Long Term Financial Planning & Asset Management

Fitting the pieces together
DNV Highlights

• Information is stimulating new thinking & confidence in decision making

• Our plans are ~75% complete

• Our LTFP is an evolving process that’s helping to shape community investments and outcomes

• AMP’s are integrated, saving us time, building teams and informing policy directions
Simple Steps

• Get the right people in place
• **Improve Information** on Municipal Services
• Make case for investments based on community outcomes and ROI

• *Consider* - adding other government services (Health, Schools, Transit) to focus on combined impacts to community
Big Picture

- Official Community Plan
  - Strategic Plans
  - Long Term Financial Plan

- Services
  - Corporate Plan

- Finances
  - Annual Budget / Reporting

Goals, Strategies, Actions Service Levels Demand management Success measures

Financial Policy Forecast and Analysis Capital (AM) Plan Funding Priorities Success measures

Program level ----->
How to solve this problem?

Service Wants

Funding Reality
Improve Information

1. Complete strategic plans to **prioritize investments** by service area

2. Forecast combined impacts of the plans and set **financial policy** and measures

3. Rank programs so necessary adjustments to services can be made

4. Complete asset management plans to **lower asset life cycle costs**

5. With above information, **use business cases** to approve projects that drive more change
Prioritize Investments

- **Development/Land Use**
  - Town Centres
  - Housing Strategy
  - Economic Development

- **Utilities**
  - Water
  - Liquid Waste
  - Solid Waste
  - Watershed/Drainage
  - Climate Change
  - Energy Management

- **Transportation**
  - Transit
  - Roads and Bridges
  - Pedestrians and Bicycles

- **Protection**
  - Fire
  - Police
  - Emergency Planning
  - Bylaw Enforcement

- **Community**
  - Parks and Open Spaces
  - Recreation
  - Library
  - Arts and Cultural Services
  - Social Services

- **Governance**
  - Corporate Business Plan
  - Information and Technology
  - Finance and Taxation

**OCP**
Set Policy

Financial Policy

- Competitive Rates
- Fairness in Tax and Fees
- Cost of Service
- Asset Sustainability
- Sustainable Debt
- Return on Investment

Affordable

Public / private good, allocations, development, grants

Municipal Price Index (MPI)

Demand, Condition, Reserves

Sustainable Debt Leverage

Triple bottom line
Rank Programs

Program Attributes
- Mandate
- Cost Recovery
- Demand
- Service Providers

Priority Results
- Community Health & Well Being
- Safety
- Utilities & Environment
- Transportation
- Government

Which services and how best to deliver them

Which service level to achieve target outcomes

Which
Funding
Reality
Service
Wants

North Vancouver District

Which
services and
how best to
deliver them
Lower Asset Lifecycle Costs

2012 Asset Management Plan
- Parks
- Streets Bridges

2013 Asset Management Plan
- Buildings

2012 Asset Management Plan
- Roads
- Technology
- Utilities
Use Business Cases

<table>
<thead>
<tr>
<th>“Total Impact™” Sustainability Matrix</th>
<th>Areas of impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic</td>
<td>• Tax rates</td>
</tr>
<tr>
<td>Environmental</td>
<td>• Job creation</td>
</tr>
<tr>
<td>Social</td>
<td>• Asset utilization</td>
</tr>
<tr>
<td>Customer</td>
<td>• Leverage and risk</td>
</tr>
<tr>
<td></td>
<td>• Return on investment</td>
</tr>
<tr>
<td>Organizational Investment</td>
<td>• Air emissions and greenhouse gases</td>
</tr>
<tr>
<td></td>
<td>• Water, waste water and solid waste</td>
</tr>
<tr>
<td></td>
<td>• Aquatic quality of life</td>
</tr>
<tr>
<td></td>
<td>• Vegetation quality of life</td>
</tr>
<tr>
<td>Successful Sustainability</td>
<td>• Safety</td>
</tr>
<tr>
<td></td>
<td>• Active living</td>
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<td></td>
<td>• Rental housing</td>
</tr>
<tr>
<td></td>
<td>• Citizenship</td>
</tr>
<tr>
<td></td>
<td>• Stimulate knowledge and social growth</td>
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<tr>
<td></td>
<td>• Quality</td>
</tr>
<tr>
<td></td>
<td>• Cost</td>
</tr>
<tr>
<td></td>
<td>• Perceived value</td>
</tr>
<tr>
<td></td>
<td>• Capital investment</td>
</tr>
<tr>
<td></td>
<td>• Operating investment</td>
</tr>
<tr>
<td></td>
<td>• Commitment of people and other organizational resources</td>
</tr>
</tbody>
</table>
LTFP Five Pillars

- Connection to Other Plans
- Forecast & Analysis
- Programs & Service Levels
- Financial Policy
- Engagement
Fitting the pieces together
Facility AMP supports many plans
Transp. AMP supports Transp. and Development
A word on Programs

Keep it simple, three steps

1. Identify programs in each service area
2. Full costing including allocations for
   • Support costs
   • Ongoing capital (AMP’s)
   • Customer costs (user fees)
3. Identify program outcomes and measures
## Program Allocations

Keep cost pools simple

<table>
<thead>
<tr>
<th>Cost Pool</th>
<th>Allocation Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Management *</td>
<td>Number employees</td>
</tr>
<tr>
<td>Facility Space</td>
<td>Sq. feet</td>
</tr>
<tr>
<td>Insurance</td>
<td>Replacement values</td>
</tr>
<tr>
<td>Assets &amp; Debt</td>
<td>Service areas benefiting</td>
</tr>
</tbody>
</table>

*includes finance, payroll, IT, HR, Legal, etc.*
Sample – Building & Permitting

<table>
<thead>
<tr>
<th>PROGRAM DESCRIPTION/OUTCOME</th>
<th>ALL FUNDS (Incl. Capital)</th>
<th>% Cost Recovery</th>
<th>Measures (2011 Data)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012 Budget</td>
<td>FTE’s</td>
<td></td>
</tr>
<tr>
<td>The Building and Permitting Services program ensures construction is regulated in accordance with the Building Regulation Bylaw, Electrical Bylaw and Gas Bylaw. In addition, varied environmental permits, such as tree, soil, aquatic and streamside permits regulate and protect environmental assets. Activities include customer enquiries and assistance, permit receipt, review and approval, permit issuance, inspections and enforcement.</td>
<td>$3,833</td>
<td>45.7</td>
<td>Outputs: Permits issued 874 (662 building) Inspections 12,313 Construction value $139M</td>
</tr>
<tr>
<td>The desired outcome is to provide District residents and developers with the necessary permits in an efficient manner to enable construction activity within the municipality, while ensuring compliance with District regulations and the general health and safety of individuals within buildings located in the District. In addition, environmental permits ensure the protection of the natural environment within the District.</td>
<td></td>
<td></td>
<td>Outcomes: Permit processing time = 22 days (2010) Longer term - simplify services (reduce red tape) and achieve full cost recovery</td>
</tr>
</tbody>
</table>

- Demand increasing
- Cost recovery rate low
- Service level is improving
A word on Grants

- Funding assistance needed
- **Ongoing better than one time**
- Grant programs not always in alignment with local priorities
- Some communities with AMP’s are close to sustainment funding levels already but are challenged by growth
- Need both **Strategic + Asset plans to prioritize investments** and maximize community benefits
NAMS (National Asset Management Strategy)

- Australia & New Zealand are years ahead of Canada
- AMP keys:
  - Defined Levels of Service
  - Fair/Replacement Value
  - Asset Conditions & Risk Registers
  - 20 year Financial Requirements = life cycle costs

http://www.ipwea.org/AssetManagement/AboutNAMSAU/NAMSAustralia
Why NAMS?

• Built by municipal government for municipal government
• Provides a clear well documented path
• **NAMS is scalable to any size municipality**
  • Largest – Vancouver – pop. 651,000 +
  • Smallest – Village of Torquay, Sask. - Pop. 236
• Municipalities trained on NAMS
  • Canada – 60 in Western Canada
  • Australia – 300 +
  • New Zealand – 70
Asset Management Roadmap

Goals

1 - Define needs, evaluate and report on state of infrastructure

2 - Develop solutions, what needs to be done, when, how much will it cost?

3 - Secure funding through the Long Term Financial Plan
Sample AMP Views

- Levels of Service
- Physical Condition
- Risk Rating Matrix
- Sustainability Measures
## Levels of Service

<table>
<thead>
<tr>
<th>Key Performance Measure</th>
<th>Level of Service (LOS)</th>
<th>Performance Measure Process</th>
<th>Current Level of Service</th>
<th>Optimal Level of Service</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>COMMUNITY LEVELS OF SERVICE</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Quality</td>
<td>All bridges are in Fair physical condition or better; ‘fit for purpose’; smooth ride; good bridge aesthetics</td>
<td>Request For Service (RFS) from the public, and defects reported from preventative inspection on ride quality</td>
<td>Less than 5 RFS and inspection defects in total per year</td>
<td>Zero complaints of quality per year</td>
</tr>
<tr>
<td>Function/capacity</td>
<td>Allow passage and greater connectivity between areas; Dual Use Path for cyclist and pedestrians</td>
<td>Community service requests related to functionalities of the bridges</td>
<td>Some complaints about lane closures due to construction</td>
<td>Zero complaints of functional issues per year</td>
</tr>
<tr>
<td>Safety</td>
<td>Free of hazards, such as railing damage, trip hazards, potholes, ponding.</td>
<td>RFS received; community requests, and safety issues reported from preventative inspection</td>
<td>2 to 3 RFS per year for bent or rusted railings or other safety issues</td>
<td>Zero complaints of safety issues per year</td>
</tr>
</tbody>
</table>
2013 Physical Condition
### Risk Rating Matrix

- Consider asset condition and likely consequences of not proceeding
- Improved risk management & prioritization
- Informed decision-making

<table>
<thead>
<tr>
<th>Project</th>
<th>ASSET CONDITION</th>
<th>PROBABILITY</th>
<th>CONSEQUENCE</th>
<th>SCORE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tr>
</tbody>
</table>

- **ASSET CONDITION**: Physical Demand/Capacity Function
- **PROBABILITY**: What risk is being addressed? (RISK) What happens if risk is not addressed? (EVENT) When will the risk occur? (TIMING) What is the chance of the event occurring? (PROBABILITY)
- **CONSEQUENCE**: Health & Safety Service Interruption Environment Financial Reputation
Sustainability Measures

“Fair Value”

<table>
<thead>
<tr>
<th>Financial Performance</th>
<th>1% to 15% Operating surplus ratio (the percentage by which major controllable revenue varies from expenses)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Position</td>
<td>(100%) Maximum Net financial liabilities ratio (the significance of net amount owed compares to revenue)</td>
</tr>
<tr>
<td>Asset Performance</td>
<td>90% to 110% Asset sustainability funding ratio/Asset renewal funding ratio (the extent to which assets are being replaced at the rate they are wearing out).</td>
</tr>
</tbody>
</table>
## Sustainability Measures

### Indicator #1
**Operating Surplus Ratio**

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>FV Operating Surplus (Deficit)</td>
<td>$ (10)</td>
<td>$ (8)</td>
<td>$ (5)</td>
<td>$ 6</td>
<td>$ (2)</td>
</tr>
<tr>
<td>FV Operating Surplus (Deficit) Ratio</td>
<td>-8%</td>
<td>-6%</td>
<td>-4%</td>
<td>4%</td>
<td>-1%</td>
</tr>
<tr>
<td>Minimum Benchmark Target</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
</tbody>
</table>

### Indicator #2
**Net Financial Assets (Liabilities) Ratio**

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Financial Assets (Liabilities)</td>
<td>$ 34</td>
<td>$ 38</td>
<td>$ 50</td>
<td>$ 60</td>
<td>$ 72</td>
</tr>
<tr>
<td>Major Controllable Revenues</td>
<td>129</td>
<td>136</td>
<td>143</td>
<td>151</td>
<td>156</td>
</tr>
<tr>
<td>Net Financial Assets (Liabilities) Ratio</td>
<td>26%</td>
<td>28%</td>
<td>35%</td>
<td>40%</td>
<td>46%</td>
</tr>
<tr>
<td>Maximum Benchmark Target</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
</tr>
</tbody>
</table>

### Indicator #3
**Asset Sustainability Ratio - Option 1**

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainment Capital Investment</td>
<td>$ 17</td>
<td>$ 15</td>
<td>$ 17</td>
<td>$ 23</td>
<td>$ 22</td>
</tr>
<tr>
<td>FV Depreciation</td>
<td>30</td>
<td>31</td>
<td>33</td>
<td>31</td>
<td>32</td>
</tr>
<tr>
<td>Annual Asset Sustainability Ratio</td>
<td>56%</td>
<td>49%</td>
<td>51%</td>
<td>72%</td>
<td>68%</td>
</tr>
<tr>
<td>Three Year Moving Average</td>
<td>52%</td>
<td>57%</td>
<td>63%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum Benchmark Target</td>
<td>90%</td>
<td>90%</td>
<td>90%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
South Australia - 2011

- Within ten years South Australian Councils were in fact spending 3½ times as much on asset renewal and at the same time had effectively eliminated operating deficits (inclusive of Fair Value Depreciation).
AM Summary

- Asset Management Plans allow you to:
  - Track progress on your infrastructure gap
  - Project future life cycle financial requirements
  - Ensure you’re on path to financial sustainability
  - Communicate performance on AM stewardship obligations
Our current state

• Strategic and asset plans are 75% complete
• Financial policies are under development. Capital funding has doubled since 2003, gap is closing
• Program inventory is supporting ongoing budget adjustments (almost $5 million since 2009)
• Asset plans are charting a path to asset sustainability including development impacts
• Business case methodology is under review
Our future state

- Plans and policies complete, tools are working and information on services is current.
- Were more confident in our decisions and invest up to $500 million capital and $1.5+ billion operating over next 10 years.
- An ongoing community dialogue on goals, priorities, and policy shapes decision making.
- Services are adjusted to meet changing community needs and target outcomes are achieved.
Final comments

• Its hard work but if you like solving puzzles it can be fun
• Information and a good process improves confidence
• Our FP toolkit improves each year
• We’re happy to share and collaborate with others as there’s always room to improve
Thank you

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