2016 LAS/MFOA Asset Management Plan - Capacity, Communication and Collaboration

Strategic Financial Planning
A Next Step After Asset Management Plans

Town of Petrolia
April 2016
Bad planning is buying a new saddle for an old horse!
Outline

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2. Linkage With Strategic Financial Planning
3. Public Infrastructure Gap - $500B
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What is Strategic Planning

• The process a municipality uses to proactively plan its future
• Examines where the municipality is now, where it wants to be, and how to get there, eg, helps translate Councils vision into concrete actions and set priorities
• A strategic plan is a flexible plan or roadmap of strategies derived from internal discussions (capital prioritization) and external sources of input (eg, grants)
What is Strategic Planning

Strategic planning should enable Council to:

– Influence rather than be influenced, e.g., anticipate issues
– Clarify or redefine the role of Council, where does tax dollar get spent
– Deal proactively with change and address critical issues
– Facilitate innovation, creative and collaboration
– Decrease crisis management
– Use resources more efficiently and effectively
– Improve communications among Council, staff and the public
Synergy Between Strategic Plan and Strategic Financial Plan

• Like any successful organization, a major part of a municipality’s success is due to good planning. The two main types of planning are strategic and financial planning. These methods of planning have different focuses, but well run organizations capitalize on the essential synergy between the two.

• Financial planning is managing the municipality’s finances over the planning period in such a way that Council can meet its community’s needs.
Synergy Between Strategic Plan and Strategic Financial Plan

• Strategic planning is the process of determining the direction Council wishes to take, its major goals, and at a high level how to achieve these goals.

• Ideally, strategic and financial planning are always intertwined, working together.

• Any major change to a municipality’s financial situation necessitates a re-evaluation of the current strategy. And the opposite is true.
“A Council approved strategy without a corresponding strategic financial plan is just daydreaming. A Council approved strategy with a realistic strategic financial plan is key to seeing the strategy come to fruition.”

– Treasurer, Town of Petrolia
Profile of Public Infrastructure
Share of Infrastructure by Order of Government (1955 and 2007)

1955 Public Stock of Fixed Capital
$111.861 BILLION

2007 Public Stock of Fixed Capital
$443.167 BILLION

Municipalities Own Majority of Infrastructure But Receive the Smallest Share of Tax Dollars

Source: The Fraser Institute’s Canadian Tax Simulator, 2014
"...and that’s why you need to raise my allowance!"
The Stars Aligned - Model Development

• Early in 2014, Council approved Petrolia’s first ten year Asset Management Plan which included water, sewer and most of our roads. BUT did not include all Town assets, such as, Community Centre, Arena, vehicle fleet, etc.

• We now knew what we needed, but no means to afford it!

• However, the Feds and the Province started announcing new infrastructure grants
The Stars Aligned - Model Development

• Like many other small to medium sized municipalities we had an endless list of major infrastructure priorities

• Our senior management meetings would discuss one major infrastructure priority at a time because we had no means to focus our management attention on all our priorities in a holistic and integrated manner

• Our CAO wanted a multi-year plan that addressed our municipality’s key infrastructure priorities
The Stars Aligned - Model Development

• My background with strategic financial planning in the federal government – led strategic financial planning group at National Defence – about $10 billion per year, used a 15 year planning horizon, used a model similar to the one we developed

• My mentor/coach with over 30 years municipal Treasurer experience – when the feds and municipal levels work together – great things happen!

• Council was extremely supportive of developing a 10 year view rather than as our Mayor stated our traditional 6 month budget view
The Stars Aligned - Model Development

- Our decision support tool evolved over about a 12 month period, and we are still enhancing as we drop/add a year to our 10 year horizon
- New federal government promised and announced to spend additional funds on public infrastructure – Petrolia is ready!
Model Overview

• **KISS** principle as we have extremely limited staff capacity and time

• Management team updated the capital plan (many times) and added other Town capital requirements, such as, our profession theatre operations, community services, buildings, etc

• For example, one of the many holes in our AMP was our vehicle fleet, we now have 10 year vehicle replacement plan – this also helped us update our list of vehicles for insurance purposes

• The management team developed a multi-year strategic financial planning model (2015-2024)
Model Overview

- Having a long term financial plan, we reassessed the financial viability of our AMP and quickly discovered that our AMP was a wish list, and we needed to be tougher with our capital prioritization process.
- Model started with the draft 2015 operating budget at a macro activity level and projected revenues and expenses out 10 years based on built-in assumptions.
- 10 Year Strategic Financial Plan is updated as part of normal annual budget process and becomes starting point for the following year’s annual budget process.
Model Overview

• **Model Integrated** – model integrates revenues, expenses including any current and planned loan payments, capital expenditure plans, reserves, annual surpluses/deficits, annual debt repayment limits, total debt outstanding, etc.

• **Model Interactive** – many of the assumptions built in can be adjusted with the impact known immediately, eg, tax rate; OMPF funding change; inflation rate for expenses; etc.
Model Overview

• The model covers:
  – Town Operations and Capital
  – Water Operations and Capital
  – Sewer Operations and Capital
  – Total Long Term Debt for all activities (including debt repayment limit calculations)
Total Road Construction Versus Road Maintenance Strategy

*Note: The orange shaded area illustrates increased lifecycle costs between the two strategies*
A budget is telling your money where to go instead of wondering where it went.

John Maxwell
Strategic Financial Planning Model Usage

• Operating Budgets at a macro level: Revenue, Operating Expenditures before Debt, then Debt to calculate Surplus/Deficit for each year

• Built in assumptions/future facts:
  – Annual tax increase including assessment growth (plus shortfall in tax rate to balance budget);
  – Landfill Royalties;
  – Street Lights LED Initiative;
  – Expense inflation rate, eg., we use higher rate for hydro costs
Strategic Financial Planning Model Usage

• In 2015, new baseline Capital Sustainability Reserve contribution – 5% increase on top of general rate increase

• New minimum Operating Contribution to Working Capital Reserve of $100K starting in 2015 (part of our first Council approved Financial Policy)

• Victoria Playhouse Petrolia (VPP) operations – balanced budget with surpluses/deficits transferred to/from VPP Reserve

• New OPP costs included - 13% increase in 2015 to 25% of our tax revenue
Strategic Financial Planning Model Usage

• Council approved Recreation Centre and Aquatics Program changes – multi-year implementation plan

• Town General Capital:
  – Working Capital Reserve maintained at $500K or more
  – 10 Year capital plan $12.5M. Main capital projects are: Roads $7.8M; Fleet Replacement $1.4M; Arena $710K; Community Centre $400K; Freight Elevator $680K in 2020

• First multi-year Road Maintenance Plan
Strategic Financial Planning Model Usage

• Town Debt:
  – new debt is calculated at 3% interest rate over 10 year term
  – Town outstanding debt $2.6M in 2016 and $5M by 2025

• Same concepts for Water and Sewer
Total Long Term Debt Overview

• Long Term Debt includes debt required for Town General, Water, and Sewer

• Total outstanding debt $3.1M in 2016 and $18.0M in 2025

• 2016 annual total debt cost $1.1 M, 2025 annual total debt cost $2.4M

• Annual Debt Repayment Limit (New Debt)
  – Additional 2016 annual limit is $1.4M or 45% debt capacity used
  – Projected additional 2025 annual limit is $225K or 92% debt capacity used
Conclusions

• Like most municipalities, the Town of Petrolia is a capital intense organization ($90M original cost of TCA)
• These assets are critical to Council maintaining its level of service to the residents
• The Town of Petrolia now has an integrated, long term view of our capital and operational plans for all our activities, Town General, Water, and Sewer
• We can use our Strategic Financial Planning model to help Council plan, prioritize and smooth out our future capital requirements, eg, 150th Canada Birthday grant
• Many secondary, important benefits of developing and implementing our long term financial plan, eg, first vehicle replacement plan, adjusted service levels
Conclusions

• In addition, our model is used to determine future water and sewer rates. Thereby, negating the requirement to hire external consultants, but more importantly, **we now know our costs and can better manage our future.**

• Led to cultural change, capacity building, communications, and collaboration - better integrated planning for anything we do

• We are on a continuous improvement path with a strong, respectful Council-staff relationship

• MFOA is planning to incorporate aspects from multiple strategic planning models to produce a generic model it will provide to municipalities with some written documentation
**Vision of Treasurer’s Role**

**Strategic Level**, eg, strategic analysis and advice to Council and CAO/Management Team, eg, long term Strategic Financial Planning, business cases

**Operational Level**, eg, Ministry reports, HR, annual Audited Financial Statements; internal financial reports to Council and management; financial management control framework (eg, bank reconciliations)

**Tactical Level**, Accounts payable; accounts receivable; payroll

**Notes:**
1. Tactical issues can quickly become strategic issues, eg, fuel delivery during a battle
2. Vision is to move from **Red Triangle** (focused on urgent day-to-day issues) to **Green Triangle** within 6 to 12 months with strong Council support
3. **Yellow Triangle** is representation of current municipal legislative framework.
Enough with all the strategic planning. Get out there and kill something!