



## Financial Services Staff Report

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Report Title:	Long Term Financial Framework
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Final Review:	Chief Administrative Officer

### **Recommendation:**

That the Council of the Township of Woolwich, considering Report F15-2024 Long Term Financial Framework

1. Adopt the Long-Term Financial Framework (LTFF) as presented as a basis of financial management in the municipality;
2. Supports and adopts the financial pillars and principles contained in this report; and
3. Requests Staff to further develop the framework, policies and elements in the overall framework and to report back on progress prior to budget parameters in September 2025.

### **Background:**

The long-term financial framework (LTFF) is a comprehensive approach to financial management in the municipality. The framework is intended to serve as a guide for developing financial plans, budgets, and financial reporting. Based on the input and feedback coming from Council out of the 2024 budget process, staff appreciates the importance of long-term financial sustainability. The development and implementation of a LTFF is a critical first step in the sustainability journey.

The former Acting Director of Finance was able to complete some work related to sustainability modelling, but there is much more work and many more components to required for the full development of a LTFF, and to that end staff will be seeking Council's support for the development of the framework and related timelines.

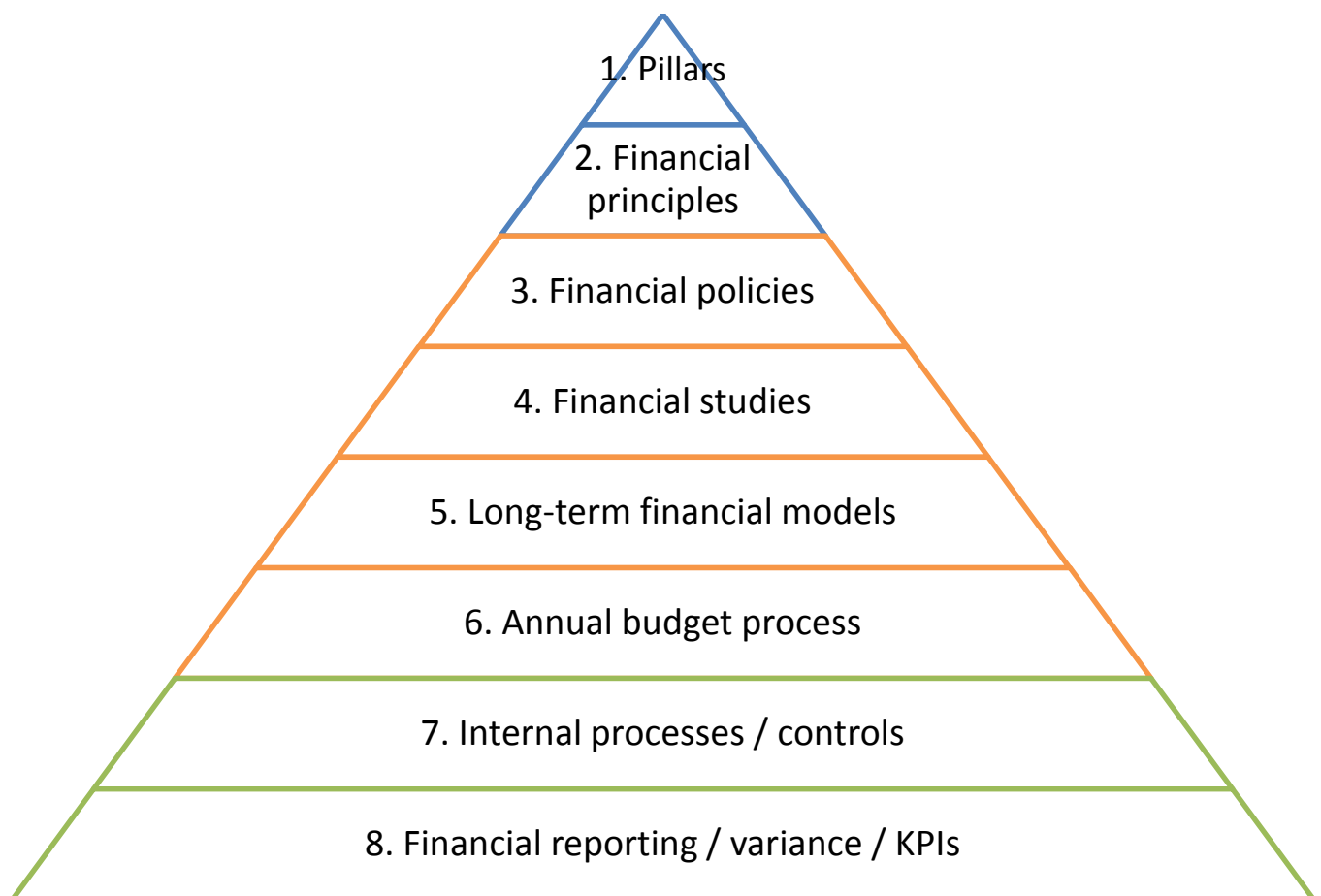
## Comments:

The long-term financial framework (LTFF) can be thought of as a scaffolding that holds the various financial principles, policies and practices together. This framework provides a financial foundation that can be built upon incrementally as the organization matures.

The LTFF is made up of a hierarchical structure which helps to guide financial decision making in the municipality. It is not a prescriptive approach to budgeting or financial prioritization, but instead sets the foundation to inform decision making and to develop financial models in the future.

The outline of the LTFF is shown below in the form of a hierarchical pyramid. It can also be imagined bottom up, with the pillars acting as foundational pieces for other work.

- The top areas in blue (1-2) are the foundational underpinnings of the strategy – the “Why?” or Why are we making financial decisions? (objectives)
- Areas in orange (3-6) are methods and models to help achieve our financial goals – the “How” – how are we going to achieve the financial objectives?
- The areas in green (7-8) are ways to monitor performance to see if we achieved our financial objectives. They are the “What?” – what did we accomplish?

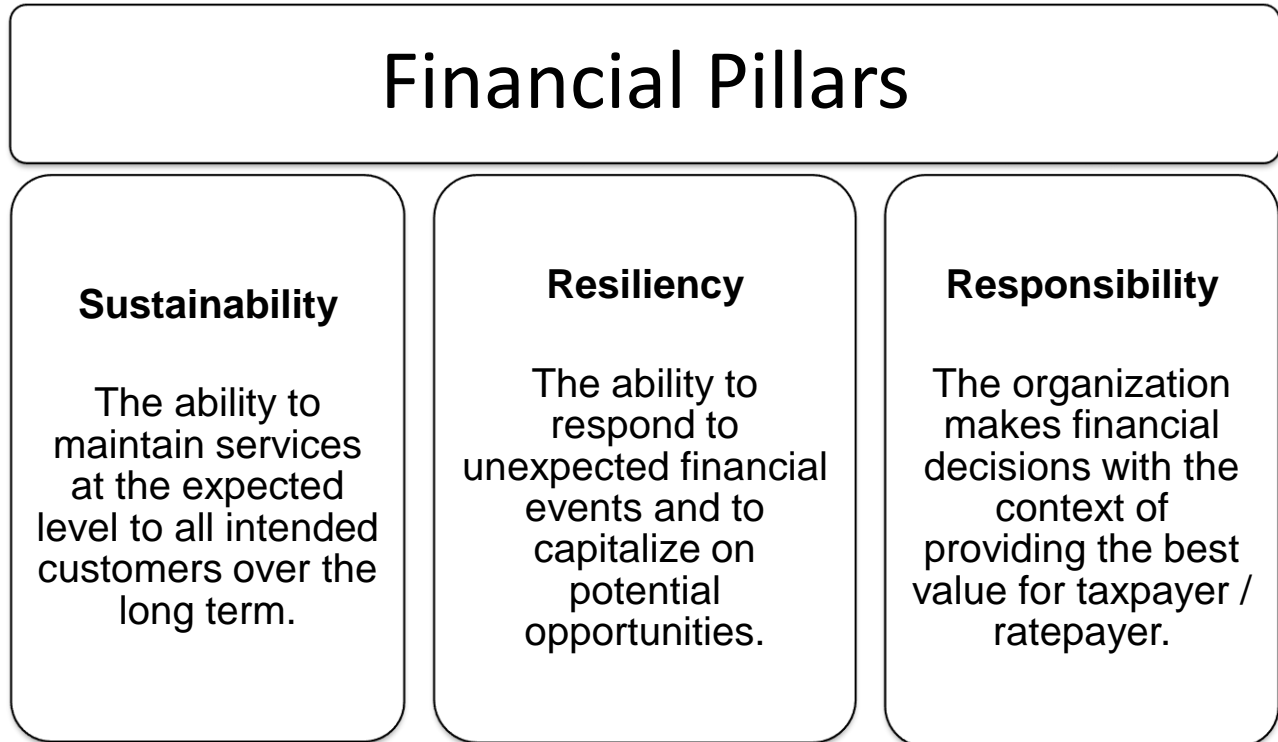


*Fig 1 – Long-term financial framework pyramid*

Each section will be outlined in more detail below:

## 1. Financial pillars

The financial pillars are named as such because they provide a foundation of support for all of the work that follows in the long-term framework. They outline broad objectives to guide the overall financial management in the Township.



*Fig 2 – Long-term financial framework - principles*

### ***Sustainability***

- **Definition:** “The ability to maintain services at the expected level to all intended customers over an extended period of time.”
- This encompasses the idea that we should make decisions with a long-term perspective, and to avoid short term decisions that could undermine the ability to deliver future services.

### ***Resiliency***

- **Definition:** “The ability to respond to unexpected financial events and to capitalize on potential opportunities.”
- This means to make decisions that will reduce the level of financial risk to the Township and we are able to absorb minor financial shocks. It also means creating the financial capacity to pursue potential opportunities should they arise.

## *Responsibility*

- **Definition:** “The organization makes financial decisions within the context of providing the best value for taxpayer / ratepayer.”
- The taxpaying public and their ability to pay will always be considered in making decisions and the financial impact it may have to residents and businesses.

### **2. Financial principles**

The financial pillars are broad objectives of financial planning. The principles listed below add more detail and practicality in the approach to financial management in the Township. They are organized under each pillar (but may not be an exact fit):

***Sustainability*** - *The ability to maintain services at the expected level to all intended customers over the long term.*

- **Long-term perspective / approach.** Decisions will be made with a long-term time horizon and will avoid short-term decisions that could jeopardize long term financial sustainability.
- **Responsible use of reserves.** Reserves and reserve funds will be used with a long-term perspective with a view to maintain a defined target balance. If reserves need to be used a plan will be developed to restore reserves to target levels.
- **Intergenerational equity.** The concept of fairness or justice between generations. From a financial perspective it means that the financial burden of both existing and future taxpayers is considered.
- **Growth pays for growth.** Municipalities are often legislated to grow and expand to attract and accommodate new residents. To the extent permitted, new residents and developers should fund the additional cost of supporting related growth generally through DC's and increased assessment.
- **Asset management approach.** Asset management principles should be used to prioritize infrastructure renewal needs. This ensures a risk-based and data driven approach to the funding of keeping our infrastructure in a state of good repair.
- **Environmental sustainability.** To the extent possible, long term environmental sustainability will be considered in financial decisions and to try to balance affordability with environmental concerns.

***Resiliency*** - *The ability to respond to unexpected financial events and to capitalize on potential opportunities.*

- **Alignment to the strategic plan.** Financial decisions will generally be made in alignment with the strategic plan to ensure a corporate and community perspective is used.

- **Risk management approach.** Financial decisions will be made considering the mitigation of risk and to minimize potential future impacts.
- **Responsible use of debt.** Debt can be used effectively to spread out the costs of infrastructure projects and to ensure intergenerational equity. Debt must be used responsibly in line with Council and provincial policies.
- **Use of one-time funding.** One time funding should not be relied upon as an ongoing funding source. To the extent possible, one-time costs should be offset with one-time funding and ongoing costs need to be matched with ongoing sustainable funding.
- **Transparency and accountability.** To the extent possible, financial decisions will be data driven, well-reasoned in line with best practices and made public. There will be regular reporting of the financial status of the municipality in a transparent manner.
- **Effective policies and internal controls.** Financial policies and controls will be developed and followed to minimize risk and to protect municipal assets while allowing flexibility to deliver programs and services.

**Responsibility** - *The organization makes financial decisions with the context of providing the best value for taxpayer / ratepayer*

- **Value for money approach.** The township will take the approach of providing the best value to the taxpayer / ratepayer. This also recognizes that the lowest price may not represent the best value in terms of quality and long-term financial impact.
- **Strategic use of economic incentives.** The township will be selective in providing economic incentives to businesses and residents to ensure that funding is in the best interest of the community as a whole.
- **Users pay for services they use.** To the extent possible, those that directly benefit from the use of a service should be paying for those services. This also recognizes there is a community benefit to providing and subsidizing public services to users.
- **Innovation in revenue sources.** Other sources of revenue should be explored and utilized to the extent possible to minimize the cost to taxpayers / ratepayers.
- **Maximizing grant funding.** The municipality will explore and utilize senior governments grants and funding wherever possible to reduce the impact to tax / ratepayers.
- **Department and regional collaboration.** The municipality will take a holistic approach to financial decisions to minimize the cost to taxpayers. This includes finding cross-departmental efficiencies and collaboration with the regional municipalities where possible.

### 3. Financial policies

Financial policies provide more detailed guidance on financial matters. They are informed by the pillars and principles above. Many of the current financial policies are outdated and others have not been developed yet. The list of financial policies can be found on the next page grouped under the financial pillars. The content of these policies are beyond the scope of this report.

Policies with a single \* have not been developed yet.

Policies with + will come to Council before 2025 budget deliberations.

Sustainability	Resiliency	Responsibility
<ul style="list-style-type: none"> <li>• Asset management policy</li> <li>• Capital budget process policy</li> <li>• Reserve / reserve fund policy*+</li> <li>• Development finance policy*</li> <li>• Tangible capital asset policy</li> <li>• Environmental sustainability policy*</li> </ul>	<ul style="list-style-type: none"> <li>• Interest allocation policy*</li> <li>• Investment policy+</li> <li>• Debt management policy*+</li> <li>• Budget monitoring policy*</li> <li>• Cash handling policy*</li> <li>• Lease financing policy</li> <li>• Water / Wastewater rate policy*</li> </ul>	<ul style="list-style-type: none"> <li>• Tax and assessment policy*</li> <li>• Operating budget process policy*</li> <li>• Revenue / user fee policy*</li> <li>• Procurement policy (bylaw)</li> <li>• Corporate credit card policy</li> <li>• Expense reimbursement policy</li> </ul>

Fig 3 – Financial policies

### 4. Financial studies / strategies

The township undertakes many financial studies and strategies to inform decision making. These studies and strategies incorporate many of the financial principles and help guide the development financial plans, models and budgets. A non exhaustive list of these financial related studies is outlined below.

Sustainability	Resiliency	Responsibility
<ul style="list-style-type: none"> <li>• Asset Management Plan</li> <li>• DC Studies</li> <li>• Growth planning</li> <li>• Long-term sustainability plan</li> <li>• Department masterplans</li> </ul>	<ul style="list-style-type: none"> <li>• Fiscal impact studies</li> <li>• Funding strategies, use debt and reserves</li> <li>• Investment, cashflow and liquidity strategy</li> </ul>	<ul style="list-style-type: none"> <li>• User fee review / strategy</li> <li>• Tax and assessment policy</li> <li>• Economic development strategy</li> <li>• Utility rate reviews</li> </ul>

Fig 4 – Financial studies / strategies

### 5. Long Term financial models

Informed by principles, policies and the various studies, more in depth financial models can be developed to provide practical scenarios to enable long term financial decision making. These models will take a long-term perspective, will be based on high level economic assumptions and be prepared with less detail than the annual budget.

Examples include:

- **Fiscal impacts of growth.** These will outline projected growth scenarios in the township and the associated costs and revenues related to growth in a specific area or the township as a whole.
- **Asset management financial plans.** These will help determine the required capital contribution to keep our infrastructure in a state of good repair.
- **Long term capital plans.** These will identify long term capital needs of various departments and prioritize those needs based on asset management principles and department expertise.
- **Long term funding models.** These will identify available grants, reserve, funding to determine the financial feasibility of the capital plans.
- **Debt and cash flow models.** These will include funding models and identify shortfalls and determine the debt required to support capital costs and to ensure adequate cash flow (liquidity) for investments and operations.
- **Staffing and service level models.** These will help determine the current and projected service levels and to anticipate staffing needs and related costs.

There is limited modelling being currently performed by the Township because of the lack of staff time and available expertise related to financial analysis. These long-term models

will take time to be developed and integrated with each other to be used in decision making to ensure long term fiscal sustainability, resiliency and affordability.

## **6. Annual budget process**

The annual budget process will be informed by the financial principles and various financial models to present an annual capital and operating budget for the year and set the year's tax and rate requirement approved by Council. More detail on budget development will be contained in the operating and capital budget development policy.

## **7. Internal processes and controls**

These are the daily controls and activities in place to safeguard town resources. Examples include (but are not limited to):

- Purchasing bylaw / staff approval limits
- Manager oversight and monitoring
- Regular Council reporting and updates
- Following accepted accounting standards and provincial regulations
- Annual external audit

## **8. Financial reporting**

The final component of the framework is the regular reporting cycle to stakeholders. Once plans and budgets are developed, regular reporting is ensuring Council, staff and the public is informed on of the financial and corporate performance of the township. Examples of these reports include:

- Regular financial updates / quarterly and annual variance reporting
- Year end financial reporting in compliance with accounting standards (audit)
- Reporting to senior levels of government (FIR, ongoing grant reporting)
- Key performance indicators and other data analysis (currently under development)

## **Action Items Next Steps**

The long-term financial framework is the first step on a longer journey to financial sustainability. The chart below outlines the key projects of the finance department and offers practical next steps to improve our financial awareness and sustainability.

However, a plan is only as good as the resources available to implement it. There has been a lack of available resources and skillset in the finance department to perform this work. Finance staff were primarily focused on day-to-day operations, and did not have the capacity to do financial analysis and modelling that is required for this kind of a framework. The finance department systems and policies are out of date and the team lacks the resources to do detailed analytical work. There will be additional resource requests in the upcoming 2025 budget to support the development of the framework and to move towards improved financial sustainability.



The detailed project list can be found below with various timeframes from 9 months to 2+ years:

No.	Description	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027	Q2 2027	Q3 2027	Q4 2027
1	LTFF Update														
2	W.WW Study														
3	10 Year Capital Plan														
4	New Accounting Software														
5	LT Model - Cashflow														
6	Budget Improvements														
7	AMP / Capital Funding Plan														
8	LT Model - 3 year operating														
9	GL Chart of Account review														
10	Improve Utility Analysis														
11	Update financial processes														
12	Improve Financial Reporting														

**Interdepartmental Impacts:**

The components of the long-term financial framework applies to all departments and staff in the Township. This ensures that all staff are following a consistent set of principles when developing their budgets, fees and charges and carrying out the daily activities.

**Financial Impacts:**

The long-term financial framework will be used to improve budgeting, stewardship and financial decision making in the Township. Ongoing development and use of this framework will ensure the key objectives fiscal sustainability, resiliency and affordability are met.

**Community Strategic Plan Impacts:**

- Provide effective and open leadership: *We will guide with transparency and empathy, fostering a culture of trust and collaboration*

The long-term financial framework enables Council to achieve its corporate strategic plan focus of effective and open leadership by transparency in the financial matters of the township allocation of tax and rate dollars.

**Conclusion:**

The long-term financial framework (LTFF) is a comprehensive approach to financial management in the municipality. The framework is intended to serve as a foundation for developing financial plans, budgets, and financial reporting. Its elements will be updated and expanded to improve the financial maturity of the organization.

Following Council's support of the LTFF, staff's next steps will be to further develop the long-term framework and report back to Council on progress as outlined in the project plan. The success of further development and implementation of the components of this framework is dependent on finance staff capacity which is not currently available.

**Attachments:**

1. LTFF Overview presentation