



# Integrated Strategic Long Term Financial Planning (LTFP) Model

A Guide

2018

Note: This guide is intended to help municipalities start their LTFP. Each municipality is unique and will have to adapt the model for their unique circumstances. The Town of Petrolia assumes no responsibility in the use of this model.



# Integrated Strategic Long Term Financial Planning (LTFP) Model

## A Guide

### *History and Purpose of the Model*

In 2014, the Council of the Town of Petrolia approved its first 10-year Asset Management Plan (AMP) and developed a basic municipal strategic 10-year financial plan that included water, sewer and most roads, but no buildings or vehicles. However, to take advantage of new infrastructure grants, the Town realized it needed to set priorities and develop a more comprehensive financial plan. The Town combined the extensive municipal finance experience of the former Treasurer for the City of Sarnia with Petrolia's new Treasurer who had strategic planning experience at National Defence with a \$10 billion annual budget and \$40 billion 15-year asset management plan. Together with the rest of the management team and Council, Petrolia developed its first integrated strategic long term financial planning model (LTFP model).

The purpose of the model was to:

- Be a flexible, dynamic roadmap of strategies derived from internal discussions (capital prioritization) and external sources (e.g. available grants);
- Influence and inform decision making;
- Facilitate innovation, creativity, and collaboration;
- Improve communications among Council, staff and the public; as well as
- Link the annual budget to the long term financial plan.

Over several years, MFOA supported Petrolia in developing this model. In 2018, with funding assistance from the Federation of Canadian Municipalities (FCM), Petrolia was able to further develop and document its LTFP with the help of two exceptional summer students. Petrolia also formed a coalition with four other municipalities (Warwick, Brooke-Alvinston, Strathroy and Southwest Middlesex) to collaborate on several aspects of advancing AM at our municipalities. Part of this coalition was helping these municipalities implement a LTFP at their municipality which also aided in improving our LTFP model and this guide.

### *What is Long Term Financial Planning?*

Long-term financial planning is the process of aligning financial capacity with long-term service objectives. Financial planning uses forecasts to provide insight into future financial capacity so that strategies can be developed to achieve long-term sustainability in light of municipal service objectives and financial challenges.

A comprehensive long-term financial planning process stimulates discussion and engenders a long-range perspective for decision makers. It can be used as a tool to prevent financial challenges; it stimulates long-term and strategic thinking; it can give consensus on long-term financial direction; and it is useful for communications with municipal staff, Council, and the public.

GFOA Best Practice: Long-Term Financial Planning



### The Model

We have developed the Model to be easy to set-up and maintain for municipalities with limited staff, capacity and time, ie, small and medium sized municipalities which accounts for about 80% of the 444 municipalities across Ontario. The model integrates revenues and expenses, including existing and planned loan payments, planned capital expenditures, reserves, annual operating surpluses/deficits, annual debt repayment limits, and total debt outstanding. The model is also interactive. Many of the built-in assumptions can be adjusted with the impact known immediately, e.g. tax rate; Ontario Municipal Partnership Funding grant; inflation rate for expenses and/or revenues; and capital projects.

The model covers: town general operations and capital (funded by property taxes); water operations and capital (funded by water rates); sewer operations and capital (funded by sewer rates); and total long-term debt for all activities (including debt repayment limit calculations).

The optimal LTFP is fully integrated with the annual budget process. For instance, at Petrolia, we use the first year of our LTFP as the starting point for our annual budgeting process. Once the budget is approved by Council, we update that budget year in our 10-year LTFP thereby completing the circle and ensuring that our LTFP has a Council approved starting point. A recent enhance to our LTFP is that we update the financial figures for the year that was just completed so that we have the actual financial history in our Model.

### Getting Started

The following section will review the documents or information needed to complete the model, key formatting indicators within the model, and notes about the model.

### What you need

A good understanding of municipal operations and strategic issues facing your municipality. The optimal LTFP will be achieved using your senior management team which will provide an integrated approach by having your local experts in engineering, public works, planning, finance, administration, parks & recreation, facilities, and any unique areas. For example, Petrolia has a Director of Theatre Operations, who manages the Victoria Playhouse. Active Council involvement will facilitate governance and strategic thinking aspects. Public input will also be critical in considering options and achieving understanding of the facets of the long-term plan.

Your finance expert will need at least an intermediate skill level of Excel. The majority of the formulas are very basic with only few more complicated ones.

To fill out the model, you need access to the following documents:

- Most recently Council approved municipal budget
- Strategic plan
- Knowledge of any significant financial changes such as the end date of royalty revenue; Local Improvement Charge; etc
- The financial impact of any major projects such as a reorganization, contracting in or out of a municipal service, etc

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- Anticipated changes such as new developments
- Most recent Financial Information Return
- Grant notifications (OMPF, OCIF, gas tax, other as applicable)
- Most recently approved Comprehensive Asset Management Plan, including major repairs and maintenance and replacement plans
- Details of all outstanding debt such as annual payments
- Reserve and reserve fund opening balances
- Multi-year water financial and capital plan, when applicable
- Most recent water study; master plans for areas such as Parks and Recreation
- 10-year wastewater financial and capital plan, when applicable
- Bylaws that include approved rate increases (water, wastewater, other as applicable)
- And any other pertinent information that will have an impact on your LTFP over your planning horizon, e.g. the next 10 or 20 years

You will also need to consider the following assumptions:

- Annual tax rate, water, and wastewater increases
- General inflation rate for non-specified activities
- Interest rate for new debt payments
- Term for new debt issues
- Interest rate on reserve funds
- Growth/reduction in water/sewer consumption rates
- Any other factor that is unique and important to your municipality

### Formatting and notes on the model

Colour is used on the tabs as well as within the sheets to denote section and type of cell.

Table 1: Worksheet colours

Colour	Model sections
Green	Town General operations and capital, not including water and wastewater
Blue	Water
Yellow	Wastewater
Purple	Total Debt for the Municipality and Annual Debt Repayment Calculations

**Note:** Each model section includes at least a worksheet for long-term operations, long-term capital, and long-term debt. Depending on the complexity and municipal requirements, you may wish to add additional worksheets to suit your needs. For example, Petrolia has added a 10-year fleet replacement worksheet.

Table 2: Type of cell

Colour	Model cells
Shaded	Calculated (formula driven)
Unshaded	Input cell

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Black font, unshaded	Known input
Red font	Input assumption

It is highly recommended that municipal staff become extremely familiar with the inner workings of the model. The Excel formulas are not complicated, and it is critical that the local municipal staff take ownership of their LTFP as it will have been adjusted to meet their municipality's unique requirements. The model user requires a basic to intermediate Excel skills. It is very important that the local management team and Council have or develop strategic planning skills to optimize using the model as a decision support tool to make important strategic decisions and perform "what-if" analysis.

### Populating the Model

The model is composed of four interrelated sections: town general operations and capital, water, wastewater, and debt. The following takes you through the model tab by tab to give you a sense of how what information is needed where and how information flows through the model. The model includes some suggested categories along with sample figures.

### Town General Operations and Capital

The Town General Operations and Capital section of the model contains three tabs: Town General Operating Plan, Town General Capital, and Town Debt.

#### Town General Operating Plan

Summary	Forecasts required annual tax increases for the next 10 years based on forecast revenues, expenditures, debt payments, and reserve transfers
Documents required	Most recent budget and MPCA MC 2.0 data
Assumptions	Annual tax rate increases; general inflation for non-specified activities
Revenue	Includes municipal taxes, Government contributions, funding, and other sources of revenue
Net Departmental Operating Summary	Expenditures include services such as municipal and protection. Expenditures also include marketing, community centre events, and general administration
Capital Loan Payments	Debt includes debenture payments such as marketing, parks, and the arena
Reserve Transfer	If there is a surplus, then that amount is transferred into the Working Capital Reserves in the Town Capital tab

#### Town General Capital

Summary	Details all the prioritized capital projects, how they are funded and determines amounts to be borrowed
Documents required	Asset Management Plan
Assumptions	Ontario Community Infrastructure (OCIF) formula funding rate increase,

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	federal gas tax funding increase
Capital Demand Program	Includes fleet, facilities, machinery and equipment, and infrastructure
Financing	Includes debt, working capital reserves, other reserves, and donations/grants
Working Capital Reserve	The closing balance from the previous year is the opening balance for the current year. Includes surplus/deficit, donations, previous unfinanced capital projects, and financing for the current year capital

### Town Debt

Summary	Calculates annual debt payments and total outstanding debt per year over a 10-year period
Documents required	Asset Management Plan and Strategic Plan
Assumptions	New debt interest rates, term for new debt
Current or Existing Debt	The closing balance of the previous year becomes the opening balance for the current year. Debt issued is added to the opening amount and debt principle payments are subtracted. This determines the closing balance of the current year. Also includes existing annual debt costs
New Debt	Includes annual debt costs
Total Debt	Existing plus new debt

Water and Wastewater are very similar to Town General and have not been spelled out in detail

### Water

The water section of the model contains four tabs: Water Operating Plan, Water Capital, Water Revenue, and Water Debt.

### Wastewater

The wastewater section of the model contains four tabs: Wastewater Operating Plan, Wastewater Capital, Wastewater Revenue, and Wastewater Debt.

### Total Debt

The debt section of the model contains three tabs: Total Debt, Debt Limit and Existing Debt.

### Total Debt

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Summary	Forecasts total annual debt including Town, water, and wastewater costs per annum and total debt outstanding over a 10 year period
Documents required	None
Assumptions	NA
Manual inputs	None
Formula inflow	Town Debt, Water Debt, Wastewater Debt
Formula outflow	Total Debt Graph
Common issues	NA

### *Debt Limit*

Summary	Calculates estimated annual debt repayment limit available based on the Ministry of Municipal Affairs' formula
Documents required	None
Assumptions	None
Manual inputs	NA
Formula inflow	Town Financial Plan, Water Financial Plan, Wastewater Financial Plan, Town Debt, Water Debt, Wastewater Debt
Formula outflow	Total Debt Graph
Common issues	NA

### *Existing Debt*

Summary	Provides space to record debt servicing costs by project by type (Town, water, wastewater) by year over a 10 year period
Documents required	Audit working papers
Assumptions	NA
Manual inputs	Annual interest and principal payments by project by type by year
Formula inflow	NA
Formula outflow	Town Financial Plan, Town Debt, Water Debt, Wastewater Debt
Common issues	Principal and interest payments are positive Allocation of project between Town, water, and wastewater should sum to 100%

## *Potential Enhancement*

The Town of Petrolia has added several enhancements to our LTFP, such as:

- a. Developed a 10-year vehicle fleet replacement plan that feeds directly in our Town General capital plan;
- b. Worked with our water system operator, we developed a 10-year minor capital program and our engineering firm supports us on our major capital program. We did the same for our sewer (sanitary and storm) system;
- c. We developed a 10-year facilities program for all our buildings;
- d. We now use the actual MPAC multi-year assessment data to project our tax revenue; and

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- e. We input our actual financial results for past years so that it is readily available for comparison with our planning data.

The above is just an illustration of what Petrolia has developed to meet our local needs. You will have to adjust and develop your LTFP to meet your unique, local needs.

### *Troubleshooting the model*

Nothing works all of the time. The following are tips to help troubleshoot the model:

- If a number does not appear correct, check the cell's formula or link to make sure it is either calculating or populating the cell with the right information. Do not override or re-link information first. Some cells pull information from multiple sheets. It is important not to cut the flow of information.
- Always make sure totals and subtotals include lines that have been added by users.
- Hide lines not in use rather than delete them. Users are less likely to break formulas and links in the model when lines are hidden.
- There are a number of checks built into the model. If you notice that a check is not zero, look at the formula and investigate the problem.
- Ensure the adjustments entered in the Operations Adjustment tabs impact the Financial Plan tabs as expected.
- #REF means that the cell or tab no longer exists. Think about the last change made – was something deleted? If so, this deleted cell or tab has an impact on the information flows built into the model. Where possible, return to last saved copy of the model before the links were broken.

### *Customizing the model*

Each municipality will have to adjust the model to meet their needs. Some will remove functionality and worksheets like a 10-year Fleet Replacement Plan, while others will add worksheets to address other important strategic aspects such as a special municipal corporation.

The model can be customized to better reflect users' municipalities. The following are considerations for customization:

- Would it be helpful for further breakdowns of information? Lines can be added, but check totals and subtotals.
- Tabs can be renamed.
- Sections do not have to be completed if they are not needed.
- If graphs are not useful, adjust them to reflect stories that resonate with your municipality's decision makers.
- Be consistent with your changes throughout the model.
- Assumptions can be modified.

### *Importance of the model*



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An Asset Management Plan without a Long Term Financial Plan is an unprioritized long term capital program or a “wish list” that is not realistic without the discipline of limited funding. Petrolia was no exception, our first LTFP required a 25% increase in Property Tax rate for most of our 10-year planning horizon. We obviously had to make some important strategic decisions to develop an affordable long term plan that Council could support.

### *The Town of Petrolia*

The Town of Petrolia’s next main enhancement will be the development of a concise AM Plan developed and maintained by local staff using the knowledge acquired by taking the 12-week NAMS Canada IPWEA AM course subsidized by FCM.

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## Appendix A: Overall Logic Flow Diagram

