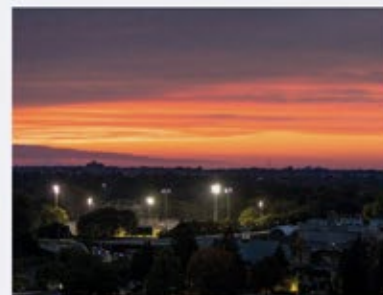


Corporation of the City of London

Strategic Financial Framework

October 10, 2023



London
CANADA

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Introduction

What is the Strategic Financial Framework?

Welcome to the City of London's Strategic Financial Framework. This document is intended to provide a high-level summary of the strategic principles and practices that govern the long-term financial management of the Corporation of the City of London.

This document is intended to be a “foundational document” that links existing financial policies, financial reports and plans, and ongoing financial practices together and outlines the general principles that Civic Administration utilizes in financial planning and decision-making for the City. This document is intended to be a supplement to, rather than a replacement for, the City's various existing financial policies and documents. The City of London is currently governed by a robust set of Council-approved financial policies, while the City's tactical financial plans are outlined in the City's Multi-Year Budget (covering a period of 4 years) and the associated Annual Budget Updates. The City's financial results are reported in the Annual Financial Report which includes the audited financial statements. The City also produces, maintains and updates a variety of related plans, such as the Corporate Asset Management Plan and Development Charges Background Study, that inform the financial management of the municipality. The principles in the Strategic Financial Framework underpin these various financial policies, reports and plans, as well as the City's ongoing financial practices and activities. The relationship between these various components is best illustrated by the following graphic:



While there may be some limited overlap between the principles outlined in this Strategic Financial Framework and the Council-approved financial policies and other related documents, this duplication has been limited to the greatest extent possible. This document has also been intentionally crafted at the strategic level, noting that tactical financial plans, decisions and their results are reflected in Multi-Year Budget, Annual Budget Updates, Annual Financial Report, Corporate Asset Management Plan, Development Charges Background Study, etc.

How to Read this Document

There are generally two types of financial principles that are outlined in this Strategic Financial Framework. Core financial principles are those that apply widely across all aspects of the financial management of the City of London. There are other principles that pertain to specific elements of the City's financial affairs. This is illustrated in the following graphic:



This document has been structured similarly with following sections capturing both the core and specific categories of financial principles of the City:

- **Section A – Core Principles of the City of London’s Financial Management**
- **Section B – Budgeting & Expenditure Management**
- **Section C – Revenue**
- **Section D – Growth Management**
- **Section E – Cash, Investment and Reserve Fund Management**
- **Section F – Debt Management**

Each section includes a brief background and links to related financial policies that should be read in conjunction with this Strategic Financial Framework.

Section A – Core Principles of the City of London’s Financial Management

Background

This section outlines the foundational principles that govern financial management at the City of London. The core principles in this section are each individually important to the financial sustainability of the City of London and are not listed in priority order. However, there may be circumstances when these foundational principles cannot all be satisfied, and it may be necessary to weigh principles against each other depending on the situation or decision being made. In these instances, due care and professional judgment must be applied to ensure the optimal outcome is achieved.

The foundational principles generally fall into the following categories (although some principles might appropriately be classified under multiple categories):

- Compliance
- Accountability
- Sustainability & Flexibility

Compliance

1. **The City of London's finances shall be managed in accordance with the Municipal Act, Public Sector Accounting Board (PSAB) standards and any other relevant legislation or regulations.**

Inherent in all City of London financial policies, processes and practices is compliance with all relevant legislation and regulations. The Municipal Act, 2001, and related regulations, is the primary municipal legislation guiding the City's financial affairs. The City's accounting practices will be aligned with the relevant Public Sector Accounting Board (PSAB) standards and are audited against these standards annually. In addition, other legislation also applies to the City's operations and financial management (e.g. Municipal Freedom of Information and Protection of Privacy Act, Accessibility for Ontarians with Disabilities Act, etc.). All applicable legislation and regulations are equally critical to ensuring the effective management of the City's financial affairs.

2. **A risk-based approach, giving due consideration to materiality, should be applied to all financial decision-making at the City of London.**

All decisions with a financial impact at the City shall be thoroughly assessed to determine their risks, both financial and non-financial, of proceeding or not proceeding. The magnitude and likelihood of these risks shall be used to weigh the most appropriate course of action. Fundamental to the risk-based approach is the concept of materiality. Those decisions with less material financial impacts or risks generally will not require as extensive an analysis as those with more material impacts or risks.

Accountability

3. **The financial affairs of the City will be conducted with integrity, diligence and transparency. Financial information will be presented or available in such a way as to be accessible to all Londoners.**

In conducting the financial affairs of the City, Civic Administration is committed to operating with the professionalism, integrity, diligence and transparency that Londoners expect. As members of various associations with similar professional standards, this is a fundamental requirement for the Finance team. Recruitment and training efforts will be similarly focused on ensuring all members of the Finance team continue to adhere to these expectations.

Civic Administration also recognizes that Londoners have differing needs in order to access information, including the City's financial information. The City is committed to providing financial information in an accessible format or, alternatively, arranging to provide information in an alternate format upon request. Different needs and abilities should not and will not be a barrier to accessing City of London financial information.

While the City is fully committed to transparency, it should be noted that the volume and complexity of the City's financials may make it impossible to fully report on all financial information in its entirety. As such, summary information will often be provided publicly through reports to Council. However, detailed information is often available online (e.g. through the City's Open Data Portal), or through a formal Municipal Freedom of Information and Protection of Privacy Act (MFIPPA) request.

4. **The City shall ensure its financial policies, processes and practices are geared toward the preservation and safeguarding of physical assets and financial assets.**

One of the City's primary functions is to safeguard the municipality's assets – both physical and financial – which were generally collected from, or created using, taxpayer funds. As such, all of the City's financial policies, processes and practices will be developed and implemented with a lens to ensuring that the appropriate safeguards are in place to ensure this function is fulfilled. This will be primarily accomplished by maintaining a robust internal control environment in all facets of municipal operations. The maintenance of sound internal controls will be monitored through both the City's annual external audit of the year-end financial statements, as well as through the internal audit function. Oversight shall be provided through the Audit Committee, a standing committee of Municipal Council.

5. Considering financial implications in all day-to-day operations and decision-making is a responsibility of all levels and all service areas of the Corporation.

Maintaining the City's efficient, effective, and sustainable financial practices is not only the responsibility of the Finance team; it extends to all levels and areas across the City. While financial expertise is often not the specialty of other service areas, it is incumbent upon all areas to keep financial considerations in mind in all day-to-day operations. This includes, among others, complying with all the City's standard financial policies and practices, maintaining a robust internal control environment, considering current and future financial implications in all decisions and, where necessary, consulting with the appropriate Finance resources.

6. A collaborative approach to managing the financial affairs of the City will be taken wherever possible. This collaboration extends across the Finance function, all service areas across the Corporation of the City of London, and with partners in the community.

As highlighted previously, all service areas across the City of London have a role to play in supporting the financial management of the City. Similarly, Finance has an equally important role to play in supporting other areas. Collaboration is crucial to ensuring the success of the City, financially and strategically. Critical to successful collaboration is information sharing and timely, cross-functional engagement. Civic Administration will work diligently to ensure information is shared in a timely manner, and a collaborative approach to problem-solving is utilized, between Finance and all other areas. External partners in the community (e.g. community organizations, groups, etc.) also have an important role to play in the financial affairs of the City. Civic Administration will ensure that the collaborative approach to financial management is extended to the external partners (where appropriate) as well, with appropriate opportunities to engage, inform, exchange ideas and provide feedback.

7. An enterprise-wide approach to financial management and decision-making is employed by the City of London, including the prioritization of resource needs and ensuring equity across all service areas.

Applying an organization-wide lens is central to the financial management of the City. Only by applying this broad perspective can resources be appropriately aligned with the priority areas. The onus for ensuring that this principle is implemented is not only on Finance, but on all service areas. For example, in managing their respective budgets, service areas shall not simply spend their full resource allocation because it is available to them if it is not required to be spent. Consideration for the broader corporate budgetary perspective is critical in this example.

Similarly, Finance commits to working with the Senior Leadership Team and other leaders across the Corporation to ensure that broad organizational input, feedback and considerations are incorporated in financial decision-making. This means that while all services will not necessarily receive equal treatment, financial decisions will consider equity impacts across the Corporation.

8. A continuous improvement approach to the financial management of the City of London shall be employed.

Civic Administration is committed to delivering services to Londoners as efficiently and effectively as possible. This extends to the Finance function as well. Finance will employ a continuous improvement approach to regularly identify, assess, plan and implement incremental improvements to financial policies, processes and practices to continuously enhance the efficiency and effectiveness of the services provided to our internal partners and external customers alike.

9. Agencies, Boards and Commissions (ABC's) are encouraged to embody the applicable elements of the City's Strategic Financial Framework and adopt similar principles where relevant.

The scope, size, services and financial resources vary substantially across the City's various agencies, boards and commissions. Some ABC's are extremely large organizations with significant financial and non-financial resources and robust financial practices. Others are very small organizations, with limited finances and only a few staff. As a result, the applicability of this full Strategic Financial Framework, as well as the City's financial policies and processes, will not be consistent for all ABC's. However, where applicable and appropriate, ABC's are encouraged to adopt similar principles, policies and processes governing their financial affairs.

Sustainability & Flexibility

10. Financial sustainability is at the core of the City's decision-making as stewards of taxpayer funds.

The City of London collects revenue from various sources beyond property taxes, including user fees, grants and subsidies, development charges, etc. Regardless of the source of these funds, fundamentally they remain taxpayer funds to ultimately be used to the benefit of Londoners. Financial sustainability – maintaining the City of London's financial resources prudently over time – is paramount to the effective stewardship of these taxpayer funds and underpins the financial policies, practices and processes of the City of London.

- 11. Prevailing economic & market conditions and external realities shall be considered in all financial decision-making, with strategic adjustments made as required. The City will strive to maintain flexibility in its financial affairs to respond to these external challenges.**

The principles outlined in this Framework, along with the City's associated financial policies and processes, provide a series of best practices to apply to the financial affairs of the City. While these best practices would ideally apply in every situation, it is recognized that unanticipated external factors may require a change of course. For example, the City has a long-standing practice of issuing debt annually each spring, based on the general patterns of public sector issuers accessing the capital markets. However, with the onset of the COVID-19 global pandemic in early 2020, financial markets effectively "froze" making debt issuance according to the City's normal timelines essentially impossible. The City was unable to proceed with the debt issuance as planned and was forced to defer the issuance until such time as the capital markets were conducive to proceed.

The above example, while very specific, illustrates the importance of flexibility in order to respond to unanticipated external influences. In the case highlighted above, the City took a number of steps to preserve liquidity and ensure the continuity of cash flows in lieu of proceeding with the debt issuance according to the normal timelines. Financial flexibility enabled the City to manage this unanticipated external pressure and, as such, maintaining financial flexibility is critical to ensure optionality is available to address factors outside of the City's control.

- 12. Proactively considering Environmental, Social and Governance (ESG) risks and opportunities shall be an important component of the City's financial decision-making.**

As a Canadian municipality, the City has a duty to act responsibly and in the best interests of the City's constituents by ensuring the sustainability of the City's financial practices. Proactively considering Environmental, Social and Governance (ESG) risks and opportunities is an integral component to the management of the City's financial affairs. ESG factors should be considered in financial decision-making (e.g. the budget process), as well as throughout related or supporting financial processes (e.g. Corporate Asset Management Plans, investment strategies, etc.). Various related tools will be utilized to assess ESG risks and opportunities, including the Anti-Racism and Anti-Oppression Framework, Climate Lens, etc.

Section B – Budgeting & Expenditure Management

Background

The City of London delivers almost 100 different services and incurs both operating and capital costs to deliver those services. The City's operating budget includes annual expenditures in excess of \$1 billion per year. While the City's capital program varies from year-to-year, it regularly totals hundreds of millions per year. With such a significant level of spending occurring annually, it is critical to have parameters in place to guide the appropriate use of these funds as stewards for taxpayer dollars. This section outlines the principles that guide the City's spending.

Related Policies

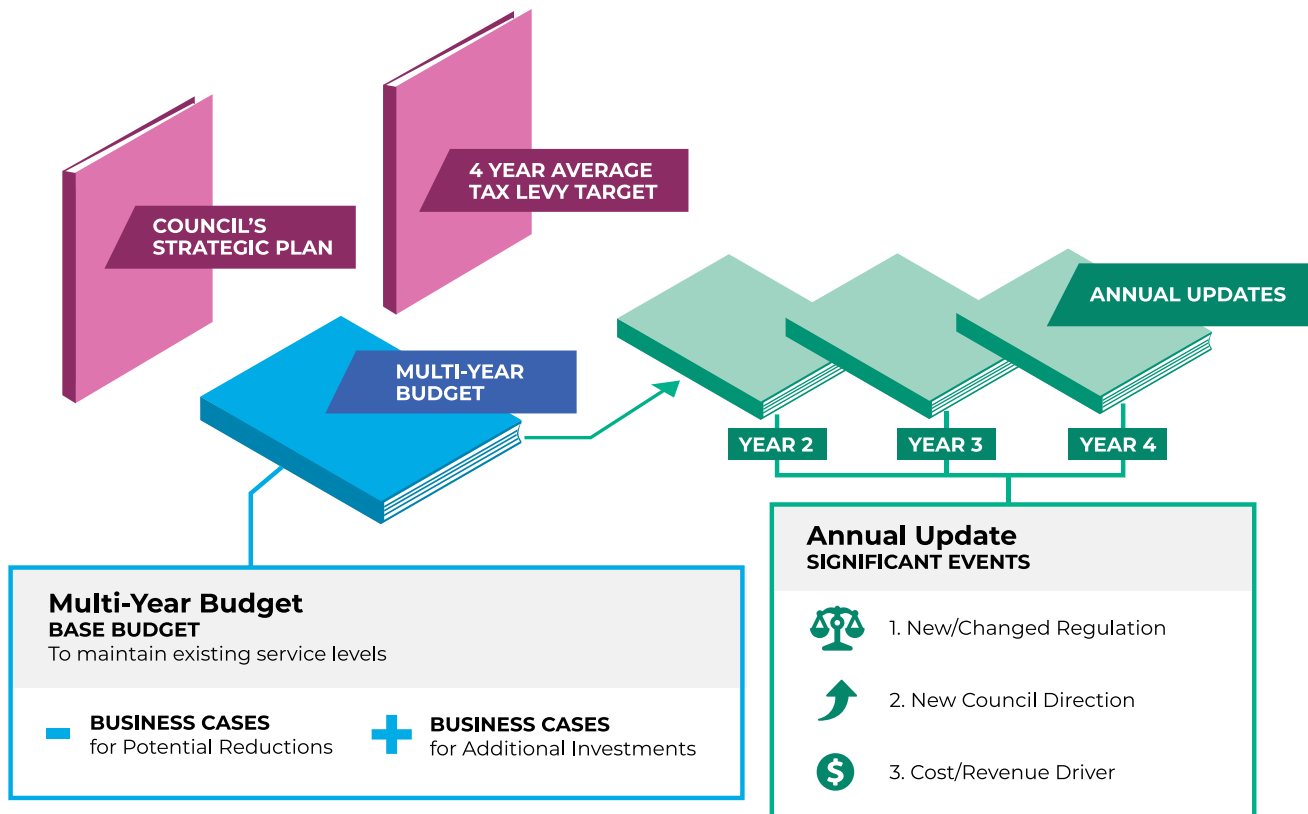
- **Capital Budget & Financing Policy:**
london.ca/council-policies/capital-budget-financing-policy
- **Corporate Asset Management Policy:**
london.ca/council-policies/corporate-asset-management-policy
- **Multi-Year Budget Policy:**
london.ca/council-policies/multi-year-budget-policy
- **Procurement of Goods and Services Policy:**
london.ca/council-policies/procurement-goods-services-policy
- **Surplus/Deficit Policy:**
london.ca/council-policies/surplusdeficit-policy

Key Financial Principles

Linkage to Strategic Planning Cycle

1. The Multi-Year Budget process will align with the City's Strategic Planning process as the Multi-Year Budget provides the mechanism to assign the resources necessary to implement the Strategic Plan.

The City of London's Strategic Plan and Multi-Year Budget processes are inextricably linked. At the most fundamental level, the Strategic Plan outlines the strategic priorities of Council and the community; the Multi-Year Budget provides the mechanism to align the necessary resources to those strategic priorities. The Multi-Year Budget process also establishes the pace of the implementation of the Strategic Plan, considering factors such as funding availability, affordability for the taxpayer, competing priorities, etc. The following graphic illustrates the linkage between the Strategic Planning and Multi-Year Budget processes:



Given the critical linkage between these two processes, the City's Multi-Year Budget process will consistently follow the completion of the Strategic Plan process. Throughout the development of the Strategic Plan, Civic Administration will ensure that budget requirements are considered as a key input into the Strategic Plan development process. Staff involved in the budget process will work closely with those tasked with developing the Strategic Plan so that the requirements and information needs for both processes can be considered throughout the development of these critical documents.

2. **A tax levy target shall be set prior to each Multi-Year Budget cycle to establish budget parameters for that cycle. During budget deliberations on the Multi-Year Budget and subsequent Annual Budget Updates, Council should be mindful of adhering to this target.**

While the Strategic Plan is an important prerequisite for the development of the Multi-Year Budget, so too is the establishment of a tax levy target in preparation for a Multi-Year Budget cycle. Upon the completion of the Strategic Plan, but prior to detailed work being undertaken in developing the Multi-Year Budget, Civic Administration will bring forward a report to Council to establish budget parameters for that cycle through the endorsement of a tax levy target. This target, covering the 4-year period of the Multi-Year Budget cycle, will provide Civic Administration with the funding envelope available to determine the pace of the implementation of Council's Strategic Plan. At its core, the Multi-Year Budget process involves costs to maintain existing service levels as well as opportunities for additional investment and opportunities for potential disinvestments/reductions. Setting a tax levy target up-front determines the potential funding available for additional investments after accounting for the costs of maintaining existing service levels and any potential disinvestments/reductions being contemplated.

While circumstances can change during a Multi-Year Budget cycle, it is important to be mindful of the tax levy target that was established at the outset of the cycle. This is especially true as new opportunities or pressures arise during the annual updates to the Multi-Year Budget. In reviewing each subsequent annual budget update (or reports that come to Council in the intervening period), it is important to consider the impact of the decision being considered on the tax levy target and weigh that against the benefits of the emerging issue being considered.

3. **Civic Administration shall make best efforts to ensure that Londoners are informed and engaged on budget and tax levy setting decisions, with a variety of channels and opportunities for engagement.**

While Council is the ultimate decision-maker as it relates to budget and tax levy issues, it is imperative that Londoners are aware of these matters so that they can provide informed feedback to their elected representatives. As such, Civic Administration will continue to implement a robust public engagement campaign for these important processes. The goal of the public engagement program is generally to educate and inform Londoners on the municipal budget and tax-levy setting process, the various components of the municipal budget, the decision points being considered by Council and how they can get involved in the process and provide their feedback. Core to the public engagement campaign is the use of various channels and formats to provide many different opportunities for members of the public to get involved. This will include, but is not limited to:

- Both in-person and virtual formats;
- Ensuring in-person events are distributed geographically across the City or otherwise held at a central location with easy access to public transit;
- Compliant with all accessibility standards to ensure the materials are accessible to all Londoners;
- Utilization of a variety of mediums (e.g. radio, print, billboards, etc.) to reach the maximum potential audience;
- Plain, simple language where possible to reduce the complexity of the topics/issues;
- Highlighting the numerous methods to provide feedback to elected officials.

New or Discontinued Programs or Services

- 4. New programs or services should only be introduced, or programs/services significantly changed, after consideration of a comprehensive business case for that program or service, inclusive of financial implications, benefits to the community, risks of both proceeding and not proceeding, etc.**

As noted above, there are generally three primary components to the City's Multi-Year Budget:

- Budgets to maintain existing service levels
- Opportunities for additional investments
- Consideration of potential disinvestments

Potential additional investments or potential disinvestments shall be supported by a fulsome business case outlining the qualitative and quantitative impacts of the decision in question. The business case should consider the financial implications (including current levels of funding and proposed changes to funding levels), staffing implications, benefits to the community, risks of proceeding, risks of not proceeding, relevant Environmental, Social and Governance (ESG) considerations, suitable metrics that will be tracked and monitored, etc.

Generally, it is preferable that consideration of new or discontinuation of existing programs or services should be funneled through the Strategic Plan and Multi-Year Budget process to ensure that these opportunities can be fulsomely considered alongside other potential opportunities. However, on occasion, it is necessary to consider these opportunities outside of the strategic planning and budgeting process due to the time-sensitivity of the matter. This is generally accomplished through a standalone report to committee and council. However, for initiatives that proceed in this manner, it is critical to ensure that the same rigor is applied to the analysis to ensure a well-informed decision can be made. The same components that are considered in business cases in the Multi-Year Budget process should also be considered for initiatives contemplated outside of this process, including both the

qualitative and quantitative impacts of the decision in question. It may be preferable for complicated and comprehensive opportunities to be presented and deliberated outside of the Multi-Year Budget process, but the final funding decision should be made within the Multi-Year Budget process, in direct comparison with other business cases.

5. When considering new initiatives, consider the total cost of the initiative (both one-time and ongoing operating costs) as well as cash flow requirements and weigh these against benefits to the community.

It is very rare that new initiatives do not include both up-front implementation costs as well as ongoing costs. This is particularly true for capital projects. It is imperative to consider not only the initial, up-front cost of a new initiative, but also the annual costs of operating and maintaining that asset, program or service into the future. Often the annual cost over many years will add up to a greater amount than the initial up-front investment required.

Cash flow requirements/timing associated with a new initiative should also be considered. These are important considerations in managing the City's liquidity position. They are also important from the perspective of the time value of money. For example, a new initiative may not generate significant cost savings until many years into the future; these future savings may be less valuable in current dollar terms. These future savings should be weighed against the benefits to the community, both financial and non-financial, of proceeding with the initiative in the short-term.

6. Avoid taking on more/new services without considering long-term exit strategies.

It is often more difficult to reduce or eliminate a program or service than it is to introduce a new program or service. There are Londoners that benefit from every program or service the City offers. Contemplating the reduction or elimination of a program/service will inevitably be met by resistance from those Londoners who value the service, making it difficult to move ahead with that planned reduction or elimination.

This conundrum is why it is imperative to take a longer-term perspective when considering new programs or services, particularly for those programs or services that are introduced on a "temporary" or "pilot" basis. Prior to approving funding on a temporary or time-limited basis, consideration should be given to a potential exit strategy to wind down a program or service if it will not be implemented permanently. This should include setting clear expectations about the duration of the initiative and regularly reiterating the short- to medium-term duration of that initiative in the absence of permanent, ongoing funding.

Inflation

- 7. The City's operating and capital budgets should incorporate the anticipated impacts of inflation. These anticipated inflationary impacts should be consistently identified across all services (where possible) and be based on an appropriate, supportable indicator.**

As noted previously, there are generally three components of the City's Multi-Year Budget, the most significant piece being the budget to maintain existing service levels. A significant driver of the budget to maintain existing service levels is inflation. This is true for both the operating and capital budgets. Whether preparing the 4-year operating budget or the 10-year capital forecast, it is important to be mindful that the cost of goods or services purchased in the future are generally going to be more costly in the future than they are now. The degree of this inflationary pressure varies from year-to-year and depends on the nature of the good or service being purchased. However, in the context of the City's overall budget, it is typical for inflationary pressures of some magnitude to impact the budget each year.

It is imperative that the operating and capital budgets incorporate the estimated impact of inflation, even if the actual inflationary impact ultimately varies somewhat from what was anticipated. If inflation is not considered in the development of future budgets, the budget will not be able to sustain the same level of spending in the future. This will eventually result in the erosion of services by spreading the same amount of budget over an increasing cost of service provision. In other words, budgets will not go as far as they previously did.

Due to the diversity of the goods and services purchased by the City, there is generally not a singular inflationary benchmark/factor that can be applied to the entire City budget. However, the following indicators are some examples of benchmarks that the City utilizes in assessing the appropriate inflationary factors to build into the City's budget:

- Consumer Price Index (CPI) – This indicator published by Statistics Canada is intended to be indicative of the cost of a broad “basket” of goods that would be purchased by the “average” consumer. While the major components of CPI (e.g. shelter costs, food costs, etc.) may not be reflective of the types of goods and services purchased by the City, this indicator does give a broad reading of general inflationary pressures in the economy.
- Various wage rate indicators, such as the Statistics Canada Labour Force Survey Average Hourly Earnings – Given the nature of many City services, a significant portion of the City's total budget represents personnel costs. These wage indicators provide a sense of general wage rate trends to help inform budgetary estimates for personnel costs.

- Non-Residential Building Construction Price Index (NRBCPI) – A substantial portion of the City’s budget is also dedicated to maintaining the City’s existing infrastructure and constructing new infrastructure. This indicator, tracked and published by Statistics Canada, provides a general barometer of construction costs across 11 Census Metropolitan Areas across the country. This indicator is often useful to inform the City’s capital budget and components of the operating budget that are related to construction or infrastructure work.

While many indicators are reviewed and considered in determining the appropriate inflation factors to build into the City’s budget, Civic Administration will strive for consistency across the corporation in the inclusion of inflationary estimates in budgets for all services, recognizing that the nature of spending may differ between services.

Expenditure Management & Budget Monitoring

8. Value for taxpayers’ dollars should be considered thoroughly in all contemplated expenditures.

As articulated in the “Core Principles” section of this document, the City is ultimately the steward of taxpayer funds, regardless of the form in which they were collected. As such, it is imperative that value-for-money be considered in all expenditures being contemplated, regardless of the dollar amount involved. This responsibility extends to all service areas and employees of the City.

To support and ensure that value for money is obtained, the City maintains robust procurement practices and a thorough Procurement of Goods and Services Policy that outlines the processes that must be followed for the expenditure of City funds. The City also incorporates value-for-money audits into its internal audit plan, to provide a third-party review of programs or services to ensure that best value is being obtained.

9. Budgets will be regularly monitored to ensure the effective and efficient use of allocated resources.

While the Surplus/Deficit Policy and Capital Budget & Financing Policy prescribe semi-annual formal reporting of the results of budget monitoring to Council, this does not constitute the full extent of monitoring of the operating and capital budgets that is completed. In fact, budgets are monitored on an ongoing basis throughout the year to measure the progress of actual spending against approved budgets. Through close collaboration of the Finance team and the various service areas across the City, this helps to ensure efficient and effective use of resources and proactively identify any areas of concern well in advance so that corrective or mitigating actions can be taken.

10. The City should use caution when evaluating whether to take on services/programs where there is pressure to “fill in” for services/programs that are generally the responsibility of other orders of government.

Much like changes in priorities at the federal and provincial governments can impact the funding opportunities available to municipalities, so too can changes in priorities affect municipal expenditures. There have been past examples of other levels of government transferring responsibility for services to municipalities that have traditionally been the responsibility of other levels of government. Often these increased responsibilities and expenditures come with additional funding from the other level of government. However, the challenge in these circumstances is ensuring that funding levels keep up with expenditure growth in future years. This transfer of responsibility can also take the form of changes to cost-sharing arrangements between municipalities and the other levels of government. This may require the municipality to take on a greater share of the funding responsibility for the cost of delivering a service. Finally, this could also take the form of community pressure for municipalities to make further investments in priority areas that are traditionally the funding and/or service delivery responsibility of the federal or provincial government.

In cases where the transfer of programs or services is legislated, there may be little the municipality can do to avoid taking on these responsibilities. However, in this case, it is imperative to ensure that the other levels of government provide commitments to ensure that funding levels keep pace with inflation in the cost of delivering these services over time. Similarly, in cases where mandated changes to cost-sharing arrangements are implemented, it is important to ensure that the other levels of government are aware of the implications of such changes.

Where there is discretion to step in and provide new or increased investment in programs or services traditionally the responsibility of other levels of government, the City should pause and consider the consequences of doing so. These implications are wide-ranging and include not only the immediate financial impacts but also future financial implications, opportunity costs and the precedent that such actions may be setting. Prior to deciding on such matters, a full financial analysis should be completed to ensure that the financial impacts of the decision are well understood and communicated.

11. A service review program will be utilized to regularly review the City's programs, services and operations for efficiency and effectiveness. Any financial implications arising from the service review program will be incorporated in the Multi-Year Budget (or Annual Budget Update) process.

As noted previously, value for taxpayer dollars is of paramount importance for all services and employees across the Corporation. One approach for ensuring this is achieved is through the implementation of a service review program to explore opportunities for efficiencies and enhanced effectiveness in the City's operations. The City continues to maintain a robust service review program that utilizes a variety of different "tools" from time-to-time to identify potential opportunities:



- Zero-based Budget Reviews - refers to the methodology of building a budget "from the ground up" to achieve the level of service planned.
- Asset Reviews - Assessment of physical assets to determine the future of the assets and whether any candidates for disposal/sale emerge for consideration.
- Program Reviews - Program Reviews refers to the detailed analysis of existing programs or services provided and/or delivered by the City.

- Continuous Improvement - Continuous Improvement is based on a team structure where people from service areas work collaboratively to improve the way they identify and eliminate non-value add to the customer, streamline processes, and ultimately improve the value for the end user. This approach often utilizes Lean / Six Sigma principles and tools to identify opportunities.
- Organizational Reviews – These reviews help ensure organizational structures are designed to be able to deliver on strategic priorities, leverage best practices, enhance collaboration and eliminate duplication within and across the organization with the goal to create effective and efficient organizational structures that provide optimum service delivery and flexibility for future growth and increased work demands.
- Internal Audit - Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations.

It is important to note that the service reviews completed may not always result in cost savings or budget reductions. They may instead create additional capacity in City operations to manage growing workload demands. Alternatively, they may also identify areas where additional investment is required to meet the program/service objectives. However, if the reviews do identify opportunities for budget reductions, these impacts will be incorporated in a business case in the City's Multi-Year Budget or related Annual Budget Update. The service review program is a common source of business cases for potential reductions/disinvestments, a major component of the City's Multi-Year Budget process.



Section C – Revenue

Background

The City of London generates revenues from a variety of sources and the diversity of these revenue streams is critical to the strength and sustainability of London's finances. Property taxes represent the most significant revenue stream, but other sources of revenue include user fees for certain City programs or services, development charges for growth-related capital works, operating and capital grants from other levels of government, etc. This section outlines the principles relevant to the City's various revenue streams, including how and the priority in which they should be utilized.

Related Policies

- **Multi-Year Budget Policy:**
london.ca/council-policies/multi-year-budget-policy
- **Surplus/Deficit Policy:**
london.ca/council-policies/surplusdeficit-policy

Key Financial Principles

General Principles

1. **Non-recurring revenues should only be used to fund non-recurring expenditures; only recurring revenues should be used to fund permanent programs with ongoing costs.**

In developing financial plans and budgets, the City takes great care to match its expenditures with revenues of a similar nature. Generally, ongoing expenditures should be funded by ongoing revenues. Similarly, one-time or time-limited revenues should only be used to fund expenditures (operating or capital) that are similarly time-limited in nature. Only in very limited circumstances, such as the strategic use of drawdowns from reserves or reserve funds to smooth tax levy increases, would it be appropriate to utilize one-time funding sources to pay for ongoing expenditures. Even in this case, there are limits on the appropriateness of this strategy, as articulated later in this section. The following chart illustrates this concept:

	Recurring Revenues	One-Time Revenues
Recurring Expenses	Yes	Very Rarely
One-Time Expenses	Sometimes	Yes

This principle is important to ensure stability in tax levy increases by avoiding fluctuations in tax levy needs. Should ongoing expenditures be funded by time-limited revenues and those revenues are no longer available (e.g. expiry or cancellation of

federal or provincial funding program, insufficient reserve fund availability to fund the expenditures, etc.), an unfortunate choice is required between reducing the associated expenditures (with the corresponding program or service level impacts) or implementing a tax levy increase (perhaps at an inopportune time) to pay for those expenditures.

2. Alternate sources of revenue should be considered to cover only those expenses that are linked to them.

This principle is closely related to the previous one and speaks to the core financial principles of matching expenditures against the revenue that was generated to pay for them. Alternate sources of revenue tend, by nature, to be less stable and predictable than property tax revenues. For example, grant programs provided by other levels of government often have specific eligibility periods. They can also be susceptible to changes in government and associated priorities that occur from time-to-time. Similarly, user fee revenues can fluctuate according to demand for programs and services, which can be influenced by general economic conditions, demographics, participant preferences, etc. If either of these sources were relied upon to fund the general operations of the City and not specific programs or projects, and those funding streams materially changed, a “budget hole” would be created that would require either an adjustment to expenditures or any increase to property taxes to plug the gap. This illustrates the importance of applying funding from other levels of government or user fee revenues, for example, only against the cost of providing the specific programs or services to which they relate. If the funding is no longer available, the associated expenditures for those programs can then be directly scaled down in response.

3. The City should manage its reliance on external funding (e.g. grants, other contributions, etc.) to avoid unintended exposure in the event that the external funding materially decreases.

Generally, external funding to pay for City programs or services is extremely positive and reduces the burden on property tax revenues, development charges revenues, etc. However, it is critical to utilize this funding prudently and in accordance with the other principles outlined in this section to ensure that it does not become problematic in the future.

As noted previously, external funding tends to be less predictable and stable than property tax revenues. For example, relying on a time-limited funding program to pay for core, ongoing annual lifecycle renewal projects to maintain the City’s critical infrastructure is not prudent as a more permanent funding source will eventually need to be identified to pay for these critical works. However, it may be applicable to apply some external funding such as from the Canada Community-Building Fund (CCBF) (formerly Federal Gas Tax) to lifecycle renewal because the program has a long history of providing funding and the Federal government has made a long-term commitment to preserving it. It would still not be prudent to apply CCBF to support

operating programs, which would otherwise be supported by tax levy, but using CCBF to accelerate the lifecycle renewal program would be appropriate.

Managing public expectations around external funding is equally as important as utilizing the available funding prudently. For example, historically there has been significant infrastructure stimulus programs provided by other levels of government to stimulate recovery from economic downturns. While these funding programs are fantastic opportunities for the City to leverage additional funding for priority projects and potentially accelerate certain works, it is important to reinforce the time-limited nature of the funding provided. Once the stimulus programs inevitably wind down, it is important that expenditures similarly adjust. This may be challenging for the community, who may have become accustomed to enhanced or accelerated work at a level of spending that, in absence of the stimulus funding, is no longer sustainable. Managing these expectations therefore becomes critical to avoid over-reliance on external funding sources.

- 4. The City should first utilize/apply other government funding and other contributions to its expenditures in order to fully leverage these external funding opportunities. Only once those external funding opportunities have been exhausted should other sources of revenue, including tax levy, user fees, development charges, reserves/ reserve funds or debt, be utilized.**

The availability of funding from other levels of government is inherently unpredictable. When it is available, it is important that it be utilized to maximize the benefit to the City of London. As a result, it is the City's general practice to apply this funding first to the related operating or capital expenditures before funding the remaining costs with other sources of revenue. However, this approach is subject to ensuring eligibility criteria on the external funding is satisfied. In some cases, there may also be cost-sharing conditions associated with the funding that necessitate that funding from other sources also be applied, even if the external funding is more than the expenditure in question. Furthermore, if municipal cost-sharing is required, the City must ensure this matching funding is available, and not at the expense of other previously approved and necessary projects.

- 5. The City of London will actively explore all available other government funding programs and other sources of revenue on an ongoing basis, noting that eligibility, applicability and project specifics will limit the City's opportunities under certain programs.**

The City's Finance team works closely with the City's Government Relations team to stay up to date on available funding programs and upcoming opportunities. At any time, there are typically dozens of active funding programs offered by both the federal and provincial governments and related agencies. However, very often the City is ineligible for some of these programs. As an example, some funding programs are restricted to smaller municipalities. Similarly, funding programs may be offered for

programs or services that are not provided by the City. There is unfortunately little that the City can do in these circumstances, other than ensure that our partners at other levels of government are aware of London's unique challenges and opportunities.

Finally, the timelines on certain funding programs may be such that the City does not have projects that can be completed by the program end date. This situation is more within the City's control, and an inventory of "shovel ready" projects is typically maintained by the City's various service areas to avoid this challenge.

Property Taxes

6. Tax levy requirements should be viewed on a long-term basis in addition to shorter-term tax levy considerations.

One of the driving factors behind the City of London's transition to multi-year budgeting in 2016 was to shift the focus exclusively from annual budget discussions (and associated property tax levy considerations) to longer-term perspectives on budget and tax levy requirements that supplement the short-term perspective. By approving budgets and tax levy increases for 4 years at a time, greater transparency is provided into the future direction of taxes. An average annual tax levy figure is also presented for each multi-year budget period to provide a longer-term view of the overall tax levy picture.

This longer-term perspective is also important because it may help to address challenging circumstances that arise occasionally. For example, there may be significant budget needs in a particular year that require a significant tax levy increase to address them. If looking at tax levy requirements strictly from a one-year perspective, the deliberations associated with this tax levy increase may become contentious. However, by adopting a longer-term, multi-year perspective, there may be opportunities to offset this significant tax levy increase in one year with a much lower tax levy increase in a subsequent year. Multiple competing interests over a four-year period can be compared directly against each other and scheduled in the best order possible to minimize the tax levy increase. By taking this longer-term view and considering average tax levy needs over a period of time, transparency is enhanced and this may reduce some of the contention in the budget deliberations process.

7. Fluctuations in tax levy requirements should be smoothed, where appropriate, to ensure stability of property tax increases.

Generally, the City will aim to avoid significant fluctuations in tax levy requirements from year-to-year to provide for greater predictability for taxpayers. While this is the general preference, from time-to-time there may be fluctuations in the City's budget requirements that, without other intervention, could subsequently cause fluctuations in tax levy requirements. In this case, the City will aim to smooth tax levy increases through the use of "shock absorbers." This may involve the use of strategic draws from reserves or reserve funds, strategically balancing debt levels, etc. It is important to note,

however, that such decisions will be made prudently with due consideration to the City's current financial position and the other principles outlined in this document.

8. Strategic use of one-time funding sources to smooth property tax increases should be removed, at minimum, by the last year of a Multi-Year Budget period.

When the City elects to “smooth out” tax levy requirements, this is typically done on a one-year or extremely time-limited basis. At minimum, the strategic use of these one-time funding sources will be removed by the last year of a Multi-Year Budget period. Not doing so will result in a further tax levy pressure in the first year of a new Multi-Year Budget, which may restrict the ability for council to make new investments in priorities identified through the strategic planning process because of previous decisions made that are yet to be fully reflected in the tax levy.

9. The City's tax policies should be reviewed on an annual basis.

The relationship between the budget process and the tax policy process can be best understood using the analogy of a pie. The setting of the budget determines the size of the pie. The tax policy process determines how that pie will be sliced. The tax policy setting process occurs separately subsequent to the budget process and determines how the tax burden will be shared between the various property classes (e.g. residential, multi-residential, commercial, industrial, etc.). The review of the City's tax policy will be completed annually and will be done within the parameters set by the Province of Ontario through legislation and regulations.

10. Special levies may be considered in certain circumstances where the funding is identified to be used for a specified purpose and it is deemed advantageous to segregate this levy from the general property tax levy.

While the City has historically not made extensive use of “special levies,” this is a tool that may be appropriate in certain circumstances. First, it is important to emphasize that a special levy remains a tax levy burden to London taxpayers, whether it is separate or part of the City's general levy. Additionally, there is increased administrative requirements associated with implementing a special levy, so these should be considered relative to the benefits of the special levy. However, there may be instances where funds are required for very specific purposes/expenditure needs and it is considered advantageous to implement a special levy for that purpose.

If a special levy is being considered, it is important to establish the parameters related to that levy, for example the duration of the levy, the current amount, the annual increase (if any), etc. Governance protocols should also be established related to the special levy, including reporting to the community on the use of those funds.

User Fees

- 11. User fees are generally best used to fund programs or services that are utilized by a select group of Londoners.**

Typically, services that are widely utilized by, or benefit, most Londoners are appropriate to be funded through property taxes. For example, plowing and patching of roads and sidewalks, cutting of grass in parks, fire and police services, etc. are examples of services that are widely used by, or available to, all Londoners and visitors to the City. There are other programs or services that may be utilized by only a subset of the population and, therefore, are most suitably paid for by the users of those services. For example, many sport or recreation programs, applications for site plan approvals or building permits, etc.

Many factors must be considered when assessing which programs or services are funded by user fees, including the nature of the program or service (e.g. is it legislated and must be provided regardless of usage), the scalability of costs associated with the service (e.g. can expenditures be adjusted based on participation levels) and general practice in other jurisdictions.

- 12. The City shall periodically review the services that are funded through user fees and assess the continued appropriateness of the proportion of the total costs of the service funded through user fees.**

From time to time, the City will review the services that are funded through user fees, as well as the extent to which user fees cover the cost of service provision. In this analysis, the full cost, including overhead and future capital expenditures, should be considered. This analysis should consider general practices at comparator municipalities, historical trends in cost recovery, community and political preferences, etc. Such reviews should be accompanied by robust public consultation to ensure user preferences are also captured in the results of the review.

Other Government Funding

- 13. The City should determine its own capital priorities. New infrastructure programs introduced by the federal and provincial governments should be assessed relative to the capital needs and priorities of the City and ability to fund those initiatives.**

As noted previously, the availability of external contributions, particularly funding from other levels of government, is generally a positive for London and alleviates the burden on other funding sources, such as property taxes or development charges. However, when contemplating whether to access a particular funding program offered by the federal or provincial government, it is important to pause and consider how that funding opportunity fits within London's overall needs and priorities. City of London financial resources are limited and should be directed to the priorities of Council and

the community. There may occasionally be funding programs that are extraneous to the core needs and priorities of London. In these cases, it may be more prudent to pass on the opportunity in lieu of directing finite resources to the City's core priorities. This assessment needs to be completed on a case-by-case basis and needs to consider the City's financial capacity, amount of funding available through the program, cost-sharing requirements and fit with the City's planned capital program.

14. When accepting other government funding for capital expenditures, the City shall ensure that an identified funding source is available to support the ongoing expenditures of the related capital asset.

Another important consideration when pursuing funding for capital expenditures from other levels of government is the ability to fund the ongoing operating expenditures of the related asset to be constructed with the funding. Prior to accepting funding for capital works, the City should ensure that a plan is in place to fund the eventual operating costs associated with those works. If this funding is not currently available, or a plan identified to secure this funding, the funding opportunity ought not to be pursued.



Section D – Growth Management

Background

Growth of the City of London is critical to the future success of the municipality. Growth often attracts employment, new businesses, enhanced cultural and recreational opportunities as well as a more diverse community. It reinforces London's role as a leading regional hub in Southwestern Ontario. From a revenue perspective, growth brings additional direct financial benefits to the City in the form of development charges to support growth-related infrastructure and additional property taxes from new development, aside from the indirect financial and economic benefits to the City. However, growth is not without associated costs and how the growth of the City is managed and financed is critical to the financial sustainability of the municipality.

Related Policies

- **Assessment Growth Policy:**
london.ca/council-policies/assessment-growth-policy

Key Financial Principles

Growth-related Revenues

1. **Assessment growth revenues resulting from the growth of the City shall first be applied to growth-related costs in accordance with the Assessment Growth Policy.**

Assessment growth generally refers to the net increase in property tax assessment attributable to new construction, less adjustments resulting from assessment appeals and property tax classification changes. Each year, weighted assessment growth is calculated as it generates incremental tax revenues for the City. The City has established an Assessment Growth Policy that outlines how assessment growth revenues are to be administered. The core principle of the Policy is that assessment growth revenues should first be applied to pay for the costs of servicing a growing city. As London grows, new development areas such as subdivisions and industrial parks come on-line, and they expect and are entitled to receive the same service levels as the rest of the City. There are costs to plowing roads in the winter, collecting garbage, maintaining new neighbourhood parks, etc. It is therefore critical that these costs be funded so that they do not result in a City-wide erosion of service levels due to insufficient funding. The City's Assessment Growth Policy and process ensures that the new revenues from growth are set aside and used to fund growth related expenditures instead of general corporate needs.

2. Development Charges shall be collected and utilized in accordance with the Development Charges Act and the City’s Development Charges by-law.

Development Charges are collected on most new development that occurs, with these costs intended to fund the cost of expenditures required to service the growth. The Development Charges Act is the guiding legislation that dictates the administration of development charges. The City also enacts a Development Charges By-law upon the completion of each Development Charges Background Study, which guides the local administration of development charges. The collection and use of development charges will be done fully in accordance with the underlying legislation and the governing by-law.

Growth-related Expenses

3. Where possible, increased operating expenditures resulting from the growth of the City should be funded through available assessment growth revenues in accordance with the Assessment Growth Policy.

As outlined previously, assessment growth revenues resulting from growth of the City are generally first utilized to pay for the costs of servicing a growing city. This supports the general principle of “growth pays for growth”. This approach is formalized in the City’s Assessment Growth Policy.

Where appropriate and in alignment with the Assessment Growth Policy, civic service areas or ABC’s that incur or anticipate incurring costs related to a growing city should pursue assessment growth funding through the City’s annual assessment growth allocation process. These requests shall be supported by a comprehensive business case outlining the rationale for the request, in accordance with the Assessment Growth Policy. Such requests should be supported by strong metrics that demonstrate the linkage to increased costs resulting from a growing city.

By utilizing the funding and process outlined in the Assessment Growth Policy, the City ensures that new homes and business can enjoy the same services as existing areas of the City, while also ensuring that overall service levels across the City do not erode because of the increasing demands due to growth.

4. Where possible, future lifecycle renewal and replacement costs for new assets resulting from the growth of the City should be funded through the City’s Assessment Growth Policy.

Operating costs often come first to mind as the most obvious use of assessment growth funding. The costs of extending garbage collection to new subdivisions is a clear example of ongoing operating costs which align well with the Assessment Growth Policy. However, a less apparent but equally important consideration through the assessment growth process is the need to secure funding for future lifecycle renewal and replacement costs of capital assets.

The City adds tens of millions of dollars of new assets to its asset base every year, including roads, sewers, watermain, parks, etc. While these new assets often require very little in the way of maintenance or renewal in the first few years of their life, inevitably they exhaust their useful life and require significant rehabilitation or replacement. This can often present a significant financial burden if not appropriately planned for. As a result, the City will strive to ensure that, every time a new asset is added to the City's asset base, a corresponding amount is identified and set aside annually to provide for the future rehabilitation or replacement of that asset. In doing so, the cost of this rehabilitation/replacement can be spread across the useful life of the asset, ensuring inter-generational equity between those who benefit from the asset and those who pay for it. This will be accomplished through the inclusion of an assessment growth business case every year, which will identify a suitable reinvestment rate to provide for the future lifecycle renewal requirements of the new assets added that year. Generally, this will be consolidated in one assessment growth case, covering all new assets across the City – the City's Corporate Asset Management division are stewards of the consolidated assessment growth case. The appropriate reinvestment rate(s) shall be determined in consultation with the City's Corporate Asset Management team and leading best practices in the asset management industry.

- 5. The City will conduct a Development Charges Background Study every ten years (at minimum) to inform growth-related capital needs across the City. Annual adjustments to the approved Development Charges Background Study shall be considered through the annual Growth Management Implementation Strategy (GMIS) process.**

A growing city requires investment in growth related infrastructure to service new development. Development charges are fees that are paid by new development upon the issuance of a building permit to fund the capital cost of services constructed throughout the city to support growth. Development charges play an important part in how growth infrastructure is financed in London. Each new house, commercial centre, university building, and manufacturing plant requires infrastructure and services to function efficiently and effectively. At least every ten years, the City undertakes this process to forecast the city's future residential and non-residential growth to determine infrastructure needs and costs, as required by the Development Charges Act. This information is used to calculate the amount of money that new development needs to pay to cover new infrastructure and services. The DC Background Study is also an important input into the capital budgeting process as it identifies the required projects to be included in the "growth" category of the capital plan and the details associated with those projects, including estimated total cost, portion of the works attributable growth, any growth benefits beyond the current recovery period, etc.

While the DC Background Study is completed at least every ten years, it is recognized that situations arise from time-to-time that necessitate changes to the plan articulated in the DC Background Study. To provide the flexibility to respond to these situations, the City has developed the Growth Management Implementation Strategy (GMIS).

The GMIS process allows the annual opportunity for project acceleration and deferrals based on emerging needs. The results of the GMIS process are reported to Council at the conclusion of the process, with an accompanying recommendation to approve the necessary changes to the City's capital plan.



Section E – Cash, Investment and Reserve Fund Management

Background

Londoners rely on almost 100 different services daily. From a financial perspective, ensuring funds are available to facilitate the ongoing efficient and effective operations of these various services is paramount. The City utilizes a variety of tools to do this, including reserves and reserve funds as a savings mechanism for future expenditures. Often the City's reserve funds are not required until many years into the future; in these cases, funds are typically invested to earn a return until they are needed. This section of the Strategic Financial Framework addresses the inter-related management of the City's cash, investments, and reserve funds.

Related Policies

- **Investment Policy:**
london.ca/council-policies/investment-policy
- **Reserve & Reserve Fund Policy:**
london.ca/council-policies/reserve-reserve-fund-policy

Key Financial Principles

Cash & Investment Management

1. **The City of London is a steward of taxpayer assets and not a bank. The assets held by the City are for specific purposes and must be used prudently. Generally, the City should not take on the role of financier/lender for other organizations or individuals.**

Given that the City has considerable assets on its balance sheet, there may be a tendency for some external parties (individuals or organizations) to perceive that the City can provide financial support for projects, initiatives and/or causes that may be important but are outside of the City's core functions. These requests for support may come in many forms – requests for grant funding, requests for loans, etc.

While the City may have significant resources, it is important to note that these funds were collected and are maintained for specific municipal purposes. As such, the City should refrain from utilizing these funds for purposes that are extraneous to the City's primary operations. Where applicable, these requests should be referred to a more appropriate means of securing financing. For loan requests, this may be through financial institutions whose core business is lending. For grant requests, more appropriate avenues for requesting funding would be through the City's well-established London Community Grants Program, funding programs offered by other levels of government, etc.

2. The City will manage general, reserve fund and trust fund assets distinctly, giving due consideration to the unique characteristics of these asset categories in all decision-making.

The City collects and maintains financial resources for a variety of different purposes. Some resources (also referred to as “general funds”) are intended to cover the day-to-day operations of the Corporation, such as salary costs, purchased services, materials and supplies, etc. These are generally reflected in the City’s operating budget. The City also collects and maintains funds for various specific purposes, such as savings for future capital projects (e.g. replacement or rehabilitation of roads, sewers, watermain, etc.) or specific future investments (e.g. affordable housing projects). In many cases, although not always, these funds are maintained in reserve funds to pay for a future capital budget expenditure. The City, in limited circumstances, may also be in possession of funds provided by others to be used for a specific purpose – such as trust funds.

Given the varying needs and intended uses of the resources collected and held by the City, due care will be taken to manage the distinct categories of general, reserve and trust funds separately. While these general categories of assets will be maintained separately, the City may “pool” resources of a similar nature together and manage them as a collective group of resources where it is appropriate to do so. For example, reserve funds of a similar nature may be pooled and managed collectively.

3. The City will distinguish between funds anticipated and not anticipated to be required in the short-term for general, reserve funds and trust funds. The City’s investment strategies for these categories of funds will be tailored according to the anticipated need of those funds.

An important consideration in the management of, and decision-making associated with, the City’s general, reserve and trust funds is the timeframe associated with the intended usage of those funds. For example, funds required to pay employee salaries in 2 weeks must be managed differently than funds intended to re-surface a road in 15 years. As such, different investment strategies will be employed depending on the anticipated needs related to the funds being invested. General funds will be invested in shorter-term investment vehicles that will mature within a period of 24 months or less. Reserve funds tend to be held for longer-term purposes, noting however that some funds may be required in the shorter-term as well. Generally, the City will maintain a balanced portfolio with varying terms to maturity to ensure sufficient liquidity to meet with City’s cash flow needs.

4. **The City will maintain an Investment Policy to guide the investment of municipal funds. In its investment activities, the City will first prioritize adherence to statutory requirements, preservation of capital and maintenance of liquidity. Subject to satisfying these requirements, the City will aim to achieve a rate of return sufficient to maintain the purchasing power of invested funds.**

The City's Investment Policy is the foundational document to guide the City's investment strategies and processes. The Investment Policy will be reviewed regularly to ensure that it continues to meet the City's goals and needs. Consistent with the City's role as a steward of public funds and provider of almost 100 different services to the community, the objectives of Investment Policy will focus on ensuring compliance with the applicable legislation and regulations, the relative safety of the invested funds and ensuring that financial resources are available as needed to support service delivery. Subject to these objectives having been met, investment returns sufficient to at least maintain the purchasing power of invested funds will be sought, noting that this targeted rate of return may change from time-to-time and noting also that prevailing market conditions may make achievement of this desired rate of return impossible at times within the City's acceptable risk tolerance.

Reserves and Reserve Funds

5. **Ensure that reserves and reserve funds are kept at an adequate level to ensure the Corporation maintains sufficient liquidity for current and future obligations.**

Reserves and reserve funds represent important savings for future planned or unplanned events. In most cases, reserves and reserve funds are maintained for very specific, defined purposes, noting however that the City does maintain some funds that have broader applicability. Civic Administration regularly monitors contributions, drawdowns and investment income for the City's various reserves and reserve funds to ensure that sufficient balances are maintained to fulfill the future obligations of the reserve or reserve fund, in accordance with the defined mandate of that fund. It is important to note that, while some reserves or reserve funds may hold what appears to be a significant balance, in most cases those funds are earmarked for a specific purpose. As such, future uncommitted reserve and reserve fund balances (net of approved and forecasted commitments) are often a more relevant consideration than simply the total amount in a particular reserve or reserve fund at any given time.

6. **Target balances will be established and monitored for all reserves and reserve funds (with limited exceptions).**

For most reserves and reserve funds, the City will establish a long-term target balance for the fund, considering the nature, characteristics and anticipated future requirements of the fund. These target balances will be established by the City Treasurer under the authority outlined in the Reserve and Reserve Fund Policy. The targets will be regularly communicated through a variety of materials, including reserve & reserve fund rationalization reports, budget materials, etc.

It should be noted that maximum target balances may not be appropriate for some reserves and reserve funds. For example, some reserve funds are used to hold funding received from non-property tax supported sources (e.g. user fees, funding from other levels of government, etc.). In these cases, it may not be appropriate to establish an upper cap on the reserve or reserve fund. Instead, a lower threshold may be established (e.g. “balance not to fall below \$0”) in these instances.

It is also important to note that reserve and reserve fund target balances needs to be considered from a long-term perspective. Due to the inherent nature of fluctuating contributions to and drawdowns from reserves and reserve funds, their balances will naturally increase and decrease over time. Balances may fall below target, just as they may climb above target, from year-to-year. However, the longer-term trends relative to the target balances remains the more important consideration when reviewing the sufficiency of the fund’s balance. As such, a reserve fund dropping below, or climbing above, its target balance will not automatically necessitate an immediate action (e.g. adjusted contribution, transfer between funds, etc.).

7. Reserve and reserve fund holdings will be reviewed regularly to ensure they continue to meet their intended purpose and that the target balances established remain appropriate.

Civic Administration is committed to regularly reviewing all reserves and reserve funds to ensure they continue to meet the intended purpose of the fund, are reflective of the associated services area’s needs and that the target balance remains appropriate based on current and anticipated requirements. The results of these reviews will generally be communicated through periodic reserve and reserve fund “rationalization” reports to committee and Council.



Section F – Debt Management

Background

While the City generally takes a conservative approach to managing its financial affairs, at times it is appropriate to utilize debt to finance its capital spending. The aim of utilizing debt to finance capital expenditures is to spread the cost of significant expenditures out over a period to avoid significant volatility in spending requirements, particularly related to large capital projects. However, if not utilized prudently, debt can result in significant negative consequences. This section outlines the principles that the City shall follow to ensure that debt is used appropriately to avoid burdening London taxpayers for years to come.

Related Policies

- **Debt Management Policy:**
london.ca/council-policies/debt-management-policy
- **Multi-Year Budget Policy:**
london.ca/council-policies/multi-year-budget-policy
- **Capital Budget & Financing Policy:**
london.ca/council-policies/capital-budget-financing-policy

Key Financial Principles

Debt Management

1. **The City shall strive to maintain its Aaa credit rating to minimize the cost of debt servicing for the taxpayers of London. This will be accomplished through the establishment and maintenance of appropriate debt management policies and practices and ensuring the Corporation maintains sufficient resources to fulfill current and future obligations.**

The credit rating process, undertaken by a third-party rating agency, involves the assessment of the City's financial position and financial results, review of independent research from a variety of sources (such as Statistics Canada), comparisons with other municipalities, and review of news from local media. Along with reviewing and analyzing documents, an annual meeting with Civic Administration also generally occurs. This culminates in a credit opinion outlining the rating agency's assessment of the City's credit worthiness. The City places great importance on maintaining its Aaa credit rating, which it has held since 1977. Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk.

The Aaa credit rating provides a number of benefits to the City, most notably:

- Allows the City to issue debt at the lowest possible rate. Debt issuances rated Aaa are perceived to have little risk of default, therefore investors accept a lower yield because of the low risk of default.
- Provides access to the greatest possible pool of potential buyers for the City's debenture issuances. Some investors may have restrictions on the minimum credit rating for securities that they are able to invest in; maintaining the Aaa credit rating ensures that some potential investors are not excluded because the City does not meet a certain rating threshold.
- Allows the City to invest in a greater range of investments, noting that certain investment products are restricted (e.g. asset-backed securities) if the City's credit rating falls below Aa3.

Generally, two significant contributing factors cited by the City's credit rating agency that support the City's Aaa credit rating include low levels of debt and strong levels of cash and investments that provide solid liquidity to service debt obligations. The City's financial principles, policies and practices are therefore structured to continue to support the maintenance of low debt levels and strong liquidity as key determinants in the City's credit rating.

2. **Debt shall be managed at an appropriate level as determined by the City Treasurer, with due consideration to legislative/regulatory debt limits, impacts on the City's financial stability metrics and credit rating, capacity to service the debt, the City's debt management principles, municipal comparators, etc. Financial policies and practices will be structured to ensure debt is managed to that level.**

Many factors must be considered when assessing how much debt is appropriate for the City to issue. At a basic level, it is important to note that debt comes with an added cost in the form of the interest that must be paid on that debt. This interest cost therefore represents an added premium in addition to the cost of the capital investment the debt is intended to finance. Prudent utilization of taxpayer funds would therefore require that debt should be managed carefully to avoid excessive amounts being directed to interest payments.

Legislatively, the City's debt levels are capped by the Ministry of Municipal Affairs and Housing (MMAH) through the Annual Repayment Limit (ARL) provided each year, which outlines the amount of the City's net revenues it can dedicate to debt repayment. From a practical perspective, this ARL significantly exceeds a practical and acceptable level of debt and, to ensure future financial sustainability, it is highly unlikely that the City would issue such a significant amount of debt that the City's debt repayments would approach the ARL.

One of the reasons to further limit debt below the levels outlined in the City's ARL is financial stability and maintenance of the City's credit rating, as discussed earlier in this section. It is extremely unlikely that the City would retain the Aaa credit rating if debt levels were assessed solely in relation to the ARL. A lower credit rating would have the effect of further compounding the amount of interest the City pays on its debt, as the cost of borrowing would increase commensurately.

Prevailing interest rates also represent an important consideration in assessing the municipality's capacity and willingness to pay the increased cost associated with the debt. In an extremely low interest rate environment, the additional premium associated with debt financing can be relatively small. However, the interest burden can quickly grow as interest rates move higher. Therefore, the amount of debt the City is willing to issue may shift over time in relation to prevailing interest rates. Furthermore, carrying an increased amount of debt represents an opportunity cost and potentially limits flexibility to address future initiatives, priorities or unexpected events that may arise as that debt capacity has already been utilized. Maintaining the flexibility for future unknowns represents a prudent approach to managing the municipality's financial affairs with a view to the future.

The above factors represent important considerations that must be assessed when considering appropriate debt levels for the municipality. This assessment will be regularly reviewed by the City Treasurer and designated in the context of the City's Debt Management Policy and practices.

- 3. The City shall maintain a 10-year prospective rolling internal debt cap. The debt cap will include all tax-supported/rate-supported debt including debt funded through tax/rate-supported reserve funds but excludes debt serviced through development charges revenue. The debt cap will be reviewed annually for appropriateness.**

As a tool to manage the City's debt to an appropriate level, the City maintains an internal debt cap that restricts the amount of tax/rate supported debt that can be issued. The internal debt cap is forward-looking and covers a period of 10 years, aligning with the City's capital plan. It is important to note that this internal debt cap is significantly more restrictive than the ARL provided annually by the MMAH.

Generally, the debt cap will be established based on limiting tax/rate supported debt servicing costs (inclusive of issued debt, authorized but unissued debt and potential future debt) to the range of 5.0% to 10.0% of property tax/rate revenues. The debt cap will be translated into a dollar amount of annual debt that can be supported within the aforementioned range, taking into account current interest rates, sensitivity to changes in interest rates and flexibility to address future needs.

This range has been established based on a historical perspective of the City's debt management practices, review of comparator municipal and best practices, a view to prudent debt management and maintaining the City's Aaa credit rating, noting that

debt is only one input into the City's overall credit rating. This internal debt cap will also ensure that related debt management metrics reviewed by other organizations, such as the City's credit rating agency and the MMAH, are maintained at conservative levels. The debt cap will be reviewed annually for appropriateness and will generally be updated at the start of each Multi-Year Budget cycle to guide decision-making through that process.

4. Debt shall be issued through the channels and structured in such a way as to be most advantageous to the City while observing practical considerations in the capital markets.

Typically, the City will issue debentures directly in the capital markets once per year. Due to London's relatively small annual issuance, the structure is typically a serial debenture, as opposed to bullet debentures or amortizing debentures. Serial debentures are debt instruments that mature in installments over a period of time. In effect, a \$100,000, 5-year serial debenture would mature in approximate equal amounts of \$20,000 annually with unique coupon rates for each year. Amortizing debentures are debt instruments where the principal is paid down over the life of the debenture according to some amortization schedule, typically through equal payments and one coupon rate. Bullet debentures are debt instruments whose entire principal value is paid all at once on the maturity date, as opposed to periodic principal payments over the life of the debenture.

Notwithstanding the City's general practice of issuing serial debentures directly in the capital markets, there may be instances where it is practical or more advantageous to access debt differently, being mindful of the legislative restrictions of the City's debt issuance. For example, debt may be accessible through other government agencies at more advantageous rates than through a direct City debenture issuance in the capital markets. Similarly, there may be occasions where the bullet or amortizing debenture format is more suitable than a serial debenture for a particular issuance. In those cases, the City shall strike a balance between the practicality of the format of a debt issuance and the benefits to the City of an alternate format.

5. The City shall minimize the term of any borrowings to minimize the interest costs of those borrowings to the extent possible, while still achieving the desired level of inter-generational equity.

In accordance with the Municipal Act, 2001, as amended, the City cannot issue debt that exceeds the useful life of a capital project. Section 408 (3) Term Restriction of the Municipal Act, 2001, as amended, states that "the term of a debt of a municipality or any debenture or financial instrument for long-term borrowing issued for it shall not extend beyond the lifetime of the capital work for which the debt was incurred and shall not exceed 40 years". The City generally prefers 10-year debenture issuances, which is typically the shortest term of municipal debt issuances, because the interest savings to the taxpayer in the long-term is significant.

However, there may be certain instances where a 20-year term is warranted, particularly if there is a long-lived asset whereby inter-generational equity can be better achieved by a longer-term borrowing. In these cases, although the annual debt servicing cost is lower on a 20-year term debenture, the duration is longer and the interest rate is generally higher. These factors, when taken together, often amount to over twice the interest paid over the term of the debenture.

6. Debt is appropriate for certain large-scale growth and service improvement capital projects where those who benefit from the capital assets should be responsible for funding the cost of the asset over time. Debt should generally be avoided for lifecycle renewal projects.

A core principle of the City's capital plan and associated financing strategy is that debt should generally only be used for large growth and service improvement projects and should not be used to finance lifecycle renewal projects. The rationale behind this approach is to ensure that those who are utilizing the asset being financed by debt are the ones who are paying for it. As new growth or service improvements benefits the users of those assets in the subsequent years, debt may be an appropriate funding source to align the usage of those assets with the cost of them. Alternatively, lifecycle renewal capital projects are intended to rehabilitate assets that have already been utilized. It would therefore generally not be consistent with the concept of inter-generational equity to have future taxpayers pay for the cost of assets they did not benefit from. As such, "pay-as-you-go" funding (such as capital levy, which is property tax funding collected directly to pay for capital works) or planned savings via reserves or reserve funds is a more appropriate funding source for lifecycle renewal capital projects.

Summary

The City of London has many financial principles that are long-standing and have served the City well over decades; however, these principles have not, until now, been captured in a consolidated document. The Strategic Financial Framework is intended to summarize these principles in one place for easy reference. It is hoped that this document is a valuable reference manual for Council and members of the community to understand the various considerations that go into financial decision-making at the City of London.

Civic Administration will periodically review this Framework to ensure that the principles articulated remain accurate, relevant and complete. Should any required revisions be identified through the periodic review process, they will be brought forward for Council endorsement in an updated Framework at that time.



Other Information

Multi-Year Budget

london.ca/government/property-taxes-finance/municipal-budget

Annual Financial Statements

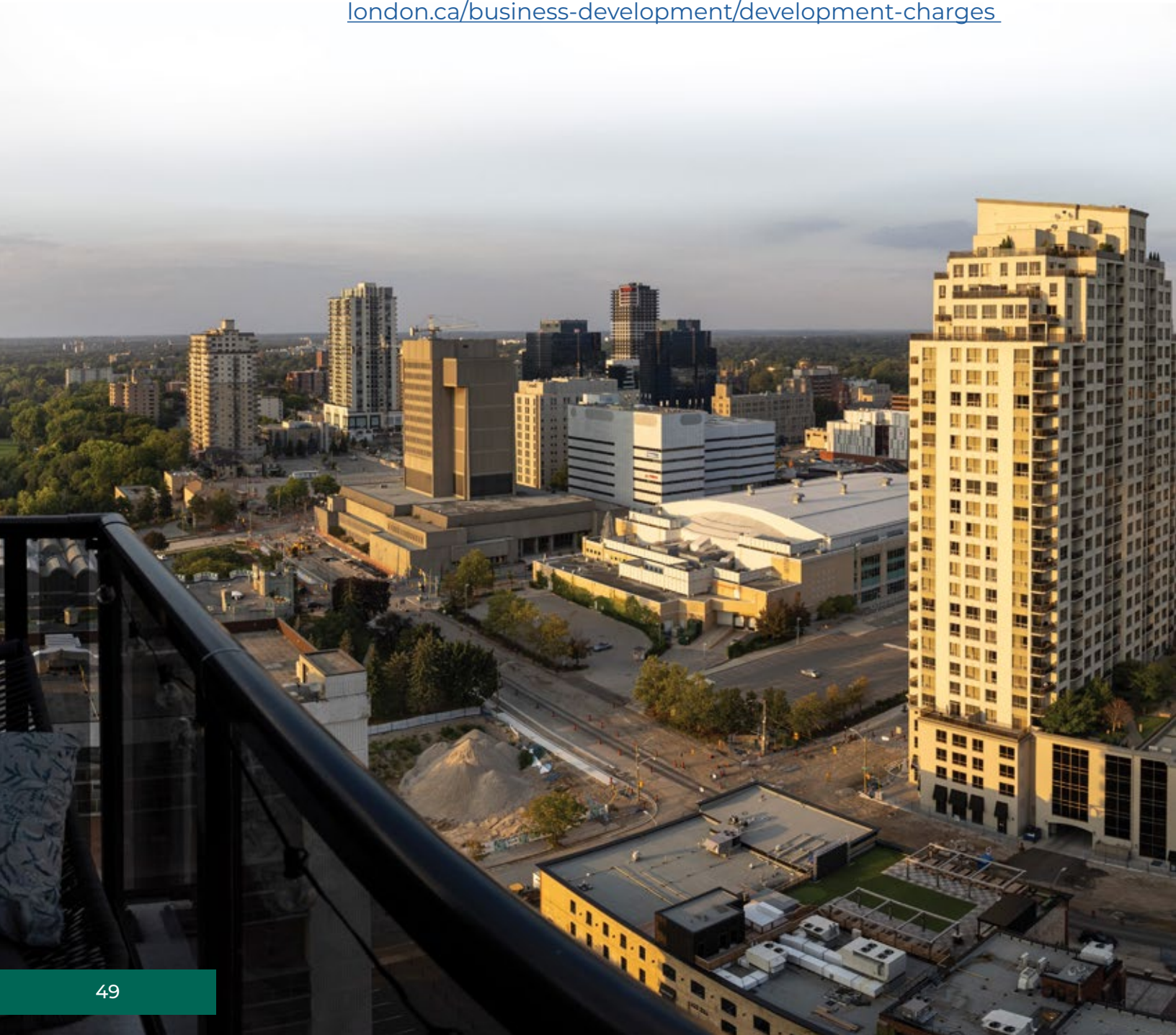
london.ca/government/property-taxes-finance/financial-reports

Property Taxes

london.ca/government/property-taxes-finance/property-taxes

Development Charges

london.ca/business-development/development-charges



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