Attachment 1 to Report FSD-044-23

Growing Clarington

Long-Term Financial Planning Framework

Clarington

Clarington

Message from the Treasurer

To Members of Council and the Residents of Clarington,

The Municipality of Clarington's Long-Term Financial Planning Framework (LTFPF) sets the goals and principles that will ensure the Municipality's financial sustainability, flexibility and affordability.

Clarington is one of the fastest growing municipalities in Ontario. This growth will continue to put pressure on the financial resources of the Municipality to manage it sustainably. The framework balances the current financing needs of our operations with ensuring long-term sustainability.

This is the first financial planning framework of this kind produced by the Municipality. It is an important step in our ongoing work to modernize our financial management and planning processes to ensure that it can respond to the increasing demands of our growing community and provide optimal value for our taxpayers. This framework will inform the development of our future Development Charges Studies, Asset Management Plans and Integrated Long-Term Financial Plan.

The Municipality is committed to managing growth responsibly to ensure that our community is able to access the services and infrastructure it needs, now and in the future.

Trevor Pinn, CPA, CA
Deputy CAO/Treasurer
November 27, 2023

Overview

The Municipality of Clarington is a fast-growing community and is the Eastern gateway to the Greater Toronto and Hamilton Area (GTHA). The Municipality has adopted several strategic priorities for capital investment and service delivery to its stakeholders. To achieve those priorities and continue to provide services to its residents, the Municipality must have the financial capability to do so. This capability is referred to as financial sustainability: the long-term ability to deliver the level and types of services expected by the community and the ability to meet financial commitments at acceptable levels of taxation in relation to the environment in which we operate.

Numerous financial challenges can put pressure on Clarington's financial sustainability. The LTFPF has been developed to help the Municipality navigate those challenges. The LTFPF combines financial forecasting with strategizing and establishes a highly collaborative process for addressing current and future financing needs.

Long-Term Financial Planning Framework

Purpose of the Framework

The LTFPF is intended to guide financial and strategic decision making by ensuring long-term cost and revenue implications are considered. The framework will ensure the Municipality utilizes a sustainable funding model to meet the operating and capital needs associated with the strategic priorities of Council.

The framework includes specific principles, strategies and processes to address current and future financial challenges, such as expenditure pressures, new growth, inflation, and securing sustainable revenues and funding sources. These challenges must be addressed in a manner that balances the need to keep municipal taxes affordable with the need to maintain and improve service levels.

The LTFPF is the foundation on which Council and staff will build and deliver services and programs that reflect the community's priorities. It is an important tool in ensuring the financial health and sustainability of services in the Municipality of Clarington.

The LTFPF is a complementary tool to the Municipality's annual budgeting processes and will be used to inform all long-term financial planning decisions. The framework will be used to guide decisions and corporate policies by ensuring a consistent and sustainable financing approach is applied throughout the organization.

Benefits of the Framework

The framework provides a financial lens for effective long-term decision making by Council and staff on municipal programs and services by supporting financial policies and strategies.

Long-Term Financial Planning Principles

The LFTPF is grounded on a set of foundational and supplemental principles to help achieve the following goals:

1. Ensure financial decisions are sustainable over the long term;
2. Allow for financial flexibility to adapt to changing circumstances; and
3. Minimize vulnerability to factors outside the Municipality's control.

Foundational Principles

The foundational principles commonly adopted in municipal finance include sustainability, flexibility and vulnerability. Public Sector Statements of Recommended Practice (SORP-4) by Chartered Professional Accountants Canada include these indicators in the assessment of the financial conditions of governments.

Principle	Definition	Goal
Financial Sustainability	The degree to which a government can maintain its existing financial obligations, both in respect of its service commitments to the public and financial commitments to creditors, employees and others, without increasing the debt or tax burden relative to the economy within which it operates.	To be financially sustainable, now and into the future, by providing and maintaining programs and services at acceptable levels of taxation, user rates, and reserve fund balances.
Financial Flexibility	The degree to which a government can change its debt or tax burden to meet its existing financial obligations, both in respect of its service commitments to the public and financial commitments to creditors, employees and others.	To be able to adapt to changing circumstances and continue to meet financial obligations without an over reliance on debt or significant changes to taxes or user rates.
Financial Vulnerability	The degree to which a government is dependent on sources of funding outside its control or influence or is exposed to risks that could impair its ability to meet its existing financial obligations, both in respect of its service commitments to the public and financial commitments to creditors, employees and others.	To minimize vulnerability by avoiding an over-reliance on sources of funding outside municipal control or influence that could impact the ability to meet financial obligations.

Supplementary Principles

In addition to the foundational principles, several supplemental principles will also be considered in financial decision-making. These supplemental principles include:

- Ensuring financial decisions align with the Municipality's strategic plans and priorities.
- Ensuring financial equity in service delivery by:
  - providing services at a rate that reflects the value and level of services provided; and
  - providing intergenerational equity by ensuring the beneficiaries of services are the ones responsible for paying for the services.
- Ensuring transparency by communicating key challenges and considerations in financial decisions.

Long-Term Financial Planning Strategies

Long-term financial planning involves many different components, each involving a unique strategy for implementation. It is important to understand which strategies should be prioritized for development to ensure alignment with Council priorities and objectives.

The long-term financial planning process will involve the creation of long-term forecasts for both capital infrastructure requirements and the financing requirements needed to support these investments. To achieve long-term financial sustainability, strategies for the following key components will need to be developed:

- Capital and Asset Management
- Reserve and Reserve Fund Management
- Long-term Debt Management
- Investment Management
- User Fee Management

Long-term financial planning strategies are conscious practices and methods used to achieve a specific purpose and/or goal and maintain the Municipality's financial health. The key financial planning principles will be considered and applied to each financial planning strategy.

The Municipality currently engages in numerous informal long-term financial planning practices and strategies. However, a formal long-term financial planning framework is required to anticipate future needs while current needs are being met.

Strategy: Capital and Asset Management

Capital infrastructure investments are a critical component of long-term financial planning. Long-term capital infrastructure planning will ensure that the necessary investments in growth-related infrastructure are being made to meet the service level needs of a growing community. Capital infrastructure planning also includes managing investment in existing assets to maintain existing service levels. The ability to balance investments in both new and existing infrastructure is integral to the long-term financial sustainability of the Municipality.

Ensuring that appropriate investments in new and existing infrastructure can be made sustainably requires long-term capital forecasting. Forecasting infrastructure needs into the future will allow investments to be smoothed out over a longer period. This allows for both sustainable infrastructure investment and greater intergenerational equity.

The Municipality will develop and incorporate long-term capital forecasts into the budgeting process. The capital forecasts will be guided by the Municipality's corporate strategic plan and various other strategic policy documents (e.g., Clarington Official Plan and departmental master plans). The capital forecasts will also align with the plans for maintaining existing infrastructure assets (Asset Management Plan) and the plans for future growth-related infrastructure (Development Charges Studies and Community Benefits Charge Strategies). Investments must also be forecasted based on the current and future economic environment.

Strategic Plan and Policy Documents

Clarington’s Strategic Plan is the principal guiding document for governance, community development, infrastructure and service delivery in the Municipality. The Strategic Plan directs long-term planning for the Municipality and serves as a foundation on which the corporate business plan, department business plans, master plans, and budgets are developed. The purpose of the Strategic Plan is to provide strategic priorities and a road map for Council and staff to determine the best way to provide services and help the community thrive.

The Official Plan is the Municipality’s plan for future development. It sets out a clear vision for how the Municipality of Clarington will grow and develop over the next 20 years and beyond. It provides a comprehensive long-term land use policy framework for current and projected growth and development. The primary function of the Official Plan is to provide direction for long-term development contained in both statutory and non-statutory documents, such as area structure plans, area redevelopment plans, and conceptual schemes.

The Municipality of Clarington also has several departmental master plans that have been created for the various service areas within the Municipality. These plans are typically used to provide an in-depth analysis and detailed plan for a specific organizational area. These plans also detail the capital infrastructure requirements needed to achieve the desired level of service.

These strategic documents combine to set the policy direction for the Municipality. Long-term financial planning must consider these documents to ensure long-term infrastructure and service level investments are consistent with the policy direction of the corporation.

Asset Management Plan

Clarington's Asset Management Plan and Strategic Asset Management Policy establish the policies, activities, timescale, and resources needed for the Municipality to maintain its existing stock of capital assets in a manner that meets its service level objectives. Capital assets include facilities, buildings, roads and related infrastructure, equipment and networks that are utilized daily to provide services.

It is essential that long-term financial planning align with the Asset Management Plan to ensure funding is available for the future repair and maintenance of existing infrastructure. The deferral or elimination of maintenance and repair work could result in the physical decline of our assets, increased costs to replace an asset, or service level deterioration. Long-term financial planning will incorporate the Asset Management Plans of the Municipality to ensure financially sustainable investments in critical infrastructure.

Development Charges Study and Community Benefits Charge Strategy

The Municipality's Development Charges Study and future Community Benefits Charge Strategy, along with the corresponding by-laws, are forward-looking documents establishing future capital infrastructure needs based on estimated future growth. Long-term financial planning must consider both the operating and capital investments required to support future capital acquisition. Long-term financial planning must align with both the Development Charges Study and the Community Benefits Charge Strategy to ensure funding for future infrastructure is available at the time the funding is required.

Although the capital costs of the infrastructure projects included in the Development Charges Study and Community Benefits Charge Strategy are largely funded by the associated charges collected from developers, recent changes to Provincial legislation also require the Municipality's to cover an increasing portion of the costs. Municipalities are also responsible for covering the ongoing operating costs associated with the new infrastructure. The municipal share required for these projects will need to be planned for in a financially sustainable manner.

Economic Forecasting

Understanding the current economic environment and forecasting future economic trends is essential in forecasting the funding required for future capital and operating needs. Future estimates of inflation, interest rates, and exchange rates are key assumptions in forecasting the future cost of capital. These indicators, along with other economic factors such as employment, commodity prices, and global supply chains, will significantly affect the amount of funding required to meet future service delivery goals.

It is imperative that long-term financial planning and capital management be supported by a thorough review of current and future economic conditions.

Strategy: Reserve and Reserve Fund Management

The Municipality currently has a combination of both obligatory (ie: required by legislation) and discretionary (ie: created at the discretion of Council) Reserve Funds. Obligatory reserve funds form part of the Municipality's deferred revenue and are established by legislation or as a requirement of an agreement. The funds are segregated from the Municipality's general funds and may only be used for the purpose as described in the applicable legislation or agreement. Discretionary reserve funds are established by Council and are not required by legislation or agreement. Funds are segregated from the general funds of the Municipality and earn interest which is applied to the balance in the reserve fund.

A reserve is an allocation of accumulated net revenue that makes no reference to any specific asset and does not require the physical segregation of money. Reserves are part of the revenue fund and do not earn interest like a reserve fund.

Reserves and reserve funds are a key funding source for the Municipality's capital program. Consistent contributions to reserve and reserve funds are crucial to preserving the Municipality's financial stability.

Annual contributions to reserve and reserve funds will be guided by long-term capital forecasts that align with the Asset Management Plan, Development Charges Study, Community Benefits Charge Strategy, and the various corporate strategic documents.

In order to ensure the Municipality's reserve and reserve funds are being managed in a sustainable manner, the following steps will be undertaken and monitored continually:

- Creation of a Reserve and Reserve Fund policy to guide the creation, maintenance and target funding levels of reserves and reserve funds;

- Semi-annual review of balances in reserves and reserve funds to ensure balances are reasonable and contributions meet anticipated future needs; and

- Determination of requirements for all existing reserves and reserve funds. Certain funds may be consolidated if no longer needed.

Strategy: Long-Term Debt Management

Debt is an effective tool in financing capital projects to achieve growth targets and service level expectations. The use of long-term debt supports intergenerational equity by ensuring financial contributions toward large capital infrastructure projects are spread across all beneficiaries over the asset's useful life.

When managed appropriately and planned wisely, debt helps municipalities meet their service-level objectives. However, to ensure debt-related costs do not hinder current and future services, debt levels must be managed appropriately to ensure affordability. The Province of Ontario has prescribed limits for the level of debt servicing costs that a municipality may carry, limiting the amount of debt that a municipality may take on.

To ensure debt levels are managed and maintained at sustainable levels, a long-term debt management policy will be established. This policy will:

- Define goals to achieve intergenerational equity and ensure it is maintained;
- Create a debt service ratio target; and
- Create a detailed plan for managing and repaying the debt while ensuring taxpayers' affordability.

Strategy: Investment Management

The effective management of investment funds can provide an additional source of revenue that is not directly derived from local taxpayers. Investment revenue can be used as a source of funding for either capital investment or operational services to the community.

According to the *Municipal Act, 2001*, a municipality has the authority to invest money it does need immediately in securities in accordance with prescribed rules and regulations. The rules and regulations are set out in Ontario Regulation 438/97 and include a prescribed list of eligible investment securities.

The Municipality has established an Investment Policy that provides an internal set of investment limitations and requirements based on the regulations set out in Ontario Regulation 438/97. These internal limitations set requirements for diversification across investment types and maturities.

As the Municipality builds out long-term capital forecasts, the Municipality's investment portfolio will need to be aligned with the financing requirements in the capital plan. This will include ensuring investment maturity dates are monitored to ensure funds are available at the times they are needed. The Investment Policy must align with the Reserve and Reserve Fund Policy to ensure the capital program has the funding available to proceed as planned.

Strategy: User Fee Management

Ensuring that services are paid for by the individuals using the services is an important aspect of financial sustainability. The User Fee By-law provides the authority for the Municipality to impose fees and charges on certain services. The by-law also provides the actual fees charged for the various services.

The corresponding User Fee Revenue Policy provides guidance on when and how, user fees will be collected. User fees are one of the few revenue tools available to municipalities outside of property taxes. Effective management of user fees is a key component in ensuring intergenerational equity. Ensuring user fees are set at a rate that recovers the cost of providing the service will ensure the services are provided in a financially sustainable manner.

Municipal Budget Process

The municipal budget is the primary mechanism for allocating the resources required to implement the strategies outlined above. The Municipality’s budget is guided by the Multi-Year Budget Policy, which outlines the procedures required to obtain multi-year budget approvals. To adhere to the Municipality’s long-term financial planning principles, the municipal budget must incorporate the strategies outlined in the LTFPF.

Performance Measurement and Reporting

To ensure the long-term financial planning strategies are meeting the goals of the foundational principles, a financial health scorecard will be developed and reported annually. The scorecard will include several quantitative measures related to the foundational principles. The metrics will be developed using best practices and will include specific achievable targets. The scorecard will be updated and presented annually by the Treasurer or designate.

Summary and Conclusion

The Long-Term Financial Planning Framework provides a guideline for achieving financial sustainability over the long term. It also provides a guideline for ensuring the Municipality's financial position remains flexible to adapt to changing circumstances and minimizes vulnerabilities to external shocks.

The LTFPF provides the strategies required for implementation to achieve the goals identified in the foundational and supplemental principles. The strategies involve aligning long-term financial forecasting with the various municipal strategic plans and guiding documents.

In order to ensure the LTFPF is achieving its desired goals, specific performance measures will be tracked and reported annually. This method of performance measurement will determine whether additional policies or procedures need to be implemented to ensure the long-term financial sustainability of the Municipality.