

# Strategic Financial Planning

## LGLA Elected Officials Seminar

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# Agenda

## □ Status Quo

- Meeting expectations?
- Is the Status Quo good enough?

## □ Key Aspects of Strategic Financial Planning

## □ Identify "Take-Away(s)"

# Strategic Financial Planning



Status Quo

# Status Quo

## EXERCISE – 10 min

Consider your Government's current Financial Planning System:

- Are you satisfied with the results?
- What aspects could be improved? Why?

Consider this evaluation from:

- Your perspective as an elected official
- As a taxpayer
- As a member of the Senior Management Team

3 min. – Individual consideration (make a list)

3 min. – Table Share (make a list) and appoint spokesperson

4 min. – Group sharing



# Status Quo

## The (problem) Results...

1. Always a Proposed Tax Increase
2. Need for Tax Increase WELL Supported
3. Options provided not palatable...  
Actually seems like there are NO  
real, viable options...

# Status Quo

## The (problem) Results...

### The REAL Problem....

## We have a real problem...



# The REAL Problem...

## Infrastructure Needs

- Federation of Canadian Municipalities (FCM) **2007** Report: *"The Coming Collapse of Canada's Municipal Infrastructure"*
  - Estimated the Canadian Municipal Infrastructure Deficit in '07 at \$123B
  - Equates to \$3,753 per person (2007 population)
    - 3,000 population = \$11.3M Deficit
    - 15,000 population = \$56.3M Deficit
    - 50,000 population = \$187.7M Deficit
  - Same study identified Cdn New Infrastructure needs of \$115B

### Conclusions

- Status Quo is NOT sustainable
- Evidence of deferral of Maintenance and Renewal works that are shortening asset useful lives and increasing other costs



# The REAL Problem...

## Infrastructure Needs

Ministry of  
Community, Sport and Cultural Development  
2010/11  
Annual Service Plan Report



Honourable Ida Chong, FCGA  
Minister of Community, Sport and Cultural Development  
June 21, 2011

| Goal 2: Communities are equipped with innovative tools that enable them to work toward environmental sustainability<br>For details see pages 17 to 20  | 2010/11<br>Target | 2010/11<br>Actual     |
|--|-------------------|-----------------------|
| 3.1 Local governments and communities are able to create jobs now, while meeting community needs for water quality and quantity<br>Percentage of British Columbians served by drinking water systems that meet emerging treatment standards for the protection of drinking water quality | 37.9%             | 36.2%<br>NOT ACHIEVED |



# The REAL Problem...

## Not a lot of Fluff

### Core Service Review - KPMG Findings

All % based on share of Gross Expenditure Budget

- Rankings:

- 90% of services as core – legislated or essential
- 8% traditional – enhance quality of life; contribute to health economy
- 1% other/discretionary – respond to emerging needs and priorities

- **Mandatory(1)**: mandated or required by legislation from the federal or provincial government
- **Essential (2)**: critical to the operation of the City. Without the service, the City would stop functioning
- **Traditional (3)**: municipal service, provided by virtually all large municipalities for many years
- **Other (4)**: service provided by the City to respond to particular community needs, based on a positive business case, or other specialized purposes

110 to conduct further review for future efficiencies

# The REAL Problem...

## Not a lot of Fluff

### Core Service Review - KPMG Findings

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- Assessment:
  - 85% of services are delivered at or below standard
  - 15% are delivered above standard
- Identified opportunities:
  - 69 to eliminate, divest or reduce services
  - 119 to conduct further review for future efficiencies
- Total estimated savings for all service adjustments and efficiencies identified by KPMG - approximately \$200 to \$300 million

□ <http://www.toronto.ca/torontoservicereview/>

9-13% Tax Increase

# The REAL Problem...

## Lack of Information

- Providing “Good” Service Level Reduction Options is tough!
  - Lack of service inventory and clarity on standards and options
  - Lack of easily accessible accounting/financial info. on services at necessary level
  - Little information or evaluation on service efficiency or effectiveness
  - Reductions take time to identify AND to implement
  - Reductions affect people

Need to Get Better Information here!!!

# The REAL Problem...

## Lack of Information

- ❑ Infrastructure inventory often lacks
  - condition assessment
  - related assessment of needed
    - ❑ On-going maintenance needs
    - ❑ Longer-term renewal/replacement needs

Need to Get Better Information here too!!!

# The REAL Problem...

## Multiple Bottom Line

- ❑ NOT Financial Return/Profitability
- ❑ BUT Financial Sustainability
  - Services that are Affordable to Taxpayers
  - BUT, services MUST also meet environmental and social/cultural sustainability goals

**Environmental and Social/Cultural Sustainability Goals ARE the “Lens” through which Financial Sustainability MUST be evaluated**

**Need to Get Better Information here toooooo!!!**

# The REAL Problem...

## Complex Decision Making Process

□ You know how it works...

BUT FUNDAMENTALLY

**MUST get to a position can discuss service priorities, options and trade-offs with the Taxpayers in a meaningful way**

# Status Quo

Is the Status Quo “Good Enough”?

**NO!!!**



# Strategic Financial Planning



## Key Aspects of Strategic Financial Planning

# Key Aspects of Strategic Financial Planning

#1

Strategic Financial Planning  
is part of an integrated system  
of Performance Management

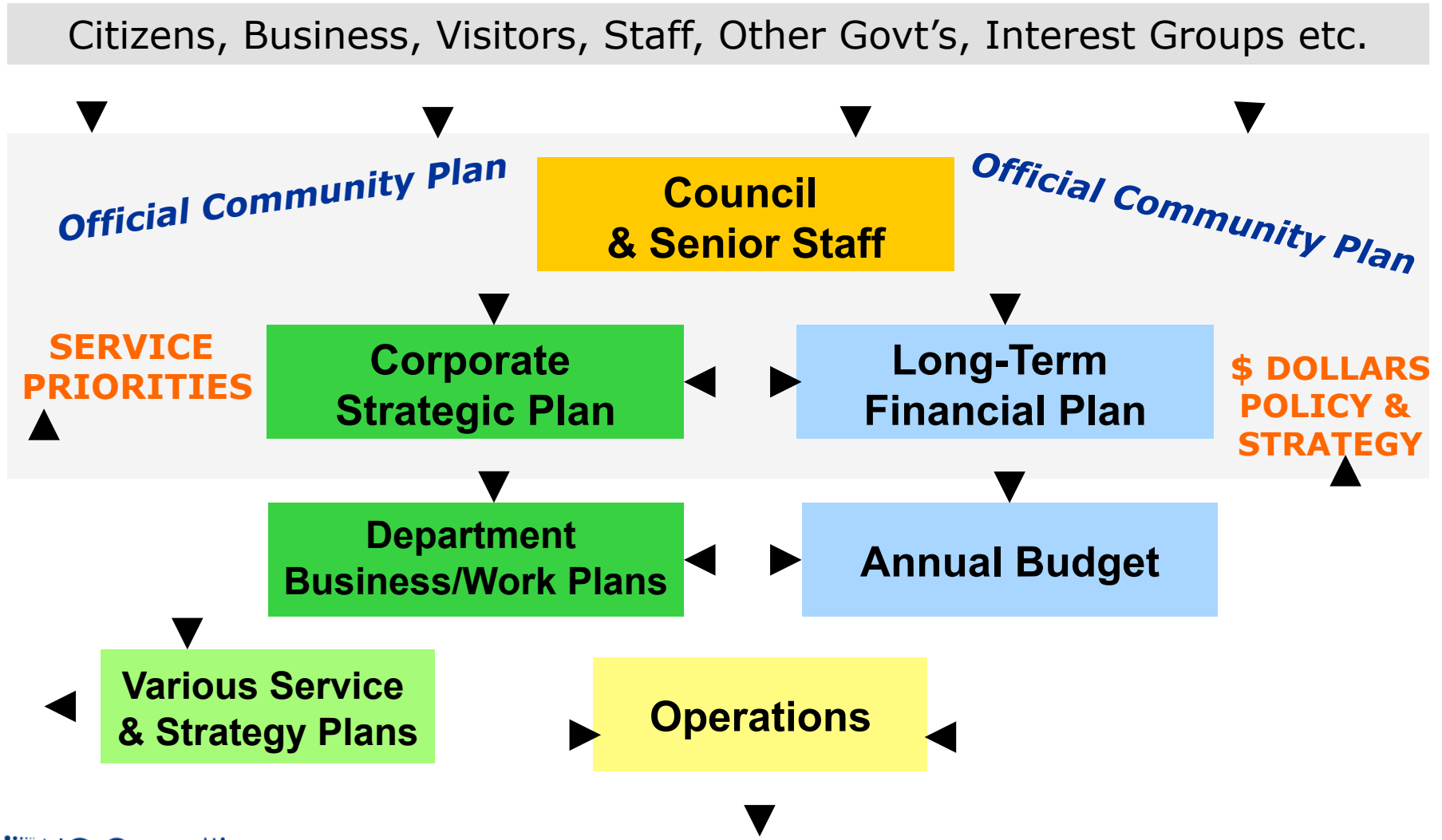
# What is a Performance Management?

## Definition

A strategic process of managing for results.

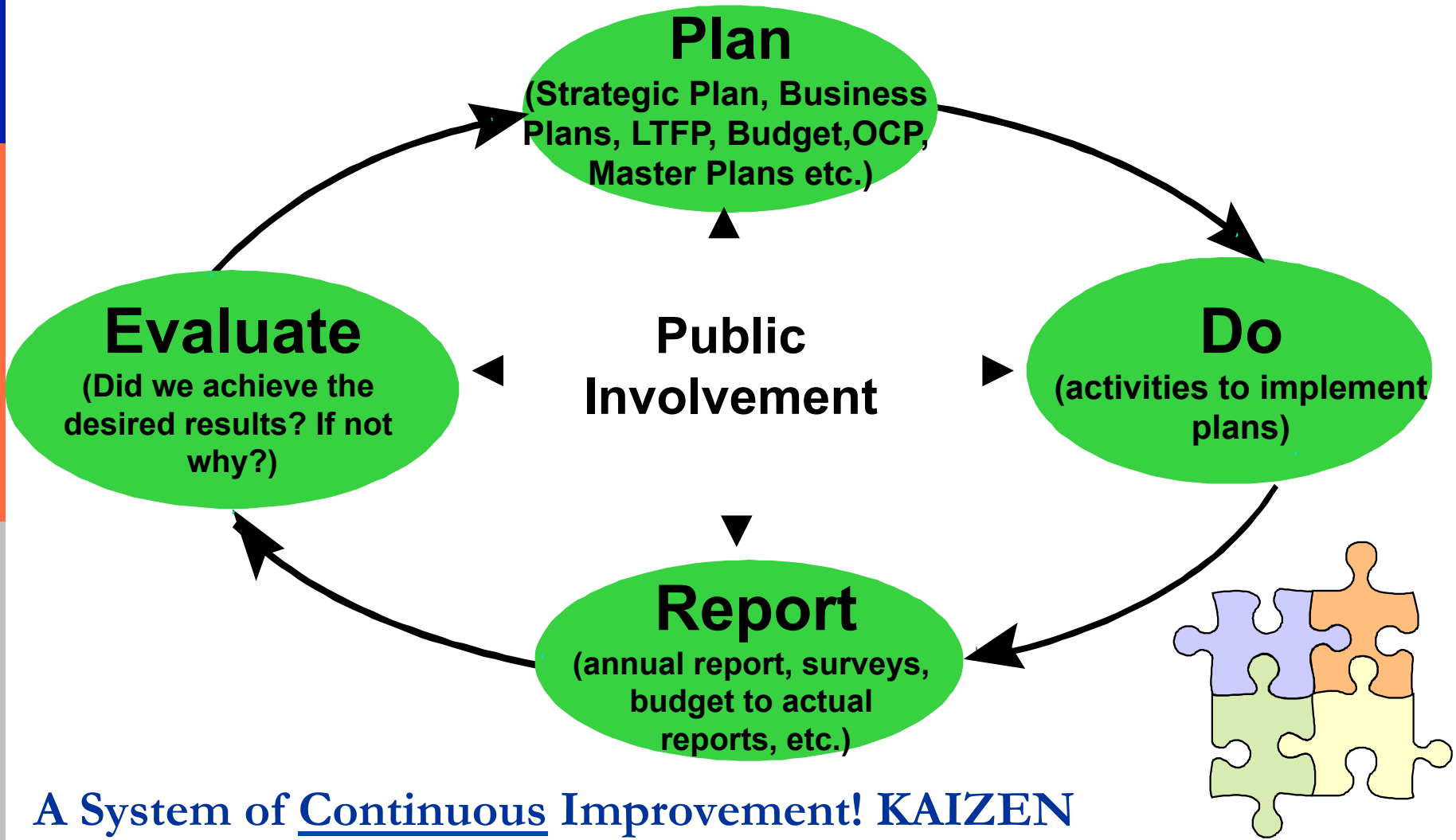
# SFP Part of Integrated Performance Mgmt. System

## The BIG Picture!



# SFP Part of Integrated Performance Mgmt. System

## The “Annual” Cycle



A System of Continuous Improvement! **KAIZEN**

# Key Aspects of Strategic Financial Planning

#2

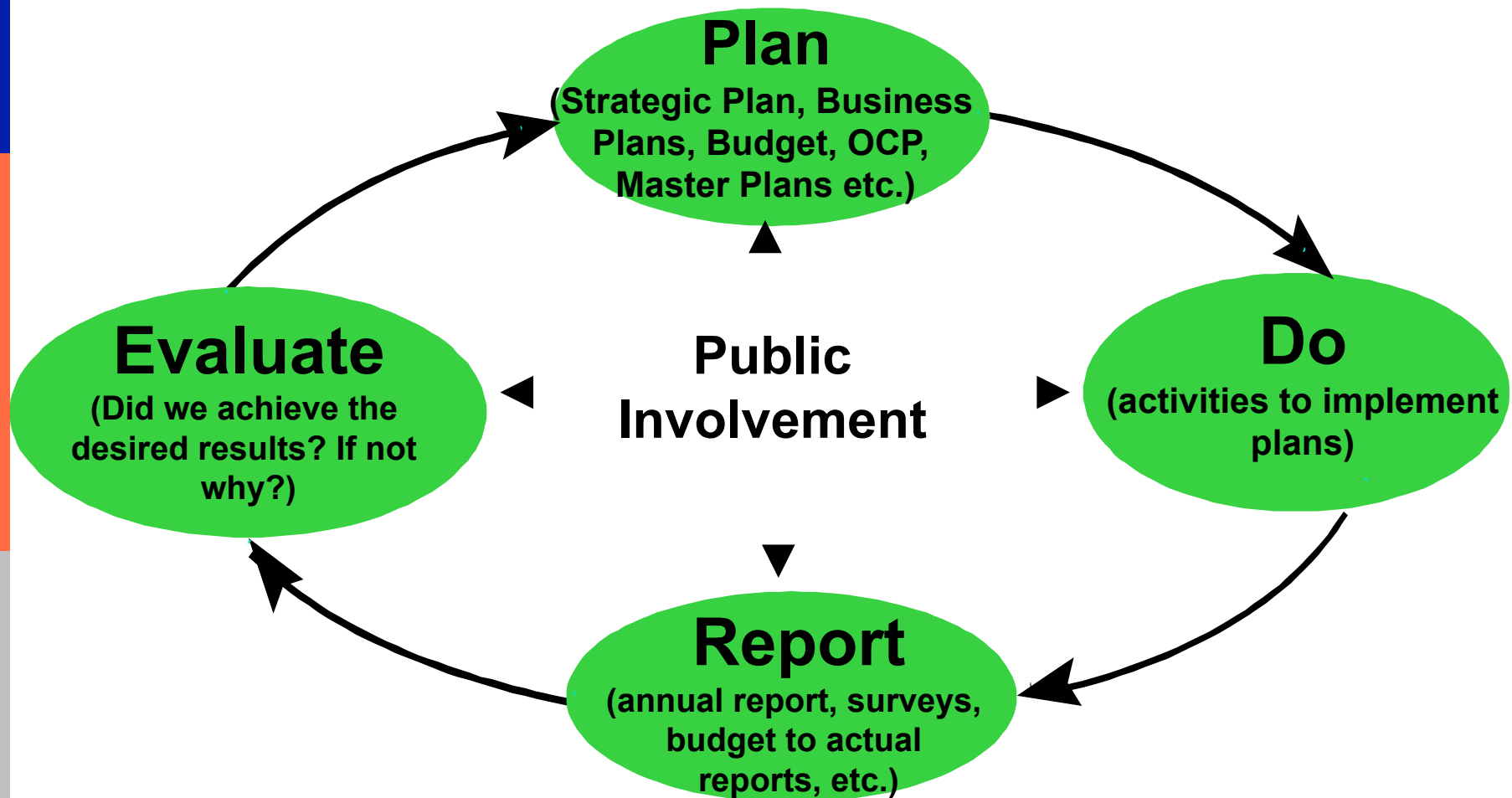
Strategic Financial Planning  
is an open, transparent process focused on  
informing and being accountable to the Taxpayers

# Public Involvement

**The Crowd waiting outside Municipal Hall waiting to get in to attend your next Financial Planning Meeting...**



# Public Involvement Builds Credibility!



Public involvement is occurring all the time, throughout the organization...



# Public Involvement

- Key points of PI in a SFP are:
  - Plan development stage
  - Plan (service) evaluation stage
  
- Plan Development PI Goals:
  - Educate on services provided, constraints etc.
  - Community support / buy-in
  - Create momentum for community members to become more involved in local government
  - Community “building”; enhance community spirit & connections & trust/credibility
  - Stronger “community based” Plan
  
- Plan (service) Evaluation PI Goals:
  - Feedback leading to better identification of priorities

# Public Involvement

## □ Considerations

- Do everything can in OPEN, ADVERTISED Meetings
- BUT, PI can take more time and resources, therefore must properly assess the need for PI and appropriate level of
- Build on PI processes already in place; Use input already gained (OCP development being most obvious)
- Need to be very clear about PI goals, and how the PI will be used; Build a PI plan accordingly
- Be cautious of creating unrealistic (public) expectations
- Need to ensure obtain representative/balanced input
  - Provide ample opportunities for input
  - BUT, Obtain statistically valid input as well (general/high level, and focused)
- Consider development of a policy that establishes PI values/principles common to all PI and guidance on how to develop an appropriate PI plan (see Public Participation Guide, Auditor General of BC)

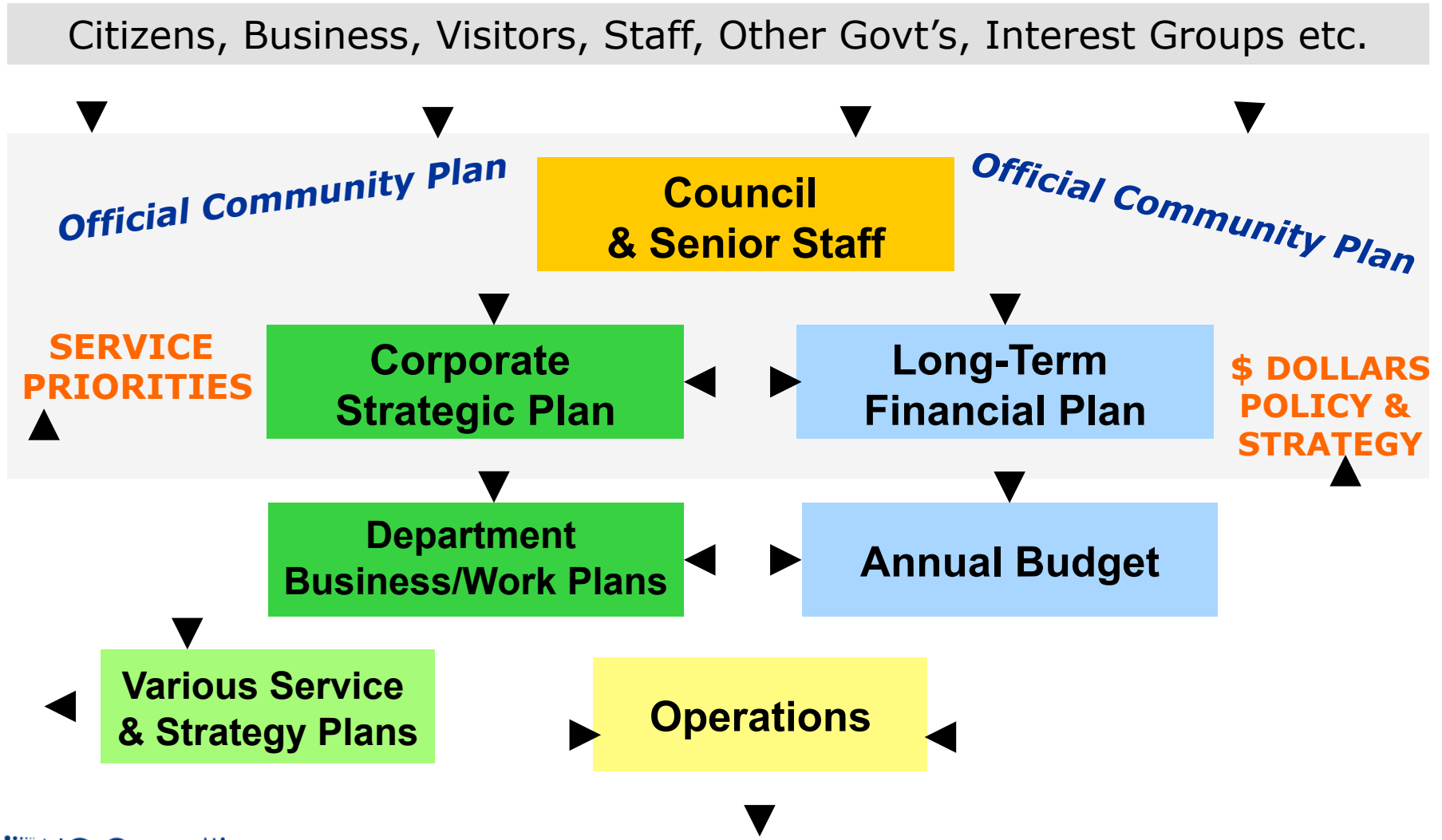
# Key Aspects of Strategic Financial Planning

#3

Strategic Financial Planning is focused  
on achieving Strategic Priorities

# SFP Part of Integrated Performance Mgmt. System

## The BIG Picture!



# Strategic Plan

## Strategic Plan Contents



- Introductory Materials
- Vision ◀
- Mission ◀
- Values
- Goals ▲
- Priorities ▲
- Strategies
- Performance Measures & Targets

**The WHAT**

# Strategic Plan

## Strategic Plan Contents



# Strategic Plan

## Implementation & Integration

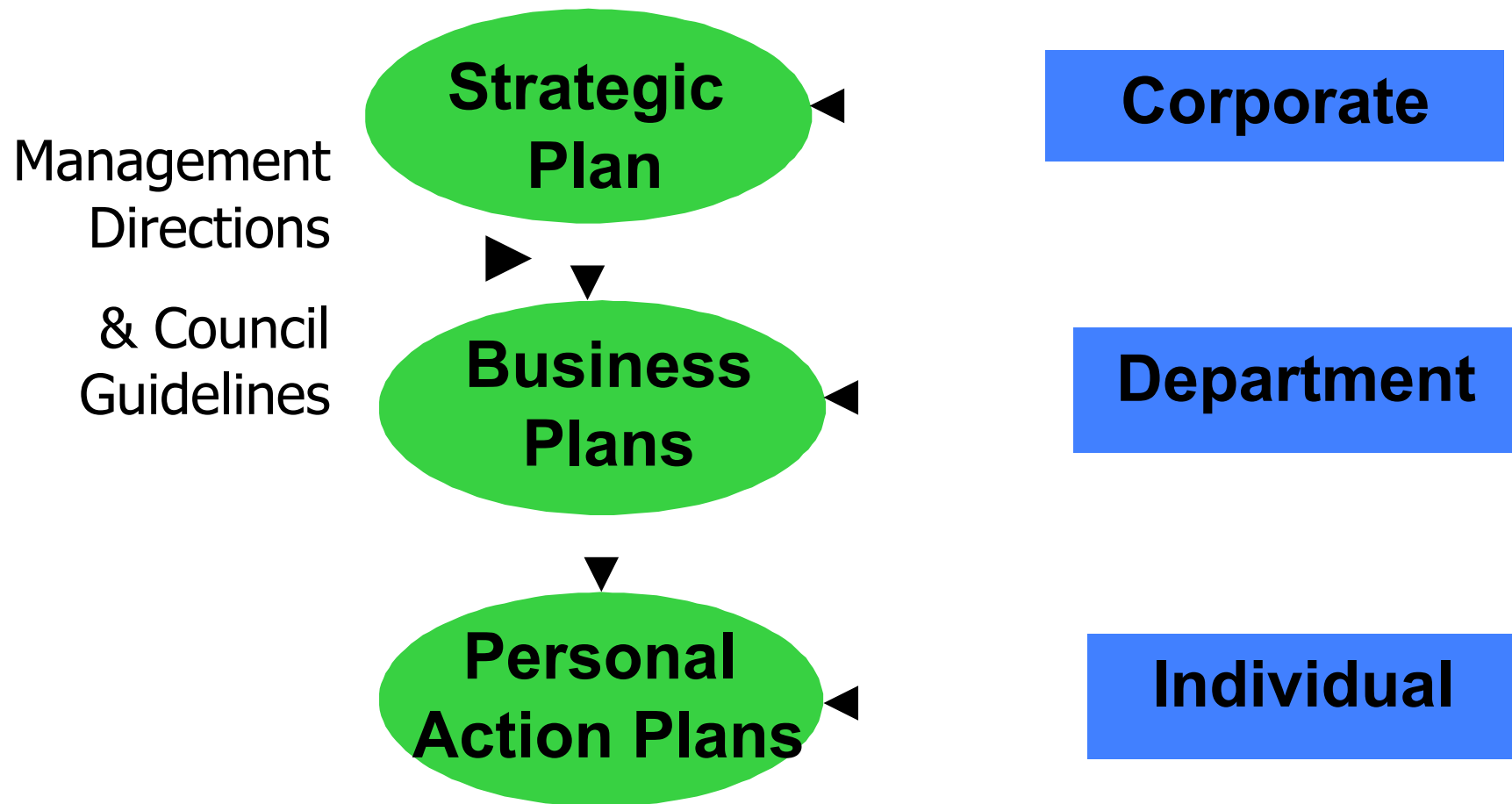
The ability to execute the strategy can be more important than the strategy itself...



After fifty years of careful research and planning, Ernest, Leonard, and Victor were ecstatic about finishing their strategy for winning triathlon competitions.

# Strategic Plan

## Implementation & Integration



Focusing the Organization!



# Strategic Plan

## Implementation & Integration

### Business Plan Contents

#### □ Departmental Summary

- Organizational Chart
- Mission
- Services
- Customers
- Significant Issues and trends
- Successes in last Year

#### □ Departmental Plans

- Goals & Priorities
- Performance Measures and Targets
- (Current) Year Strategies and Action Plans

#### □ Budget & Decision Packages ▲

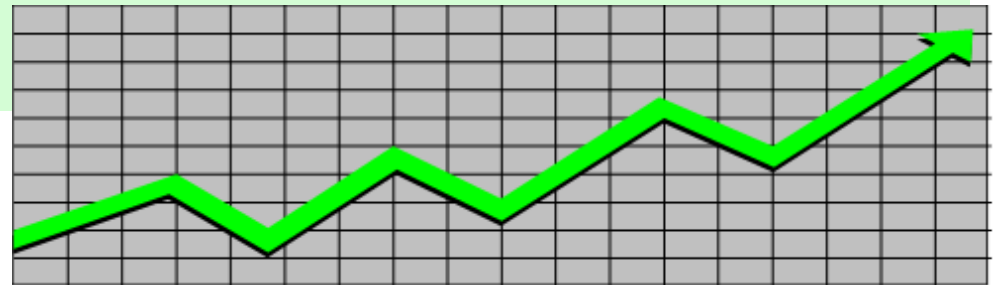


**The HOW  
& \$\$**

# Strategic Plan

## Implementation & Integration

It is a proven fact that what gets measured & reported gets done. In fact just saying something will be measured & reported improves achievement!



# Implementation & Integration SP

## Monitoring & Reporting

- Key Considerations
  - Keep it simple...
    - Use the same format (and document) in Progress Reports as do for Strategic Plan and Business Plans
    - Minimize written report requirements... do very simple written report augmented with verbal update from responsible management person
  - Do it regularly
    - Recommend quarterly, every quarter
    - Do separately from Budget:Actual Financial Reports to Council
  - Make timely – Within two week of each quarter end
  - Make time for it!!!! REAALLY consider and discuss...
    - Standing Committees
    - Agenda Item on Council or Committee Meetings (rotating focus?)

# Implementation & Integration SP

## Monitoring & Reporting – Quarterly Report Example

### Ladysmith (population 8,500) Quarterly Progress Report

#### Status of Top 5 Departmental Strategic Priorities

March 2010

Department: City Manager

| Strategic Priority | Work to Date  | Current Status  | Benchmarks<br>(include dates)  | Anticipated Date<br>of Completion   |
|--------------------|---|---|--|---|
| 1. New CivicSpace  | <ul style="list-style-type: none"> <li>-Construction commenced on Boys and Girls Club building</li> <li>-Plans nearing completion for Spirit Square and LRCA/Seniors building</li> <li>-Legal agreements drafted for leases</li> <li>-Tight project timelines: March 31.10 funding deadlines met</li> <li>-Confirmed extension for Spirit Square funding to match project timelines (March 31.11)</li> <li>-Site excavation commenced for new building</li> </ul> | <ul style="list-style-type: none"> <li>-Project management continues for all three projects.</li> <li>-Building and site design process completed (rezoning, public consultation, site planning)</li> <li>-Final approval pending on new building and Spirit Square design</li> </ul> | <ul style="list-style-type: none"> <li>-Establish Project Team (Jan 09-completed)</li> <li>-CAF Funding secured (Sept 14.09-completed)</li> <li>-Hire Architect (Sept 09-completed)</li> <li>-Complete public consultation (completed)</li> <li>-Develop detailed drawings (completed for B/G Club, near completion for new building)</li> <li>-Commence re-construction of existing building (underway)</li> <li>-Commence construction of new building (April 10)</li> <li>-Commence Spirit Square (Jan 10)</li> </ul> | <p>Project is a 'fast-track project' with very tight timelines.</p> <p>Major components of project will be completed by March 2011 to meet funding requirements</p> |

# Implementation & Integration SP

## EXERCISE – 10 min

Identify how your Governments current Financial Planning System has implemented and integrated Strategic/Corporate Priorities

-What has worked?

3 min. – Individual consideration (make a list)

3 min. – Table Share (make consolidated, prioritized list)  
and appoint spokesperson

4 min. – Group sharing

# Key Aspects of Strategic Financial Planning

#4

Fundamental to Strategic Financial  
Planning is Asset Management

# Asset Management

## What is Asset Management?

“ The application of sound technical, social and economic principles that considers present and future needs of users, and the service from the asset”

*The Local Gov't Asset Management Working Group of BC*

“A systematic process of maintaining, upgrading, and operating physical assets cost effectively.”

*FCM National Guide to Sustainable Infrastructure*

### Operational Perspective

- Effectively tracking your assets; taking into account the variables that impact the asset's lifecycle costs to ensure services are provided in the most efficient and effective manner.

### Financial Planning Perspective

- Projecting the anticipated lifecycle costs of assets and ensuring there is a funding strategy and plan in place to provide for these costs over the long-term.



# Asset Management

## What is Asset Management?

### □ Lifecycle Costs

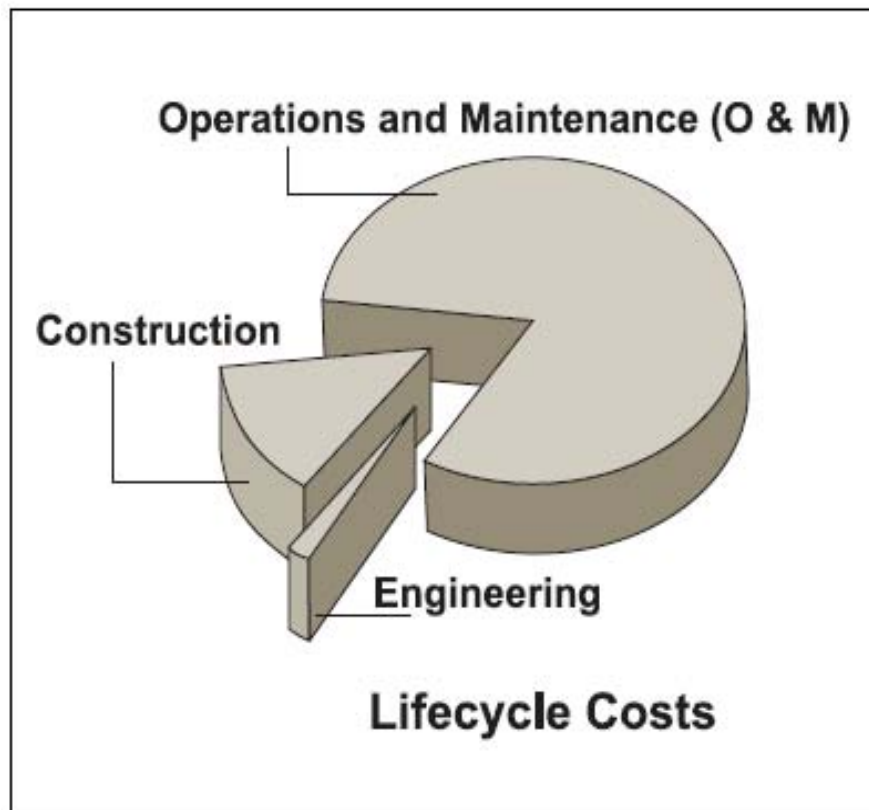
- Refers to all costs incurred throughout the life of an asset
- Includes:
  - Purchase/Build Cost
  - Operations and Maintenance
    - Annual O&M
    - Periodic O&M and Renewal
  - Disposal Costs



# Asset Management

## What is Asset Management?

### Lifecycle Costs



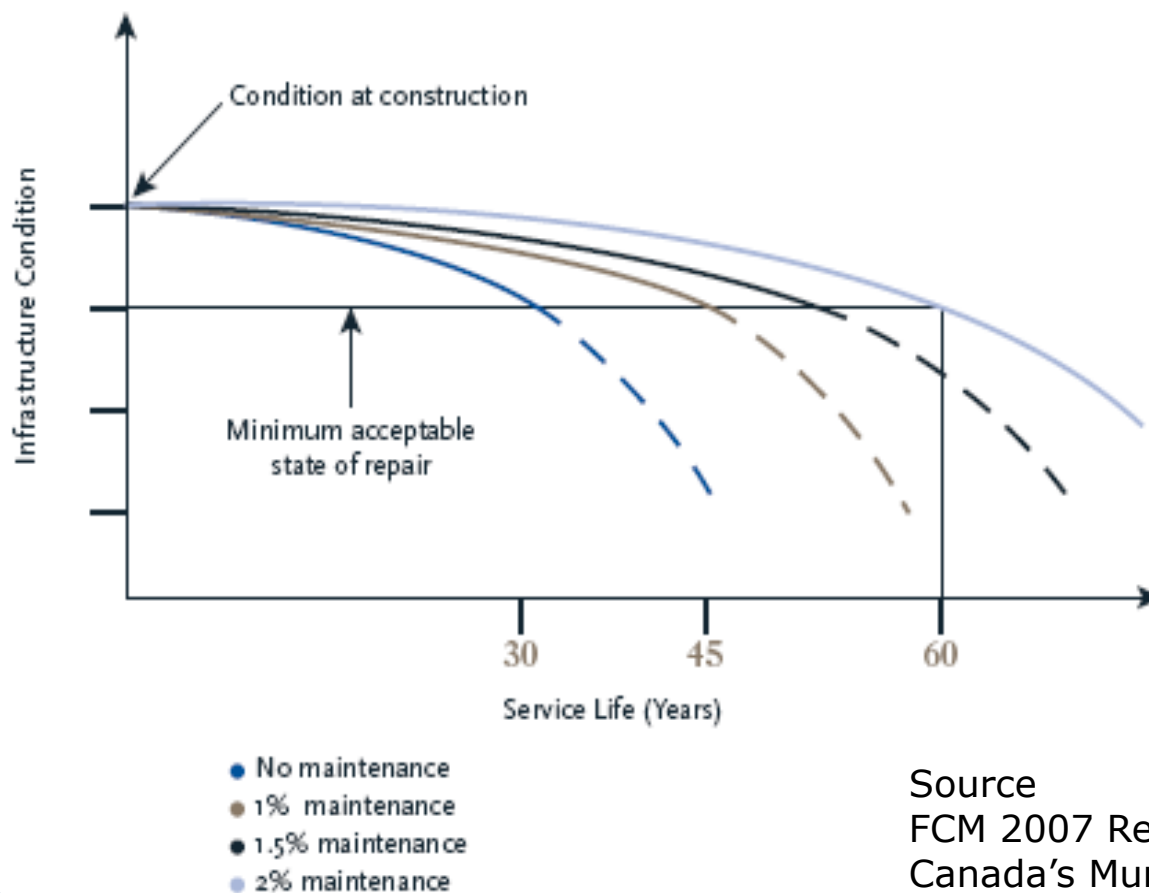
“Engineering design” typically represents 1 to 2 percent of the overall lifecycle cost of a project, with construction accounting for approximately 6 to 18 percent of the cost. All the rest—80 to 93 percent of the lifetime asset cost—is accounted for by operations, annual and capital maintenance and decommissioning.

Source: <[www.infraguide.ca](http://www.infraguide.ca)>.  
FCM - National Guide to Sustainable  
Municipal Infrastructure  
Selecting a Professional Consultant –  
June 2006

# Asset Management

## Impacts of Maintenance on Life of Asset

Infrastructure Condition as Determined by Maintenance



Source  
FCM 2007 Report "The Coming Collapse of  
Canada's Municipal Infrastructure"



# Asset Management

## Asset Management Policy

- The future will mean more focus on the development of Asset Management Plans because:
  - Make good business sense
  - May eventually become a requirement for grant funding, or for safety/health or political reasons
- Adopting an Asset Management Policy recognizes the value of asset management and officially recognizes it as a priority of Council... sets direction... creates action...
- A greater focus on Asset Management will mean better financial information for long-term planning and will provide better information for decision making




# Asset Management

## *Asset Management Policy*

### □ Asset Management Policy

# A GUIDE TO DEVELOPING A MUNICIPAL ASSET MANAGEMENT POLICY



**By: The Local Government Asset Management Working  
Group of BC, Asset Management Sub-committee**

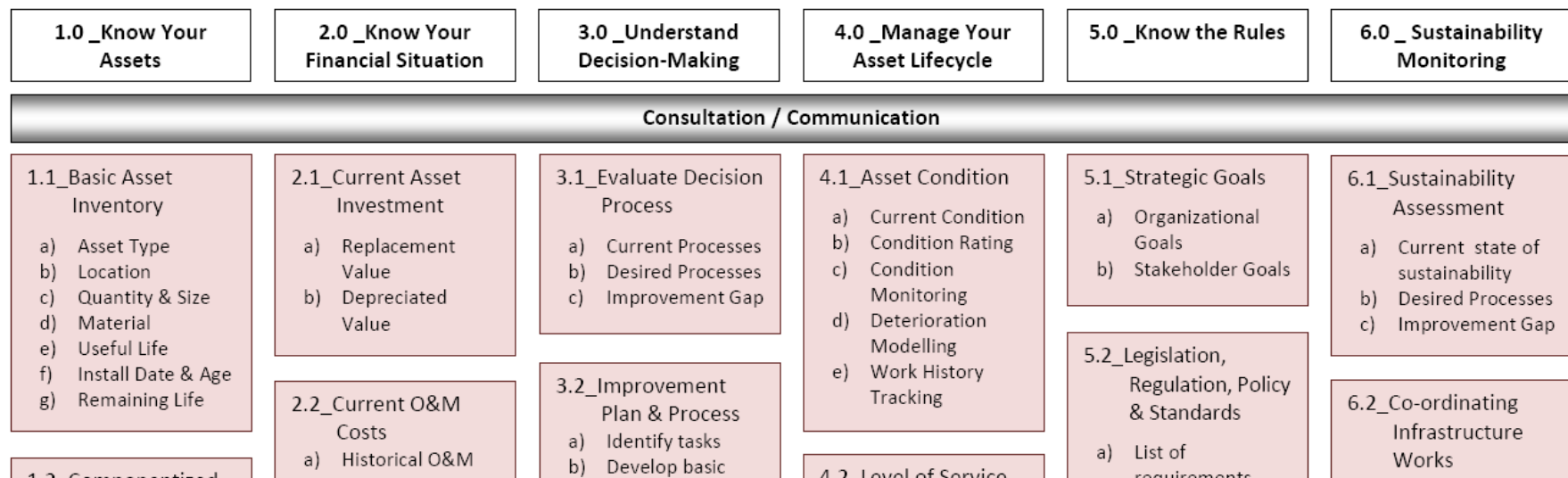


# Asset Management

## Asset Management Implementation

### □ Asset Management Implementation

#### AMBC : Asset Management Building Blocks : Roadmap



**By: The Local Government Asset Management Working Group of BC, Asset Management Sub-committee**



# Key Aspects of Strategic Financial Planning

#5

Strategic Financial Planning is based on program or service level budgeting NOT incremental budgeting.

# Program Based Budgeting

## NEW Consideration of an OLD Concept

- Why?
  - Better facilitates making budget trade-offs (believe is a key aspect of long-term financial planning)
  - End result is Budget that can tie directly back to Strategic Plan Goal Areas at a minimum
  - Means identifying services at a level can “package” and service standards
  - Becoming more cost effective to do!

Example: District of North Vancouver started in this direction

# Key Aspects of Strategic Financial Planning

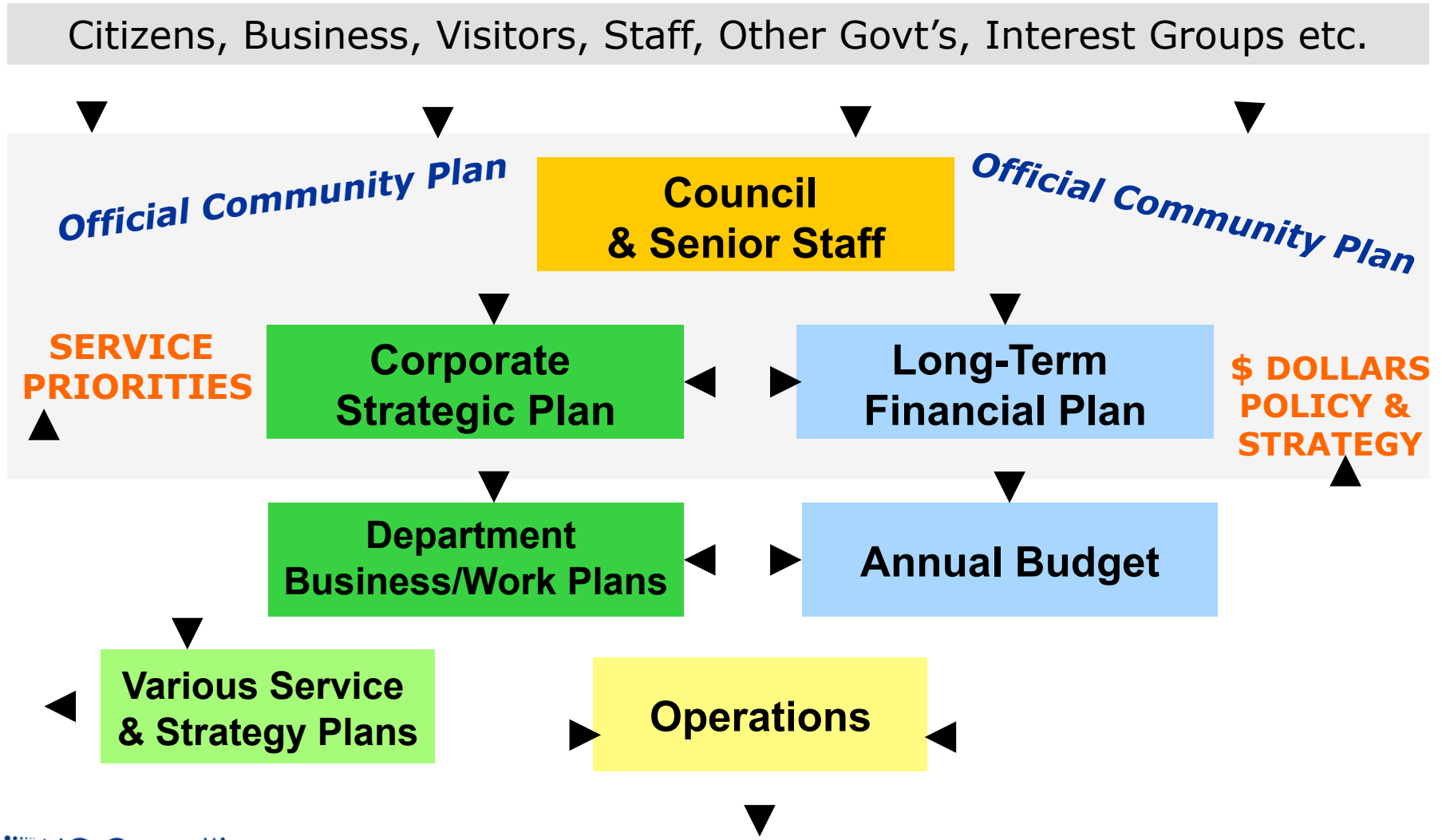
#6

Strategic Financial Planning is based on comprehensive long-term financial planning



# SFP Part of Integrated Performance Mgmt. System

## The BIG Picture!



# Long-term Financial Planning

- ❑ How Long?
  - ❑ 10 year capital & operating plan, PLUS
  - ❑ Lifecycles for capital assets – level of detail sufficient to set current targets for reserve levels
- ❑ Focus on long-term financial sustainability
- ❑ Incorporates input from all key plans – OCP, Asset Management, Service Master Plans...
- ❑ Consideration and analysis of various future scenarios
- ❑ Strategy development to address identified risks/threats and maximize opportunities
- ❑ Provides an opportunity for meaningful consideration and selection of service levels and changes thereto
- ❑ Policy and Strategy are just as important than the numbers!!!!

# Long-term Financial Planning

## The Question LTFP attempts to Answer:

- ❑ Can we/LG “afford” to sustain our current and projected service levels?
  - ❑ Cost affordable to taxpayers, AND
  - ❑ Service levels incorporate minimum environmental and social/cultural goals/standards
  
- ❑ IF the answer is NO, then there are only two choices:
  - ❑ Lower level of, or eliminate, services
  - ❑ Increase taxes

# Long-term Financial Planning

## Key Financial Policy Considerations

- ❑ Financing Issues
  - ❑ Use of long-term Debt
  - ❑ Use of Reserves
- ❑ Maximizing non-tax Revenue Sources
  - ❑ User Fees
  - ❑ Private and non-profit sector partnerships
  - ❑ Maximizing volunteerism
- ❑ Taking “advantage” of available Grants

# Long Term Financial Planning

## EXERCISE – 10 min

Your Finance Officer has made the following recommendation regarding the New \$10M Swimming Pool Financial Plan:

- Incur long-term debt to finance the \$5M not covered by the Provincial Grant, repayment term 30 years (\$300,000/yr. for 30 years)
- Beginning in the year after construction tax for, and contribute to a Reserve (for future replacement/renewal needs of the Pool), 50% of the Pools annual amortization expense.  
( $\$10M \times 50\% / 50 \text{ years useful life of pool} = \$100,000/\text{yr. for 50 years}$ )

Would you support this recommendation? Why or Why not?

What if the recommendation was to tax for and contribute 100% of the annual amortization costs (\$200,000)? Why or Why not?

3 min. – Group discussion

3 min. – Table sharing (Answer questions) and appoint spokesperson

4 min – Group sharing

# Long Term Financial Planning

## EXERCISE – Conclusion

### Taxing for Asset Purchase (Debt) AND Replacement (Reserve)

- Theory “NG” – When construct/purchase a new municipal asset the taxpayer’s share of that expense increases their property value. If the LG then taxes for asset consumption (amortization) and holds this money for future replacement when required, than the increased value in the property is fully maintained. Thus, if the taxpayer sells s/he receives 100% of the asset value back in the sale price, meaning that s/he would only have paid for actual consumption during h/er time in the home.
- Debt is limited (legislated debt limit), some funding must come from existing taxpayers/reserves
- Even if Debt was not limited and could choose debt for all replacements, the maximum debt term is 30 years (BC) vs asset useful life of 50-100 so would still not be charging those “benefiting from” the asset
- The Bottom-line
  - The direction we are heading in does not appear to be sustainable
  - Taxing now for future replacement means that over-time the cost to replace TCA will be less for ALL and we will be assured that critical assets will be replaced when necessary, maintaining our quality of life...

# Key Aspects of Strategic Financial Planning

#6

Strategic Financial Planning requires  
an investment in staff and systems



# Strategic Financial Planning



Identify “Take Aways”



# End of Session



Feel free to call or e-mail if have any questions or want to talk about an issue...

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