able to offer this much needed capital contribution.

8. Community Investment

As a municipality, effectively all the County's spending and its investments are intended to benefit the community. Acknowledging that, there are a few initiatives that have existed over the past 10 years that were specifically designed to redeploy funds into the community. A non-exhaustive list of these programs are summarized below:

- Norfolk General Hospital Pledge ($5.0 million) – Legacy Fund earnings of $500,000 over each of the last nine years (with a final $500,000 coming in 2025) have been leveraged to raise the County's commitment towards the Hospital's investment campaign for daily surgery and obstetrics/maternity facilities.

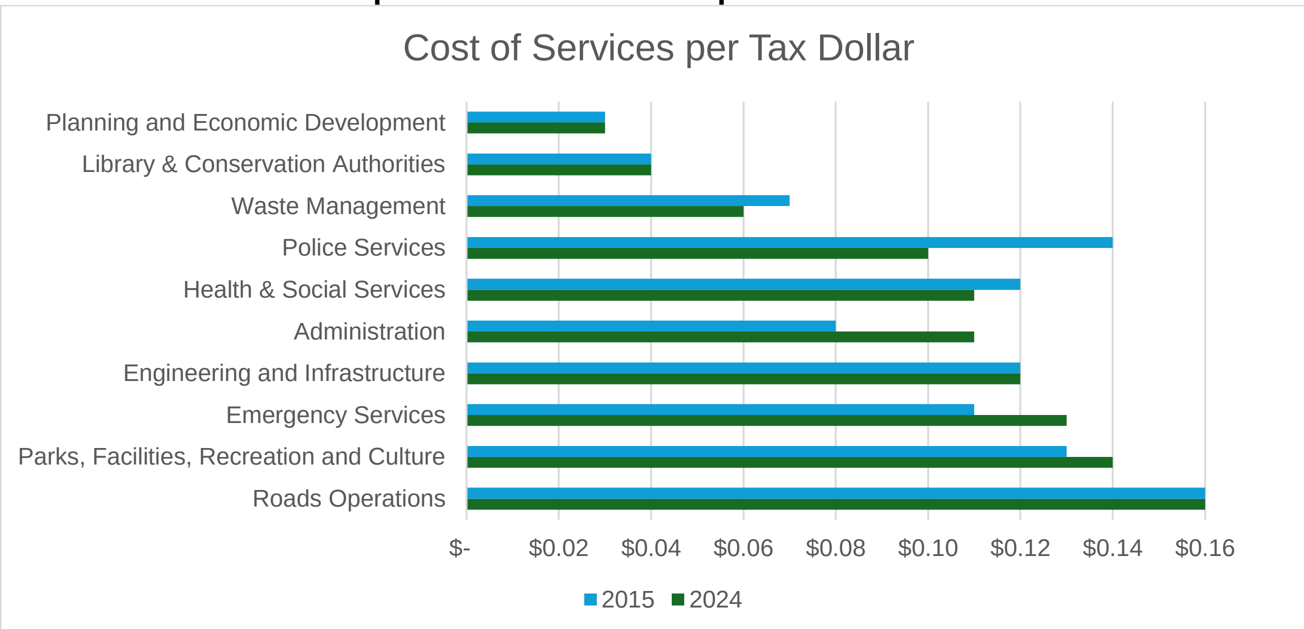
- Community Improvement Plan (CIP) – the County operates a CIP which offers grants to local businesses to develop or enhance their properties. The value of this program is $139,500 annually.
- Community Grant Program – the County previously offered an annual grant program consisting of $34,000/year (previous years had been higher value) open to non-profit organizations looking to get new initiatives off the ground that the County itself does not provide. Going forward these funds will be specifically allocated to non-profit groups under the County's CIP program. In the past 10 years more than $1 million has been used by community groups to help support community initiatives.
- High School Scholarships – the County offers a $1,000 scholarship to one graduate of each of the County's five high schools annually.
- AMPLIFY Norfolk – Following the COVID-19 pandemic, the County invested in local organizations to support community events/festivals. Through this program $215,000 was provided to event organizers.

The County has also launched a Community Lead Initiatives program in order to streamline contributions to community group projects ensuring that initiatives are treated in a transparent and equitable manner and that all necessary approvals are in place to ensure that projects are executed smoothly. Many community groups have reached out and are taking advantage of this program.

9. Analysis of Spending Habits and Notable Trends

The graph below shows the proportion of each tax dollar that is dedicated to particular services areas comparing 2015 (blue line) with 2024 (green line). This graph will demonstrate, at a high level, any changes in spending habits over time. It is important to note that some manual adjustments were made in order to compare service areas which may be grouped differently today than they were in 2015.

Graph 9: Cost of Services per Tax Dollar



The following points present some of the notable cost drivers for the change from 2015 to 2024:

- Increasing Reserve Transfers – in this graph reserve and reserve fund transfers intended to fund capital works are embedded in the spending attributed to each department. So increases in Parks, Facilities, Recreation, and Culture and Emergency Services are largely driven by increased reserve transfers over the past few years to fund asset replacements. This increase is also reflected in Table 6 above which shows that budgeted reserve transfers to levy capital reserves have increased from $11.8M in 2015 to $30.1M in 2024.
- Police Services – The Police Services budget appears to reflect a noticeable change from 2015 to 2024. The Police Services budget was only marginally higher across this time period, but the rest of the County's budget increased more, so while spending on police services did change slightly, it did not increase at the same rate as the rest of the County's operating expenses. These numbers do not reflect the increase experienced for 2025 or the current billing model review that is underway.
- Health and Social Services – the slight change from 2015 to 2024 reflects a decrease based on Provincially mandated programming and associated costs. Particularly, efforts have been made to minimize the levy share of these services which reflects the fact that these costs have grown at a slower rate than other departments.
- Administration – this category has changed more significantly than some of the others which is primarily driven by a couple factors.
    - First, the re-organization of Service Norfolk, in 2015 these FTEs were embedded in other departments and after the creation of Service Norfolk

these positions have been moved into Administration making it appear as if spending in this category has increased at a faster rate than the rest of the corporation, which is not necessarily the case.
    - Second, based on how categories were set up previously the Administration category contains the County's fleet operations. Fleet has also seen an increase in reserve transfers from 2015 to 2024 which is contributing to the change in this category as well.
- Roads Operations – it is important to note that roads operations spending has maintained a consistent portion of each tax dollar, which indicates that spending on roads has increased proportionately with the rest of the County's tax levy.

Salaries and Benefits

Salaries and Benefits are the main driver of operating costs for Norfolk County, just like they are for all municipalities and service based organizations, therefore an analysis of costs would not be complete without considering compensation costs. What is different for a municipality, is that the services the County provides are often legislated, e.g., water and wastewater services, garbage collection, tax billing, planning, building, police services, etc. While the County may have some control over how services are provided, there is less control over which services to provide, which impacts staffing levels.

Table 9a below presents the total number of FTEs (full-time equivalent) positions, total salaries, total benefits costs, the salary per FTE, the percentage increase per FTE and a metric from Statistics Canada which shows the median increase in hourly wage for full-time employees in Ontario in all industries.

Before reviewing the table it is important to note that this table excludes the former Health and Social Services (HSS) Division. Many of the positions in HSS are ministry directed and ministry funded. There were also impacts on staffing levels as a result of the COVID-19 pandemic throughout this time period that would cause changes in the numbers that are not indicative of Norfolk's financial history.

Table 9a: Ongoing Budgeted Salary and Benefit Costs (excl. HSS)

Year	FTEs	Salaries*	Benefits	Salary/FTE	% Increase per FTE	Stats Canada Increase**
2015	493	31,704,000	8,770,000	64,293		
2016	495	32,633,000	8,972,000	65,893	2.5%	2.0%
2017	498	33,740,000	9,086,000	67,707	2.8%	0.0%
2018	510	35,254,000	9,529,000	69,096	2.1%	2.6%
2019	516	36,312,000	9,731,000	70,335	1.8%	3.1%
2020	517	37,556,000	9,748,000	72,611	3.2%	6.1%
2021	508	37,398,000	9,942,000	73,650	1.4%	3.4%
2022	511	38,753,000	10,530,000	75,800	2.9%	3.4%
2023	523	41,348,000	11,445,000	79,129	4.4%	5.8%
2024	531	43,100,000	12,257,000	81,195	2.6%	5.0%

2015-2024 Change	**7.6%**	**35.9%**	**39.8%**	**26.3%**		**36.0%**

*Salaries includes regular compensation, overtime and shift premiums
**Stats Canada Increase calculated on Median Hourly Wage for Full Time Employees in Ontario, All Industries

- Excluding Health and Social Services, the total ongoing Full Time Equivalent (FTE) number of staff has increased by 38 from 2015 to 2024. This is largely from new initiatives brought on by the growth of the county and new legislated service requirements. This is not surprising given that there has also been an increase in population over that time period, meaning that the County is required to provide services to more residents. For example, more programming, more infrastructure, more emergency services, and more building permits all mean that more staff are required to maintain service levels.
- The second and third columns respectively show a 35.9% increase in salaries budgeted and a 39.7% increase in benefits budgeted. This shows that the increasing cost of benefits is outpacing the salary increases which is predominantly out of the County’s control. Most benefit levels are set through negotiated labour contracts and are difficult to change.
- The 35.9% increase over 9 years may seem like a significant amount, but adjusting from gross salary to salary per FTE removes the effect of increasing the number of staff, and the change then becomes 26.3%. The median hourly wage for full time employees in Ontario, in all industries, for the same period has gone up 36% over the same time frame indicating that increase in other sectors are outpacing Norfolk. While this is not a direct comparison for municipal wages, it does show that at a Provincial level, salary expenses are going up by a higher amount across the Province. It is worth noting that the table above does not include the impacts of the talent management strategy that initiated implementation in 2025.

While salaries and benefits are a driving factor in cost increases, it is clear that other sectors across the Province have seen greater wage increases than Norfolk and that benefits are getting more costly as time goes by. In recent years salaries and benefits budgets have been a contributing factor to the County’s operating surpluses which indicates improvement in budgeting practices but may also indicate a higher vacancy rate in certain positions.

Costs of Growth

The table below shows a few points from the 2016 census profile and the 2021 census profile. Over this time period the population of Norfolk grew, as did the average income per resident, this means that there are more people living in Norfolk, more garbage to collect, more roads to clear, more parks to maintain, etc. As the population of the County grows, the County is responsible to provide the same level of service to an increased number of residents, which inherently increases the cost.

It is also worth noting that the average age of the residents in Norfolk County has increased. This may mean that residents will be looking for different services, e.g, more

Seniors activities, more pickleball or greater demand for community paramedic services. These types of trends can have an impact on the socio-economic fabric in our community which means that spending habits for the municipality must also change to reflect the needs of residents.

Table 9b: Census Population Profile for Norfolk, 2016 VS 2021

	2016 Census Profile	2021 Census Profile
Population	64,044	67,490
Average Age	44.5	45.5
% of Population over 65	22.5%	25.9%
Average Total Income per Recipient	$40,045	$48,800

As the County grows there are also increased demand for services like Ride Norfolk. As the cost of living increases, public transit systems become more attractive and offer a necessary service for many in our community. Spending on Ride Norfolk, offset with increased Provincial support, has resulted in routes/availability approximately tripling over the last ten years, and enabled the expansion of a route to Brantford and change in service delivery to an on-demand model. While changes in funding may impact this service in future it is worth noting that ridership has increased in recent years.

Other Notable Trends

Aside from the high level changes, salary and benefit items, and growth related costs noted above, there are some additional items below which should also be noted.

- Capital Spending – as has been mentioned throughout this report, budgeted spending on capital projects has increased significantly over the past 10 years. This is due to numerous reasons such as inflation (specifically the unprecedented construction inflation felt through 2021-2023), a larger staff capacity to complete capital projects, better identification of asset renewal needs, and increased availability of grant funding allowing the County to fast track projects at a discount.
- Debt Servicing Costs – despite the point above, the County's debt has risen over the last 10 years, and thus, so has its servicing costs (principal repayments plus interest charges). This is a concern for staff and strategies are always being considered for how to mitigate future debt issuances to preserve affordability.
- Response to Legislation – as a spawn of the Province, the County must react to legislative changes that demand more resourcing. In recent years, responsibilities have been added to the scope of municipal governments and regulations have been established for existing responsibilities that effectively require additional spending. Over the last five years, some examples include mandating increased direct care hours (Fixing Long-Term Care Act), quicker processing of development fees (Bill 109), stormwater management and reporting scope additions (CLI-ECA), and source-separated organics collections (Food and Organic Waste Policy Statement). The County has reacted to these examples by significantly increasing spending at Norview, in development

staffing for planners and engineers, implementing a stormwater department, and tendering for an organics program.

- Landfill Constraints – the reduction in available landfill space in Ontario has caused waste disposal costs to increase sharply in recent years, and is expected to continue. The adoption of waste diversion programs are becoming more widespread to counter this issue, but the County is still expected to face impacts in upcoming contract renewals.
- Environmental Services – the cost to treat water has grown significantly over the 10 year period. The needed chemicals, lab services, and locates, have grown at above-inflationary rates both in price and volume in order to ensure water and wastewater operations remain safe for the public.
- Winter Control – as the impacts of climate change continue to be felt it is worth noting that the County has been spending less on winter control measures in recent years. Although there have been some strong storms, overall, the costs for winter control are decreasing. Based on recommendations during the 2020 budget process Council also approved a reduction in winter control service level to the minimum maintenance standard.
- Asset Management – With changing legislation requiring municipalities to better plan for asset renewal projects and a greater focus on the associated services levels a heightened focus will be placed on capital renewal projects, contributing to the increased capital spend noted above, but also additional staff have been added to Norfolk's compliment to ensure that asset replacement needs are forecasted effectively and that this data contributes to improved financial planning.
- Housing – There is a greater need for housing services in the County in recent years, and local housing providers are facing aging assets that require significant capital improvements. The County has recently worked with other levels of government to secure funding for multiple housing build projects as well as repair and renewal projects while also increasing municipal contributions in an effort reduce the current housing shortage.
- Technological Changes – There have been significant technological changes over the last ten years that have changed the way the County delivers services. Many staff now have the option to work from home for a portion of their scheduled hours. This allows flexibility and work-life balance for staff, and enables recruitment from a broader geographic area, but does require additional investment in technology. This has also allowed the County to invest in online platforms for service delivery and processing of payments meaning that residents can do more without having to visit a County office. With fewer residents attending offices for service and fewer staff working on site, this has presented an opportunity for the County to begin conducting a facilities review to see if the existing compliment of facilities is still meeting the County's needs.

10. Policy Improvements

Reviewing policies are one of the most effective ways to ensure continuous improvement in financial practices in an ever-changing environment. With ongoing legislative changes, accounting standard changes, and through self-identifying areas for improvement, staff are constantly confronted with opportunities to review "why do we do it like that?" or "how can we make this better?"

Policies are critical documents that help to provide structure and consistency in our approach, provide guidance for how financial practices are operationalized, set the tone for expectations in terms of financial knowledge and oversight, ensure that key tasks are carried out as efficiently as possible, and provide a framework for establishing accountability and transparency at a more specific level. In the last few years Norfolk's Finance team has taken an aggressive approach to policy revision and development in an effort to help solidify financial progress. The following policies have been newly developed or revised within the last three years alone:

- Reserve and Reserve Funds Policy – September 2023
    - This is a newly created policy aimed at establishing consistent principles, standards, and guidelines for the use of reserves and reserve funds and set out the responsibility for their management and administration. This policy enhances financial strength, flexibility, and cash flow management.
- Drain Construction and Maintenance Cost Recovery Policy – March 2024
    - This policy complies with Drainage Act requirements while providing options for Norfolk County landowners on the payment of assessed costs for drainage construction and maintenance as appropriate. This ensures that all assessed property owners are treated consistently and fairly.
- Surety Bond Policy – February 2024
    - This newly created policy aimed at enhancing Norfolk's development process by allowing surety bonds to be an acceptable form of security for development agreements. It ensures the equitable and transparent administration of the use of surety bonds, mitigating risk for the County.
- Gapping Policy – Updated March 2025
    - The purpose of Approved Budgeted Complement and Corporate Salary Gapping Policy is two-fold. It defines full-time equivalent (FTE) counts and establishes guidelines for the allocation and utilization of salary gapping savings as a result of staff turnover. This policy formalizes a transparent process for the review of vacated positions and supports staff's commitment to Council to ensure that the County's staffing complement is managed in an effective and efficient manner.
- Tax Collection Policy – Updated March 2024
    - This updated and renewed policy establishes methods for collecting property taxes utilizing various procedures as legislated in the Municipal Act. This also update includes many new items such as apportionment billing, reminder notice fees, and changes to tax sale timelines.
- Timing of Development Charge Calculation re: s26.2 of the Act – October 2024
    - This policy sets out the timing and rules for DC calculations as required under s26.2 of the Development Charges Act, 1997. This policy determines when and how Norfolk determines the total amount of a development charges and the applicable interest rate.
- Development Charge Installment re: s26.1 of the DC Act – October 2024

    - The purpose of this policy is to establish the rules for development charge installments as required under s26.1 of the DC Act. This policy outlines how Norfolk determines the total amount of a DC, the installment methodology for eligible development types, and the applicable interest rates.
- Front End Financing Agreements – October 2024
    - This policy establishes a framework for Developer led Front-Ending agreements in accordance with the Part III of the DC Act. This policy sets out the requirements of a developer or developer group to advance timing of County development-related infrastructure that is necessary to allow lands to be developed.
- POA Fine Collection Policy – October 2024
    - The purpose of this policy is to establish practices for the collection of POA fines ensuring a consistent, equitable and transparent approach as well as a more streamlined process for the write-off of arrears that have been deemed uncollectible.
- Asset Retirement Obligations – January 2023
    - The purpose of this policy is to set out general procedures to ensure compliance with the requirements for the treatment of Asset Retirement Obligations (AROs) further to, and in conjunction with standards as prescribed by the Public Sector Accounting Board (PSAB).
- Legacy Fund Policy – Updated March 2025
    - This policy underwent a significant revision in 2025 after a lengthy staff review project. This Policy provides objectives, investment approach and targets, eligible investment guidelines, responsibilities and reporting requirements for the management of the Norfolk County Legacy Fund. The Policy and principles within seek to ensure funds are invested in a prudent and effective manner.

Additionally, the Finance team has also planned for the following policies to be competed or revised in the next several months

- Debt Management Policy – Mid 2025
    - This newly created policy will aim to formalize debt limits and targets for Norfolk County to ensure that a thorough and financially prudent approach is taken to debt management, reviewing debt capacity separately for Rate supported and Levy supported infrastructure needs.
- Accounts Receivable Collection Policy – June 2025
    - This policy revision will update and enhance Norfolk's Accounts Receivable collection efforts to align Corporate Accounts Receivable collection practices with collection efforts undertaken through POA. Establishing a consistent approach across both areas will help collection efforts to be undertaken more efficiently for all areas of the corporation and enhance the effectiveness of collection practices.
- Corporate Investment Policy – Q3 2025
    - This will be an overhaul to the County's existing corporate investment policy and will establish updated guidelines and procedures regarding the

County’s short and medium term investment portfolio. Given that this portfolio is growing and that a recognized infrastructure funding gap exists, it is prudent to establish a policy which can ensure that each dollar is invested as strategically as possible (within legislative parameters) to maximize earnings potential and mitigate cash flow disruptions.

- Budget Control Policy – Q3 2025
    - The purpose of this policy is to establish robust financial controls that ensure fiscal responsibility while allowing flexibility to respond to changing economic conditions, political landscapes, and service demands — ultimately maintaining financial stability for the taxpayers of Norfolk County. The policy also aims to define the appropriate authority required by staff to effectively manage Council-approved budgetary resources for both Operating initiatives and Capital projects.
- Accounts Payable Policy – Q4 2025
    - This policy is also due for a complete revamp as it has not been updated in a number of years. Since the last update Norfolk has now fully implemented an electronic purchasing system and the purpose of this policy will include establishing procedures to ensure that payments are made as efficiently as possible and that all payments are properly authorized and completed on a timely basis.

11. Current Financial Situation

In order to provide some key financial indicators which reflect the high level changes in Norfolk’s financial situation from 2015 to 2024 staff have gathered the following metrics.

- Operating Surplus Ratio: This ratio shows much of the County’s net operating surplus is available for capital funding or saving for capital plan needs. A higher percentage is more advantageous as this indicates that more funds are being directed toward the areas of highest financial need. In 2015 Norfolk’s ratio was only 6.9% but this has increased to over 30% from 2020 forward, which indicates that Norfolk has shown improvement in anticipating and planning for operating needs while exercising caution in budgeting practices.
- Rates Coverage Ratio: This ratio demonstrates the percentage of Norfolk’s operating expenses that are covered by property tax and user fee income. A higher percentage would indicate that the municipality was less reliant on other sources of income (e.g., funding from other levels of government) to help cover general operating expenses. Norfolk County has been in the intermediate range, (60% - 90%) demonstrating gradual improvement from 61.4% in 2015 to 70.9% in 2024. Without having another significant source of income, like a casino, Norfolk would be unlikely to achieve the advanced target of 90%. Reviewing this data, Norfolk has become more self-reliant in recent years, which is a positive financial step as it means that the County is less reliant on external funding, which could change from year to year and may not continue indefinitely.
- Debt Service Coverage Ratio: This is a measure of the County’s ability to service its debt payments (principal and interest). This ratio essentially measures how many times the County’s debt service costs could be covered by is operating surplus (adjusted for interest & amortization). For example if the

County’s operating surplus was $100 and debt servicing costs were $50 then our debt coverage ratio would be 2 times. While the Ministry target of 2 has been achieved every year, there has been marked improvement from 6 in 2015 to 9 in 2024.

- Asset Consumption Ratio: This ratio shows the aging of the County’s assets. In 2015 the ratio was 38.9% and in 2024 the ratio had increased to 48.7%. In this case the higher percentage is not a sign of improvement as with the other ratios, because it indicates that the County’s assets are getting older. In future years this is a ratio that should be monitored as the County’s Asset Management Plan is implemented and the Council approved levels of service become part of Norfolk’s future capital forecast it will be important to understand Norfolk’s asset profile. Information on how assets are aging, whether this is in line with expectations, how including asset management timing for projects into capital plans impacts the aging profile will all be important considerations.

In Summary

This report tells an important story. It is the story of an organization that has transitioned from reactive decision-making to a more strategic and disciplined financial approach. Ten years ago Norfolk faced real financial vulnerabilities, reserves were depleted, debt was increasing, and operating budgets routinely resulted in deficits. The County’s financial systems lacked the structure and capability to keep pace with the demand for more accurate and timely information over a growing organization. Now through many years of hard work, strong leadership, and critical decisions from Council, Norfolk is starting to build the financial foundation it needs for long-term sustainability.

As demonstrated in the preceding sections of this report, the shift is clear in every financial indicator. Levy supported services have seen a dramatic improvement in financial results which has been solidified by more conservative budgeting, increased contributions to reserves, and a better alignment between budgeted expectations and actual outcomes. The improvements in Norfolk’s financial story are centered in the desire to enable the County to deliver reliable service that meets residents’ needs while maintaining accountability and public trust through strong fiscal management.

While Norfolk’s financial future is more stable than it was a decade ago, particularly when considering tax supported services, the outlook remains uncertain in other areas. Norfolk’s rate supported operations are facing a challenging financial position. The planned capital investments in rate infrastructure carry high costs, long construction timelines and increased debt burden that is borne by only half of Norfolk’s residents. As inflation concerns persist resulting in budget increases, there is heightened concern about the financial feasibility of all forecasted projects. The difficulty that Norfolk is facing is not insurmountable, and while the future will bring more challenging decisions, the finance team remains committed to supporting Council and SLT with honest advice, practical solutions, and a long-term view of the County’s financial outlook.

Financial Services Comments:

As noted throughout the report, the last 10 years have included some challenging times for Norfolk County from a financial perspective, however, this decade is also one of great promise, learning and development. This section of the report will provide forward-looking commentary, focusing on Norfolk's financial leadership and changes that have occurred which will result in continued progress toward a financially sustainable future for the County. In other words – how do we know that we will continue to move forward?

Finance Department
With Council's endorsement and investment Norfolk's finance department has grown with the addition of a few FTEs over the last several years. These FTEs have allowed for greater capacity in financial reporting, the creation of in-house financial statements, improved grant applications, more thorough comments in Council reports, Treasurer approval on every Council report, internal expertise on technical financial issues and more time spent with departments across the organization. Increased internal knowledge results in improved information coming forward to Council, which enables decision making more effectively. The finance department has also taken a greater role in professional associations including two team members who have joined boards in Provincial professional associations as well as working to build relationships with neighboring municipalities allowing for greater capability for information sharing and research into best practices. Additionally, the number of Chartered Professional Accountants on Norfolk's finance team have doubled and it is anticipated that this number will increase.

Senior Leadership Team
The Senior Leadership Team (SLT) is highly engaged in financial processes at all stages of budget development ensuring a well thought out plan that meets the needs of the organization and builds toward Council's strategic direction. This engagement also allows the Finance team to share educational information and take time to ensure that financial impacts are considered thoroughly. SLT has also established an organizational culture that is open and encouraging which provides confidence for staff to come forward and share difficult information. SLT has also prioritized finance, making sure that the finance team is heavily involved in corporate projects like the facilities review, recreation master plan, or asset management plan ensuring that financial implications can be identified early on and considered as initiatives develop.

Council
Council has allowed staff to manage the day-to-day operations of the corporation including financial operations. Council has also communicated expectations in a manner that provides staff with an understanding of the types of information and in what format that information should be brought forward. Council has also created an

environment where challenging reports and difficult information can be discussed in a productive and solutions focused manner.

What's Next?

- In order to continue making progress and moving forward financially, the finance team will continue to bring forward information and make recommendations that are in the best interest of Norfolk County with a direct and straight-forward approach. This includes continuous improvement in how information is presented in order to make financial reports easy to understand.
- The impacts of Asset Management will be incorporated into Norfolk's capital plan as we work toward closing the County's infrastructure funding gap.
- There are more key policies that the Finance team will tackle in the coming months to ensure that processes are documented and enhanced.
- Ongoing research into grant opportunities will continue in an effort to ensure that all funding options are investigated thoroughly
- As of June 2nd 2025 Norfolk County's Purchasing Team has joined the Finance Department and this re-organization presents a great opportunity for Purchasing and Finance to work together in tandem to address financial sustainability in terms of both what funds are spent and how they are spent. Staff are looking forward to building a comprehensive approach and reviewing where synergies and best practices can be improved upon.
- Strong Mayor Powers have recently been bestowed on Norfolk County by the Provincial government. This will result in some modifications to Norfolk's budget process and the impact may vary depending on how extensively these powers are exercised. Staff will continue to work with municipal peers to identify potential changes to process and bring more information back to Council as appropriate.
- The Finance team will work closely with Norfolk's IT team to implement a new Finance and Enterprise Resource Planning software system in the next 3 years.

Interdepartmental Implications:

N/A

Consultation(s):

N/A

Strategic Plan Linkage:

This report aligns with the 2022-2026 Council Strategic Priority Serving Norfolk - Ensuring a fiscally responsible organization with engaged employees who value excellent service.

Explanation: Providing information how Norfolk County's financial situation has evolved historically in a transparent manner such as this report strengthens its communication with the community.

Attachment(s):

- Appendix 1: Mayor Martin Motion from October 16, 2024 Council Meeting

Approval:

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