



For Information Only
Audit of Long Term Financial Planning

Presented To:	Audit Committee
Presented:	Tuesday, Oct 04, 2016
Report Date	Monday, Sep 19, 2016
Type:	Correspondence for Information Only

Resolution

For Information Only

Finance Implications

Disclosure of updated LTFP and Asset Management Plan

Signed By

Auditor General
Ron Foster
Auditor General
Digitally Signed Sep 19, 16

Audit of Long Term Financial Planning

September 19, 2016
FINAL REPORT



SUMMARY

Objectives

The objective of this audit was to determine if a Long-Term Financial Plan (LTFP) had been established recently to support the City's Corporate Strategic Plan and to manage the financial affairs of the City.

Background

Citizens and taxpayers expect their municipality to responsibly manage public assets and prudently guide the corporation's financial future. Strategic financial management allows a municipality to meet this expectation. It provides a plan for the future, allows a big-picture perspective, supports fiscal sustainability, and allows municipalities to make wiser decisions and achieve long-term goals.

A long-term financial plan (LTFP) which is anchored in a corporation's strategic direction and supported by current financial and economic analysis, is at the core of strategic financial management. A LTFP provides direction on a number of major financial areas, namely, operating and capital pressures, debt management, reserve funds, revenue generation and other financial policies. Strategies for each of these areas should be linked to the City's Corporate Strategic Plan.

Scope

The scope of the audit covers the budgeting cycle for 2015 and 2016.

Report Highlights

When the updated Long-Term Financial Plan and Asset Management Plan are completed and presented, Council will have a clearer picture of the City's financial situation including the strengths, weaknesses, opportunities, and threats when approving annual budgets and capital project proposals.

Specific performance targets were not identified and endorsed by previous Councils during annual budgets to support the principals and policies within the 2002 -2012 LTFP. As a result, limited progress has been made to address some of the financial challenges identified in the 2002 -2012 LTFP such as the limited reserves available to replace the City's aging assets.

The estimated maintenance backlog on the City's infrastructure, building, fleet, and other assets has grown to approximately \$1.4 billion and may limit the City's ability to maintain service levels.

Audit Standards

We conducted our review in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we adequately plan for the audit; properly supervise audit staff; obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions; and prepare audit documentation related to the planning, conducting, and reporting for each audit. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit.

For further information regarding this report, please contact Ron Foster at extension 4402 or via email at ron.foster@greatersudbury.ca

Long Term Financial Plan

In 2002, the staff developed a long-term financial plan (LTFP) that was approved by Council but not fully embraced by subsequent Councils. The 2002-2012 LTFP examined the City's fiscal needs over the next ten years and set out nine principles and policies to guide City Council and the City administration in managing the financial affairs of the City. Appendix 9 sets out the guiding principles and policies.

In 2011, staff developed a tactical document entitled "Rethink, Refocus, Rebalance" to help the City to move toward fiscal sustainability. Annual updates to this document identified short term objectives to support the nine principles and policies of the LTFP. In 2015, the following fiscal sustainability objectives were identified:

1. Generate reliable and predictable revenues sufficient to meet current and future expenses;
2. Build and replace capital assets to support City's infrastructure requirements;
3. Provide expected level of municipal services efficiently and effectively;
4. Achieve stability in property taxes increases and intergenerational equity; and
5. Ensure sound financial management and health.

Staff issued a Request for Proposal in 2016 to update the City's LTFP which will be completed in Q1 2017.

Observations

- When the updated Long-Term Financial Plan and Asset Management Plan are completed and presented, Council will have a clearer picture of the City's financial situation including the strengths, weaknesses, opportunities, and threats when approving annual budgets and capital project proposals.
- Specific performance targets were not identified and endorsed by previous Councils during annual budgets to support the principals and policies within the 2002 -2012 LTFP. As a result, limited progress has been made to address some of the financial challenges identified in the 2002-2012 LTFP such as the limited reserves available to replace the City's aging assets.
- The estimated maintenance backlog on the City's infrastructure, building, fleet, and other capital assets has grown to approximately \$1.4 billion and may limit the City's ability to maintain service levels. Council was advised of the \$700 million infrastructure deficit on roads during the 2015 budget process and of the \$345 million capital requirement for water/wastewater during the 2016 budget process. The estimated maintenance backlog on the City's capital assets will be identified in the City's Asset Management Plan which will be completed in Q4 2016.

Impacts

1. The financial principles and policies within the 2002-2012 LTFP were endorsed in principle by previous Councils but not always followed during the annual budgeting process.
2. Council is not aware of the actual size of the maintenance backlog on all of the City's capital assets or the potential limits it imposes on the City's ability to maintain existing service levels.

3. The quality of decisions made by Council may be compromised by the absence of complete information on the City's current financial situation and the condition of its deteriorating capital assets in annual budgets and presentations on capital projects currently under consideration.

Recommendations

1. A Long-Term Financial Plan (LTFP) covering 10 years should be developed to support achievement of the priorities outlined in the City's Corporate Strategic Plan while informing Council of the City's financial situation and current condition of its deteriorating capital assets.
2. The City should ensure its boards and wholly-owned corporations have established appropriate LTFPs if they are dependent on the City for financial support of any type.
3. Specific, measurable, action-oriented, and realistic goals should be developed to support achievement of the principles and policies within the new LTFP currently under development and incorporated into annual budgets.
4. Progress toward the principles and policies within the new LTFP should reported to Council within the annual budgeting process.
5. Staff should provide Council with current information on the City's financial condition such as that shown within Appendices 1 to 8 of this report with the annual budget and any presentations on major capital project proposals.

Management Comment-

- **Management recognizes the need of a revised 10 Year Long Term Financial Plan. An external consultant has been selected through a RFP process and is underway. It is expected that it will be presented to City Council during the first quarter of 2017. This Plan will be developed to support the achievement of the City's Corporate Strategic Plan priorities in addition to illustrating the City's financial condition.**
- **Management will work throughout 2017 and 2018 to develop goals and specific action plans to support the achievement of the principles and policies within the revised LTFP once it has been presented to City Council.**
- **Management (along with external consultants) have presented long term financial plans to previous City Councils for Roads (in 2012) as well as Water/Wastewater (in 2011) that illustrated the financial condition and pressures facing our City's critical capital infrastructure.**
- **Previous annual budgets included a section on "Toward Fiscal Sustainability" which was based on the LTFP to illustrate the challenges facing the City along with the key principles and action items.**
- **The annual budget document, as well as the City's annual financial report in conjunction with the City's audited financial statements, has included key financial information such as reserves and reserve funds, total debt, and key performance indicators. Also, the annual capital budget includes an unfunded list that illustrates the significant unfunded capital needs by service area.**

- **Management has implemented several financial policies, processes and by-laws approved by various City Councils to manage the City’s financial condition now and for the long-term. This includes the Operating Budget Policy, Capital Budget Policy, Debt Management Policy and the Reserves and Reserve Fund By-Law.**
- **Management agrees with the limited progress made with the infrastructure deficit. Since 2002, management presented various City Councils with an option for a capital levy in accordance with the recommendations of the LTFP to assist with the growing infrastructure deficit. Previous City Councils approved a capital levy in the following years: 2005 of \$3.2M; 2006 of \$3.3M; 2007 of \$0.8M; 2008 of \$3.7M. This was partially offset by a permanent reduction to the capital envelopes of \$5M in the 2010 Capital Budget.**
- **City Council has provided direction to staff for the 2017 Budget for the consideration of a capital levy of 1.5% that will assist with the significant infrastructure deficit which includes Roads and Buildings.**

Action Plan

The next 10 year Long Term Financial Plan is underway by an external consultant and it is expected that it will be presented to City Council during the first quarter of 2017.

Action Plan Lead

Acting Chief Financial Officer/Treasurer

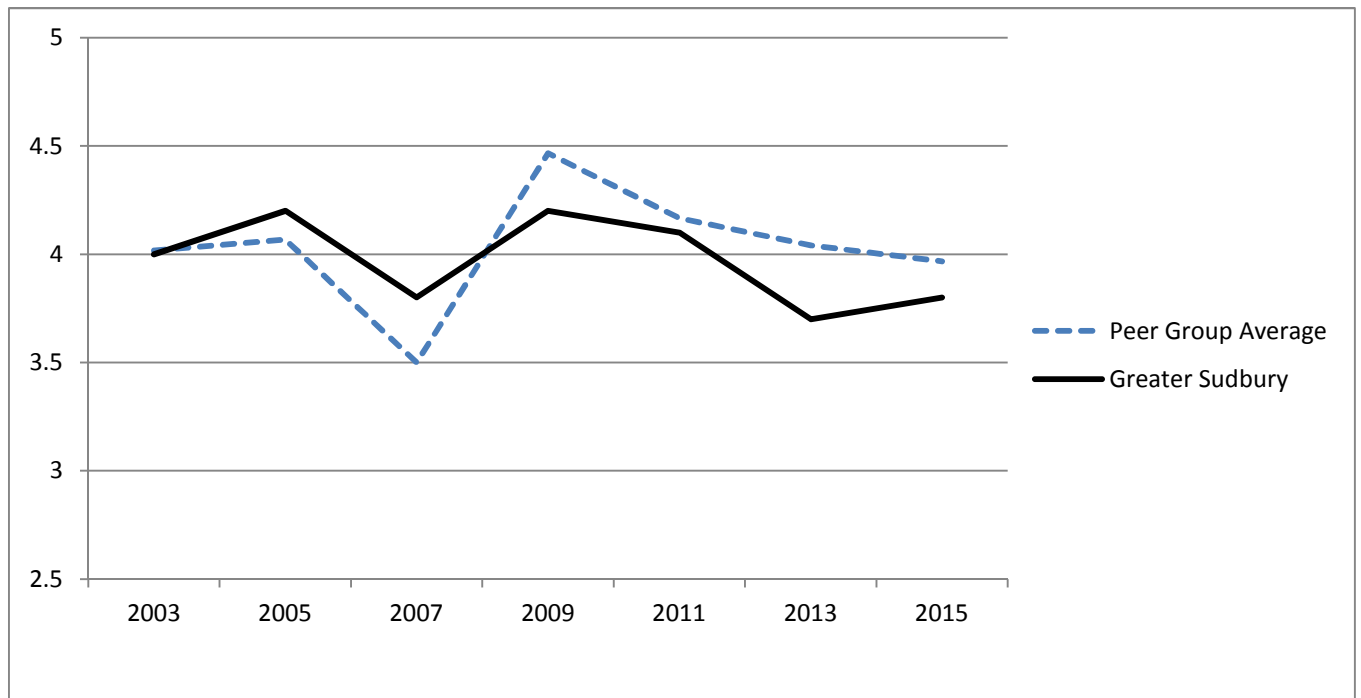
Timing

2017/2018

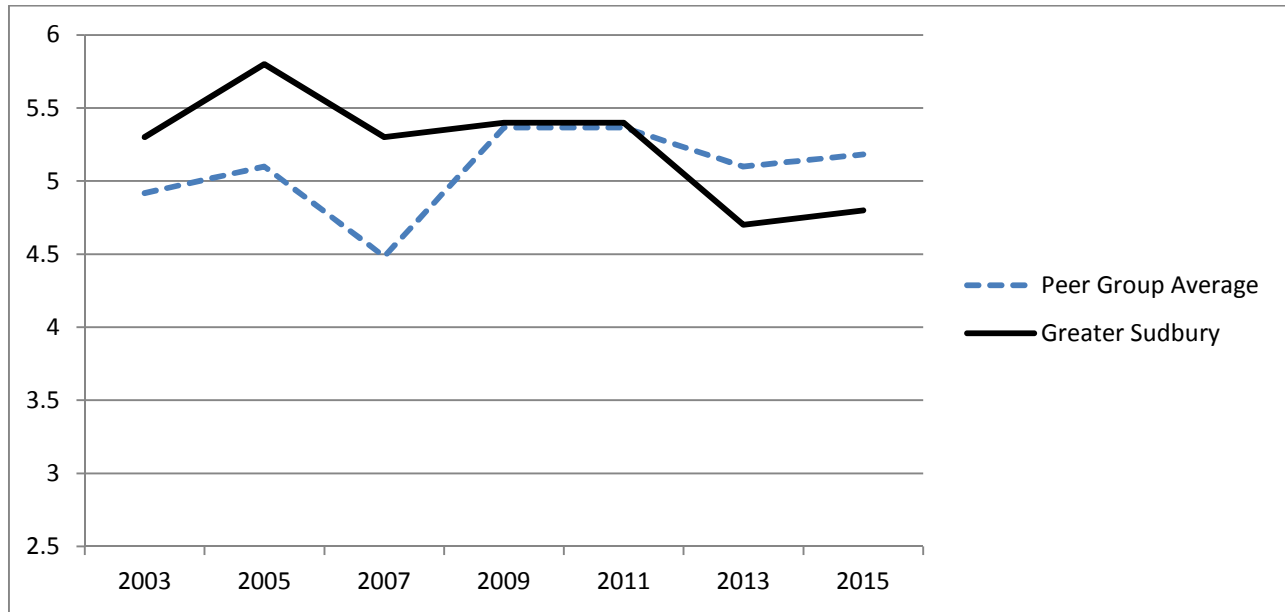
Appendix 1 – 2015 Property Taxes and Water/Wastewater Costs as a % of Income are Comparable to those within the City’s Peer Group

2015 Affordability Indicators	Thunder Bay	Chatham Kent	Guelph	Kingston	Barrie	Windsor	Peer Group Avg	Greater Sudbury
Property Taxes as a Percentage of Household Income	3.9%	3.8%	4.0%	4.3%	4.0%	3.8%	4.0%	3.8%
Water/Sewer + Taxes as a Percentage of Household Income	1.3%	1.3%	0.9%	1.2%	0.9%	1.6%	1.2%	1.1%

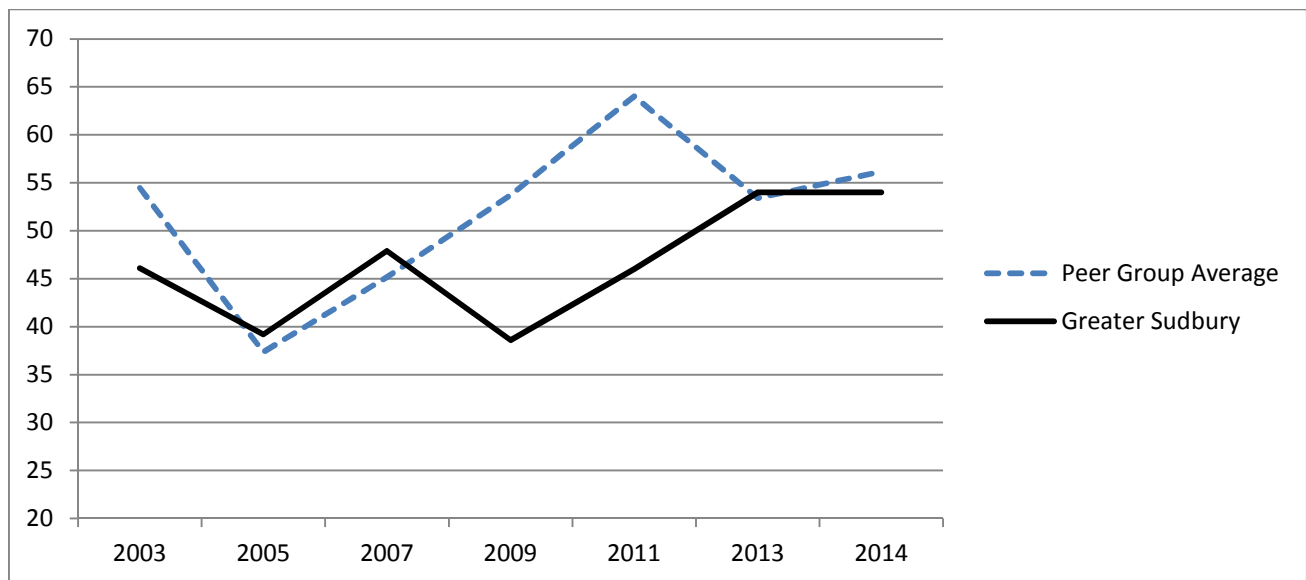
Appendix 2 – 2015 Property Taxes as a Percentage of Income have been Lower than in the Peer Group Average since 2008



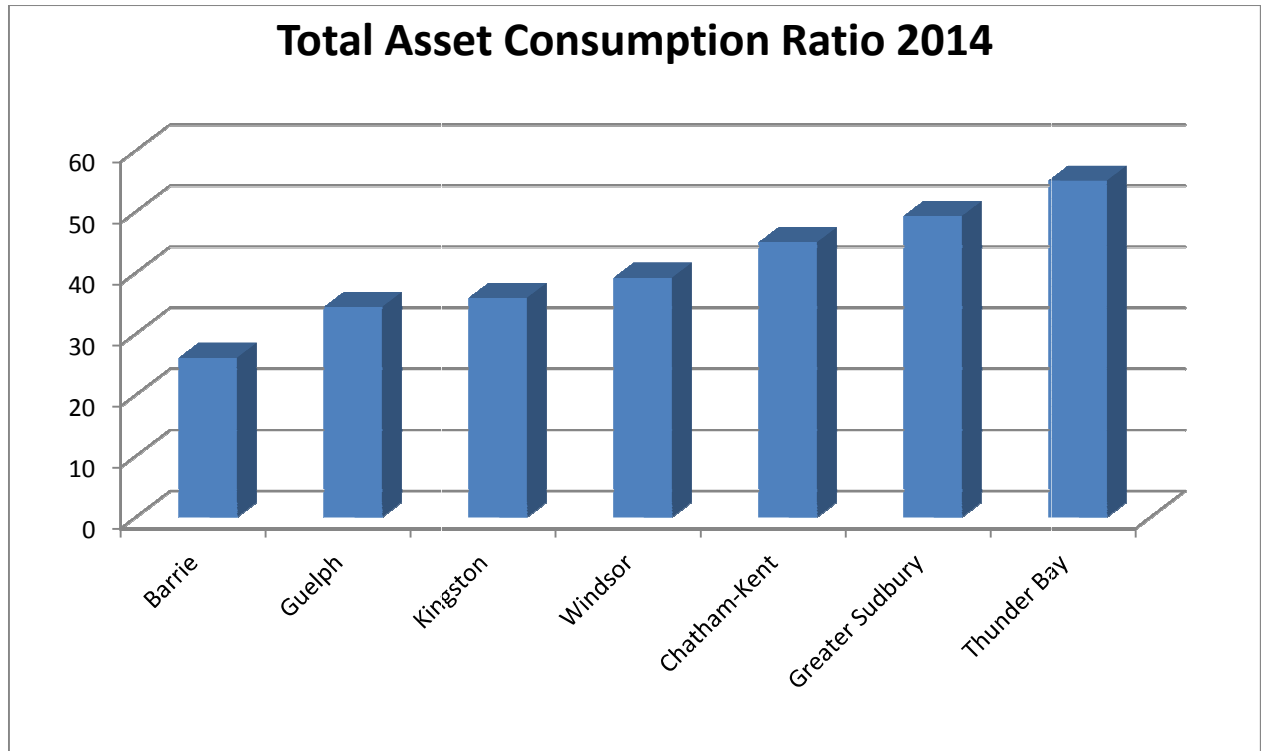
Appendix 3 – Total Taxes (including WWW) as a Percentage of Income have Comparable or Lower than the Peer Group Average since 2009



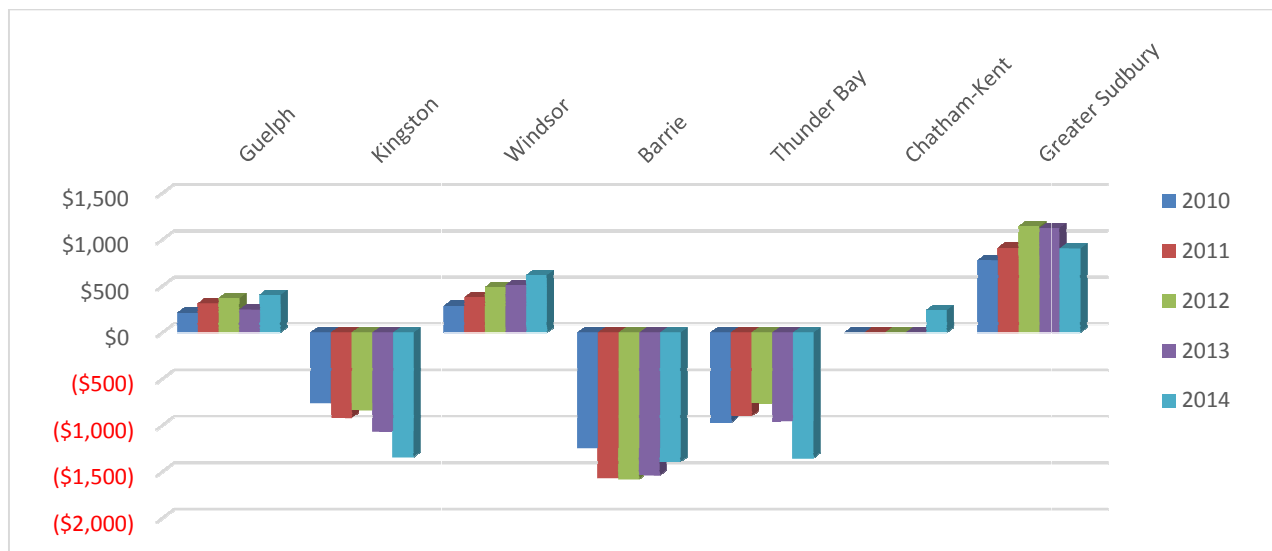
Appendix 4 – Discretionary Reserves as a Percentage of Taxation fell behind the Peer Group Average between 2007 and 2012 but have been comparable in recent years



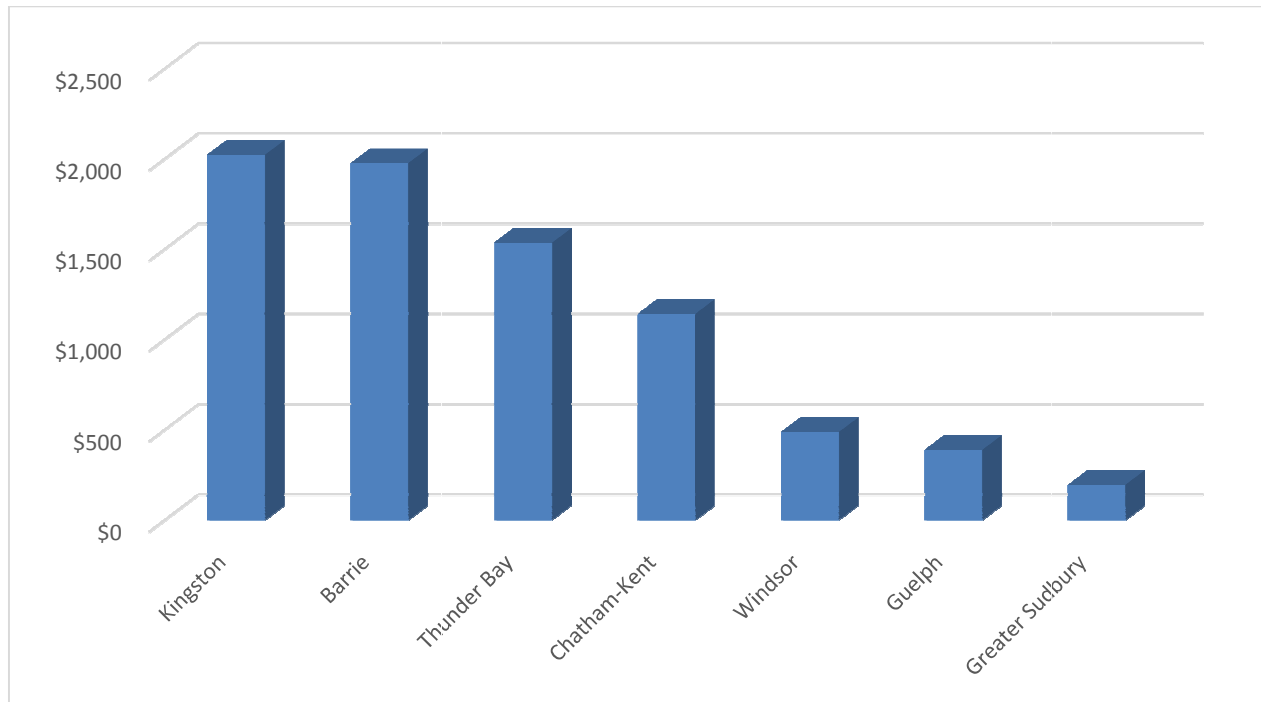
Appendix 5– The City’s Assets have a Higher Consumption Ratio than those of its peers as a result of being older and having higher Accumulated Depreciation



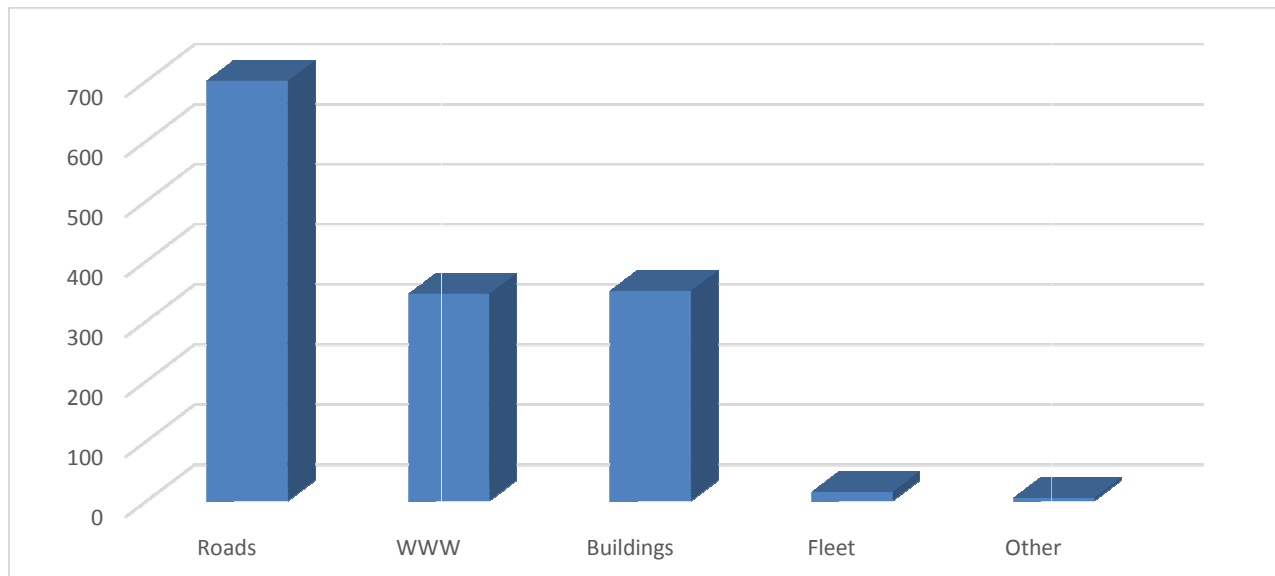
Appendix 6 – The City’s Short-Term Net Financial Position Per Capita is Stronger than its Peers



Appendix 7– The City’s Total Debt per Capita is Lower than All of it Peers



Appendix 8 – The Maintenance Backlog on the City’s Capital Assets is Approximately \$1.4 Billion



Appendix 9 – Long-Term Plan 2002-2012

Principles and Policies	Recommended Practice
<i>Ensure Long-Term Financial Sustainability</i>	Determine on a multi-year basis the financial requirements for the City's operating and capital needs
	Include in the annual budget process a detailed one year budget, three year budget forecast and annual update of the 10-year projection
	Set revenue raising requirements giving consideration to measures of affordability and competitiveness.
	Raise sufficient revenue to meet long-term operating and financial requirements, recognizing that inflation increases the cost of both operating and capital programs.
	Recognize the relationship between the operating and capital budgets. Annually identify and provide for capital from current funding, annual debt servicing costs, and for changes to operating costs arising from new/replaced infrastructure.
	Plan for the replacement of infrastructure through the use of life cycle costing and the development of replacement reserves.
<i>Deliver services in a cost-effective and efficient manner</i>	Undertake regular service level reviews giving consideration to the City's demographic profile and other relevant factors
	Undertake reviews of City programs on a regular, rotating basis, through the use of value-for-money audits, to ensure services are delivered in a cost-effective and efficient manner.
	Develop key performance measures for each program area and incorporate performance measures in the annual operating budget.
<i>Ensure operating revenues are sustainable and consider community wide and individual benefits (taxes versus user charges)</i>	Finance ongoing expenditure requirements from ongoing, sustainable revenue sources.
	Align source and application of revenue considering community-wide and individual benefits.
	Establish target proportions of program costs to be raised through user charges based on reviews of benefits received.
	Establish user charges at rates that will yield the target proportions.
	Ensure that user fees are increased at the same (or greater) rate as increases in program operating costs.
	Strive to increase user fees as a percentage of overall funding by identifying new areas where user fees can be implemented.
	Ensure both operating and capital costs are considered when establishing user fees (full program costing).
	Programs which are driven entirely by individual benefit should be fully self-supporting through user fees.
	User fees should cover all operating and capital costs.
New programs should only be implemented if fully financed from user fees and program reserves.	
<i>Meet social equity objectives through specific programs</i>	Financial Plan policies should be applied on the basis of their benefit to the community as a whole.
<i>Manage the City's capital assets to maximize long-term community benefits</i>	Maintain the City's required infrastructure in a 'state of good repair' by implementing lifecycle costing to provide for the future rehabilitation/replacement of assets.

	Undertake regular reviews of remaining life and condition of assets and determine required annual reserve contributions sufficient to ensure that 90 per cent of approved infrastructure rehabilitation/replacement schedules can be met at the required time.
	Assets and facilities should be regularly reviewed and rationalized based on service demand and service level benchmarks. Facilities which do not achieve approved revenue/cost targets should be considered for closure.
	Dispose of capital assets which are not required for long-term community purposes.
	Implement a capital funding plan to address the City's infrastructure renewal requirements.
<i>Recognize that funding from senior governments is a crucial element of financial sustainability</i>	Seek additional sustainable revenues from the provincial and federal governments. Seek senior government funding sufficient to bridge the funding gap between net required program costs and affordable tax and user charge rates/revenues.
	Participate in grant/subsidy programs only if programs/projects to be supported are required or can be justified independent of the provision of the grant/subsidy.
<i>Use debt financing where appropriate</i>	Debt financing should only be considered for: <ul style="list-style-type: none"> • new, non-recurring infrastructure requirements • programs and facilities which are self-supporting, and • projects where the cost of deferring expenditures exceeds debt servicing costs
	Consider undertaking a short-term, managed program of debt financing to address the City's current infrastructure deficiency and to reduce further deterioration of the City's infrastructure.
	Issue debt for terms no longer than the life of the funded assets.
	As debt charges decline due to retirement of debt, apply savings to accelerate achievement of full life cycle costing for City infrastructure.
	Appoint a fiscal agent for the City and obtain a credit rating in order to facilitate the issuance of debt instruments.
<i>Maintain reserves and reserve funds at appropriate levels</i>	Facility, equipment and infrastructure replacement reserves should be established and funded to ensure that 90 per cent of approved infrastructure rehabilitation or /replacement schedules are met (long-term).
	Establish a stabilization reserve for programs that are susceptible to significant annual expenditure fluctuations
	Establish reserves to provide funding for future liabilities.
<i>Identify and quantify long-term liabilities</i>	Identify and quantify long-term liabilities of the City.
	Report long-term liabilities to Council on an annual basis. The reporting should identify the amount of liabilities and the resources available to meet the liabilities.