



# Financial Framework

A guide to Financial Management at OPL

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## Strategic Links

Ottawa Public Library (OPL) practices financial sustainability through planning. There are several overarching documents that guide OPL in high-level decision making. These documents support key organizational functions and are developed and updated regularly. These documents include, but are not limited to, the Service Delivery Framework, Technology Roadmap, Content Services Framework, Development Charges Project Listings, Facilities Framework and Master Plan (in development) and related growth studies, and financial continuity schedules provided by the City of Ottawa (City) Financial Services Unit. Combined with performance data collected through the Performance Measurement Framework (PMF) and Key Performance Indicators (KPI), these documents outline the financial requirements for future years and help to inform decisions leading to sustainable library services.

These documents provide direction but do not necessarily consider the financial feasibility or implications of prioritizing one plan / framework over another competing plan / framework. OPL has developed this Financial Framework to provide reference and guidance to support decision-making that assesses multiple initiatives and priorities.

## The Framework

The Financial Framework acts as a bridge between Strategic Plans (long-term planning) and annual budget decision-making processes (short-term planning). This Framework provides parameters and guidelines for prudent fiscal planning, management, and business continuity. The high-level principles for responsible financial management are intended to guide OPL through the allocation of resources to ensure alignment of opportunities with the Strategic Plan.

This Financial Framework also ensures a sound and sustainable financial base so that financial, service, and infrastructure objectives can be met. The intention is to mitigate financial risk while supporting the delivery of effective, efficient, and economical library services to residents of Ottawa.

The following tenets underpin the Financial Framework and the provision of quality programs, services, and spaces to support literacy and learning.

- ***Ethical and fiscally responsible***: OPL practices sound stewardship of public funds;
- ***Systematic***: OPL uses annual budgets, fund balances, and grant processes to address priorities over the course of each year as well as any unanticipated opportunities or challenges that may present themselves;

- **Intentional:** OPL uses Board-approved strategic directions to guide the use of resources and align spending with strategic priorities and core library functions; and,
- **Conscientious:** OPL prioritizes efforts in making conscious choices considering the environment, leadership, partnerships, and support to customers.

Public funding accounts for more than 95% of annual revenue for all operational and capital expenditures. Municipal funding is the primary source of funding for library services in Ontario. OPL depends on annual funding from the City of Ottawa (City) to provide core library services to residents of the city of Ottawa. Each year, the final budget is recommended by the Board, and approved by Ottawa City Council.

Public funding includes operational allocations for salaries, wages, and benefits; books and other materials for customer use and borrowing; materials and supplies required to sustain operations; services purchased from external suppliers such as consultants; and services provided by City partners. The funding also enables the delivery of programs, services, and spaces that fulfil the community's needs and expectations.

Public funding also includes annual capital allocations to make critical investments in tangible assets including equipment and facility improvements, expansions and renovations, and strategic and growth initiatives. These allocations may arise from opportunities, such as new technologies, grants, government infrastructure or stimulus programs. Capital funding comes from two main streams: growth and non-growth-related sources. The selection and prioritization of expenditures and investments are determined by influencing factors such as facilities planning, technological advancements, growth studies, the availability of development charges, environmental conditions (such as economic, political, and social conditions), legislation, and unforeseen opportunities.

## Guiding Financial Principles and Challenges

Financial principles act as guiding considerations in decision-making. The objective is to strike a balance among them to mitigate challenges and to foster the future health of the organization.

In addition to its own Guiding Financial Principles, OPL adheres to those principles set out in the City's Fiscal Framework, both as a corporate partner and in consideration of the financial authority of Council.

All organizations face financial challenges that occur in the normal course of service provision. Publicly funded institutions, as stewards of public monies, face unique challenges such as:

- Capital requirements that exceed available funding;
- Planning for capital needs in a non-standard environment or poor economic conditions;
- Prioritization of new projects to achieve growth plans and variable factors influencing funding requirements,
- Inability, or difficulty in, accessing alternative funding sources;
- Making and documenting financial decisions in a rapidly changing financial and social landscape;
- Sustaining service growth when budgets are expected to be limited to, or less than, annual tax increases;
- Low tolerance for financial risk;
- Ensuring human resources exist, or are accounted for, for all operating and capital services or initiatives; and,
- Resistance to remove/eliminate services that no longer meet efficient delivery thresholds or are not financially viable.

In order to address these financial challenges, OPL supports a minimum four-year financial planning cycle, based on the core financial principles (below), and in keeping with City financial practices. The planning cycle includes the review of key frameworks and strategies at specified time intervals to ensure alignment or adjustment of financial plans. These reviews allow for the recognition of any new or elevated risks that may impact the financial status of the organization beyond what can be managed within the annual budget.

The following provides an integrated view of the financial principles and corresponding City meanings, and the suggested considerations in avoiding financial challenges.

Principle	Consideration
<p><b><u>Sustainability</u></b></p> <p><b><i>Corresponding City Meaning:</i></b></p> <p>Programs subject to periodic internal and external review.</p> <p>A library that can operate effectively with current funding.</p> <p>Physical assets are maintained/replaced using models of best economy.</p> <p>Constant search for excellence and value with due regard economy, efficiency, and effectiveness.</p> <p>User fee schedule follows the Ontario <i>Public Libraries Act</i>, R.S.O. 1990, c. P.44.</p>	<ul style="list-style-type: none"> <li>• What is the immediate financial impact? <ul style="list-style-type: none"> <li>○ Upfront cost</li> <li>○ Impact on reserve</li> <li>○ Impact on operating cost</li> </ul> </li> <li>• What is the future financial impact? <ul style="list-style-type: none"> <li>○ Operating costs</li> <li>○ Maintenance costs</li> <li>○ Replacement costs</li> </ul> </li> <li>• What is the immediate and future user fee/rate impact? <ul style="list-style-type: none"> <li>○ Who is impacted?</li> <li>○ Is this fair to the taxpayer?</li> </ul> </li> <li>• What is the impact on other organizational services provided? <ul style="list-style-type: none"> <li>○ Are there sufficient resources provided?</li> <li>○ Will other service levels have to decrease or increase?</li> </ul> </li> </ul>

<p><b><u>Flexibility</u></b></p> <p><b><i>Corresponding City Meaning:</i></b></p> <p>Financial decisions based on a multi-year forecast.</p> <p>Prudence and flexibility built into the budget.</p> <p>Deals with financial issues with permanent solutions.</p>	<ul style="list-style-type: none"> <li>• What is the impact on reserve balance?</li> <li>• What is the impact on the immediate and future user fee/rate? <ul style="list-style-type: none"> <li>○ Upfront cost and future operating costs?</li> <li>○ What impact does this have on the remaining ability to increase other rates?</li> </ul> </li> </ul>
<p><b><u>Minimize Vulnerability</u></b></p> <p><b><i>Corresponding City Meaning:</i></b></p> <p>Equity (reserves) provides flexibility to respond to economic cycles and manage financial risk.</p>	<ul style="list-style-type: none"> <li>• What type of funding is available? <ul style="list-style-type: none"> <li>○ Grants, reserves, third party, taxes, user rates/fees, fundraising</li> </ul> </li> <li>• What type of expenditure is required? <ul style="list-style-type: none"> <li>○ One time or ongoing</li> </ul> </li> <li>• Is the funding source guaranteed? <ul style="list-style-type: none"> <li>○ Any risk that funding will not be received?</li> <li>○ Will the funding be available in time for the intended purpose?</li> <li>○ What are the other relevant risks for OPL?</li> <li>○ What is the risk, impact, or trade-off of taking this action or for not acting?</li> </ul> </li> <li>• Is the funding source one-time for a predefined period or for ongoing purposes?</li> </ul>

<p><b><u>Strategic direction alignment</u></b></p> <p><b><i>Corresponding City Meaning:</i></b></p> <p>Budget directions and the long-range financial plan respect the fiscal framework.</p>	<ul style="list-style-type: none"> <li>• Does the decision support the strategic plan?</li> <li>• Is the decision an organizational priority?</li> <li>• What impact does the decision have on other organizational priorities?</li> <li>• What is the trade-off of this decision to other</li> </ul>
<p><b><u>Efficiency</u></b></p>	<ul style="list-style-type: none"> <li>• How many resources are required (finance, time, human capital)?</li> <li>• What resources are readily available?</li> <li>• Are there other means to achieve the goal?</li> <li>• What is the opportunity cost – or impact of not doing something?</li> <li>• What other services are impacted? <ul style="list-style-type: none"> <li>○ Financially (resources available to other services, cost of new decision)</li> <li>○ Quality of service provided</li> </ul> </li> </ul>
<p><b><u>Transparency</u></b></p> <p><b><i>Corresponding City Meaning:</i></b></p> <p>Report on financial condition and performance</p>	<ul style="list-style-type: none"> <li>• Was there appropriate communication with decision-makers and/or key stakeholders (residents, employees, leaders, board, council, or other relevant groups as applicable)?</li> </ul>

## Financial Elements

Financial planning and management must consider multiple elements that interconnect and influence decision-making at all levels of financial authority. With the adoption of a Total Cost of Ownership (TCO) approach wherever and whenever practicable, OPL will ensure sufficient due diligence through long-term financial planning and a periodic reporting mechanism to ensure all costs associated with projects and initiatives are identified and considered whether they are primary, secondary, or tertiary costs.

The following nine financial elements enable the delivery of Library Services to the residents of Ottawa: Asset Management, Growth and Development, Strategic Initiatives and Enhancements, Revenue - User Fees and Service Charges, Annual Planning and Budgeting Process, Long-Range Financial Forecasting, Library Reserves, External Funds, and Monitoring and Evaluation. Each element has its own unique purpose, but all elements must be considered together to effectively meet strategic plans approved by the Board.

Each of the following sections is structured to outline guiding principles, accountabilities, and risk mitigation considerations. Guiding principles identify the overarching considerations related to each element. Accountabilities are highlighted to ensure that there is clarity of responsibility and oversight. In addition, each element includes a set of suggested questions for which answers can indicate potential sources of risk. The intent of all three categories is to ensure a thorough examination of each topic to support well-informed decision-making and to support governance. Finally, Appendix 2 includes a crosswalk of all the strategic linkages related to each financial element.

## Asset management

Asset management refers to the realm of protection, maintenance, and replacement of OPL's physical assets. In general, assets that are managed through maintenance and lifecycle systems generally meet Tangible Capital Asset (TCA) value thresholds and are funded by capital accounts recommended by the Board and approved by City Council.

Asset management is coordinated with City departments through a shared services model. It applies to facilities, fleet, and technology and equipment, and is guided by respective departmental frameworks and plans, which must be consulted before significant financial expenditures are incurred. Ensuring the financial ability to support the maintenance, upgrade, and lifecycle replacement of technology assets is critical to the success and sustainability of library services.

For accounting purposes, collections (library materials) represent a significant portion of expenditures, however, they are not recognized as an asset under accounting rules. Library materials are purchased primarily through the operating budget and are managed according to the guidelines documented in a separate Collections Framework.

### **Guiding Principles**

- Where assets are part of existing City asset management regimes, City staff should be consulted with respect to financial decisions regarding the asset status or potential replacement.
- Where asset management gaps exist, priority in spending is as follows:
  - Assets that impact health and safety;
  - Assets that impact core functions; and,
  - Assets that have the highest long-term financial return.

### **Facilities:**

Library facilities are owned or leased by the Board, or owned by the City, and are jointly managed. As such, capital facility assets are managed and maintained as per the City of Ottawa's Asset Management Policy and related framework, procedure, and asset tracking software for major facility systems including HVAC, structural systems, foundations, and electrical systems. The funding and project lists are provided by the City during the annual budget process.

- For facility maintenance projects less than \$6,000, maintain an annual list of upkeep requirements.
- Lifecycle and accessibility retrofits are City funded, in consultation with OPL.
- Full replacement, significant renovation, or expansion of library facilities is the financial responsibility of OPL. Facility-related decisions must consider the long-term operations and maintenance (O&M) financial impacts on capital assets and total cost of ownership.
- The Facilities Master Plan and Development Charges Project listings must be consulted when managing facilities assets.
- Consultation with the City's Planning, Infrastructure, and Economic Development (PIED) and Recreation, Culture and Facility Services (RCFS) departments is required to maximize funding for any collaborative opportunities that meet OPL requirements.

**Fleet Vehicles:**

The Fleet Services Department of the City manages motor vehicle assets for OPL. Maintenance regimes, lifecycle replacement, and growth requirements are the financial responsibility of OPL and are reported to OPL through Fleet Services. Operational costs are reported on a monthly basis. Identification of general fleet issues and reviews of all aspects of fleet management are conducted on a quarterly basis, and lifecycle replacement issues on an annual basis. OPL reviews the information provided from Fleet Services to determine the best course of action. Vehicle lifecycle replacement and growth must be included in long-term planning.

**Technology and Equipment:**

OPL benefits from technology support and services through the City's Information and Technology Services (ITS) department for infrastructure, managed networks, and corporate computing assets such as computers and laptop devices. Equipment and systems specific to OPL service delivery are managed solely by OPL with some technical support from ITS. These expenditures are entirely funded by OPL.

Each OPL department manager is responsible for determining the replacement cycle and maintenance needs of their OPL specific software and equipment. Examples of these assets are the Automated Materials Handling (AMH) System, computers and peripherals (staff and public), the Integrated Library System (ILS), Customer Relationship Management (CRM) software, etc.

### **Accountability**

- The OPL Board approves the Asset Management Framework.
- Library Senior Management Team (LSMT) oversees asset management activities, and reports to the Board each term on the state of corporate assets.
- In cases where assets are the sole responsibility of OPL, managers are responsible for the maintenance of the asset and to report any requirement for replacement as part of capital forecasting through the budget process.
- Funding for the replacement of capital assets must be recommended by the Board and approved by Council.

### **Risk Mitigation Considerations**

The following questions need to be considered:

- What are the operational status and lifecycle expectations of all assets meeting a tangible threshold?
- What is the process by which the state of repair of non-tangible assets is monitored through operational activities in all departments?
- Is asset maintenance performed as per the recommended schedule to avoid unnecessary costs of over or under maintenance?
- Are policies, procedures, guidelines, and systems followed to ensure safety?
- Are lifecycle replacement thresholds consistent with the asset depreciation schedule?

- Does the asset replacement and/or investment schedule follow the order of priority?
  1. Health & Safety
  2. Legal/Legislative requirements
  3. Core functions
  4. Strategic Priorities

## Growth and Development

Growth and Development refers to the capital projects and resulting operating costs related to population growth. The *Development Charges Act, 1997, S.O. 1997, c. 27 (DC Act)* provides funding for growth related to facilities, collections (library materials), and in some cases, technology. The City's Development Charges By-Law ensures that developers fund their portion of increased requirements for infrastructure in which libraries are included. In accordance with the *DC Act*, OPL must identify historical levels of service and project listings for City-Wide (collections and technology that facilitates its circulation) and Area Specific (facilities) categories. Project lists must be supported by periodic (every five-years) growth studies, and a background study performed by City consultants. In order to leverage DC funding, OPL must pay a percentage of the overall project cost, which varies based on benefit to existing infrastructure calculations but is generally between ten percent and 19 percent.

Although DCs are the primary funding source for growth at OPL, previous growth studies have shown that the level of DC funding and the calculations used in determining DC funding for library facilities has fallen short of per capita requirements. As such, it is imperative that OPL utilize this funding judiciously and based on the findings of the supporting documentation. Special circumstances may arise where unplanned opportunities present themselves, and in these cases, the impact on funding and timing for planned growth must be evaluated. OPL will continue to take advantage of DC funding while also seeking alternate funding on a project-by-project basis to close the per capita gap.

### Guiding Principles

- Asset acquisitions related to growth are subject to a cost and benefit analysis that considers the Total Cost of Ownership (TCO), i.e. capital, operating, and lifecycle expenses;
- DC funding is to be used in accordance with DC Bylaw requirements and project listings, frameworks, plans, and initiatives authorized by the Board and Council;
- Follow, align, and collaborate with the City's DC Bylaw financial practices to recover the costs of growth as permitted by legislation;
- Costs and benefits of growth are clearly documented in the capital budget for consideration of funding; and,

- DC project listings are reviewed when completing the annual Work In Process (WIP) reviews, managing funds, and in consideration of debt-financing costs.

### **Accountability**

- All projects related to growth are subject to approval by the Board and Council and in accordance with the delegation of authority.
- Library managers with capital assets that are subject to growth expenditure are responsible for the planning of the assets and to prepare cost and benefits of growth, justifying the needs for the assets.

### **Risk Mitigation Considerations**

The following questions need to be considered:

- Is the scope of the project for Growth and Development clearly defined?
- Does the budget estimate include future inflationary costs (listed in Net Present Value (NPV))?
- Is there staff concern toward projects and/or resistance to change?
- Is there appreciable negative public perception or opposition?
- Is OPL able to get all resources needed to complete the project?
- Is there any contractor risk?
- Are there any risks related to the responsibilities of the OPL project sponsor?
- Are there any risks related to timing, scheduling, or dependencies?
- Does the implementation of the project result in changes to core business processes? If so, what are the operational risks related to cost, human capital, and customers?
- Is there any health and safety risk related to the project?

- Is there risk of future litigation related to the project?
- Are there new pending regulations that impact the project?
- What is the risk of partner failure to meet contractual obligations to the project?
- How does the new project integrate into existing systems and infrastructure (technologies, information, and processes)?
- What is the priority of this project in comparison with other projects?

## Strategic Initiatives and Enhancements

Strategic Initiatives and enhancements include projects and initiatives that enhance the quality of service to customers, respond to trends or changes in demand or need for services, enable organizational efficiency, respond to direction from the Board, or are required because of legislation. These items are not related to growth nor are they required to maintain existing assets or programs. These initiatives are approved annually and are aligned with the strategic plan.

### **Guiding Principles**

- Strategic initiatives will be advanced based on their priority as established by the Board over a single or multi-year timeframe;
- Strategic initiatives and enhancements must have confirmed dedicated sources of funding;
- Strategic Initiatives and Enhancements are subject to a cost and benefit analysis that considers the Total Cost of Ownership (TCO), i.e. capital, operating, and lifecycle expenses;
- Financial status and sustainability of finances will be considered when recommending strategic initiatives and enhancements; and,
- If permitted by the *Ontario Public Libraries Act, R.S.O. 1990, c. P.44*, fees are considered for strategic initiatives that benefit communities.

### **Accountability**

- Initiatives are approved by the Board annually through the budget process; and,
- LSMT oversees the process by which initiatives are identified and evaluated for priority, risk, and current and future impact.

### **Risk Mitigation Considerations**

The following questions need to be considered:

- Is the scope of the project clearly defined?
- Is the budget based on forward-looking estimates?

- Is there staff concern toward the project and/or resistance to change?
- Is there appreciable negative public perception or opposition?
- Is OPL able to acquire all the resources required to complete the project?
- Is there any contractor risk?
- Are there any risks related to the responsibilities of the project sponsor?
- Are there any risks related to timing, scheduling, or dependencies?
- Does the implementation of this project result in changes of core business processes? If so, what are the operational risks?
- Is there any health and safety risk?
- Is there any risk of future litigation related to the project?
- Is there any new regulation that impacts the project?
- Is there a risk that the partner, if any, will fail to meet their obligation(s)?
- How does the new project integrate into OPL's existing systems and infrastructure (technologies, information, processes)?
- What is the priority of this project in comparison with other projects?

## Revenue – Recurring and Non-recurring

OPL benefits from both recurring and non-recurring revenues to supplement base funding provided via the municipality.

### **Recurring Revenue:**

The *Ontario Public Libraries Act, R.S.O. 1990, c. P.44, 1999, (PLA)*, allows for fees charges in a limited scope for services where the public has the choice to purchase the service. Fees must be as fair and as equitable as possible. Creating or adjusting user fees and rates requires careful consideration, and any fees for services of non-residents should be aligned with the average paid by the resident taxpayer.

User fees and service charges, as allowed by the *PLA* are an effective way to augment municipal, tax-based funding of operations. OPL applies user fees on various items including room rentals and the sale of goods and consumable materials (e.g. materials in the IMAGINE Space).

The *PLA* includes a provision for provincial funding to public libraries, administered as the Public Libraries Operating and First Nations Salary Supplement Grant (PLOG). This grant is issued by The Ministry of Heritage, Sport, Tourism, and Culture with the explicit purpose of supporting annual operating budgets of public libraries in Ontario. Based on the explicit nature of the grant, the funding received is accounted for on an annual basis within the operational accounting system as recurring revenue.

### **Non-recurring revenues:**

On occasion, the organization may be eligible to receive funding from other levels of governments that must be used for a specific purpose or within a specified timeframe. Non-recurring revenues are funds resulting from one-time opportunities such as grants for infrastructure, special programs, capacity building, or private and other programs that are provincially and federally sponsored. The use of non-recurring revenue must align with the intention of the source to foster financial credibility and transparency. The spending of non-recurring and time sensitive funding is to be prioritized according to the organization's strategic directions and/or approved initiatives.

Revenue received through Provincial or Federal grant programs (except for the PLOG) are received with explicit conditions for use and specific accounting requirements. Generally, grants received for infrastructure purposes are accounted through the capital allocation, and grants received for service delivery, such as newcomer programs, are accounted for through the operating allocation.

Sales of OPL Assets (land, buildings, art holdings, etc.) are considered non-recurring revenues and are subject to the Board policy on Disposition of Assets.<sup>1</sup>

### **Guiding principles**

- The introduction or adjustment of user fees must consider OPL's core value of Inclusion:
  - The impact of changing user fees on the customer;
  - Compliance with legislative requirements;
  - Periodic study and review;
  - Cost recovery for material and labour rates;
  - That only those who use the service are paying for the service.
- User fees must be reviewed and adjusted, as necessary, on an annual basis as part of the budget process;
- Fees are to be classified into groupings (e.g. people, spaces, goods, etc.);
- Planned revenues should be adjusted on an annual basis based on the previous fiscal year-end performance except in exceptional circumstances;
- OPL will not budget based on non-recurring revenues.

### **Accountability**

- The collection and use of fees are monitored annually with comparison against the previous three years.
- The identification or adjustment of new fees/rates requires Board approval.
- Applications for, and receipt of funding, related to non-recurring revenues are reported to the Board as per OPL Board Policy #2, Delegation of Authority.

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<sup>1</sup> This policy is in development.

## **Risk Mitigation Considerations**

The following questions need to be considered:

- Are the fees comparable with other public libraries in Canada and Ontario?
- Are there any significant changes in fees and why?
- Do significant changes to fees present the risk of less usage or revenue?
- Are the fees fair through the equity, inclusion, diversity, and access lenses?
- Does the plan and timeline for the usage of non-recurring revenue resources make sense?
- Are the fees consistent with, and fair to, the taxpayer?

## **Annual Planning and Budgeting**

OPL follows an annual planning process that supports the development of budgets year-over-year. Strategic, corporate, and departmental planning are used to develop the budget, and are the tools by which the corporation achieves its Strategic Statement. Planning should be used to determine budgetary requirements, differentiate absolute operating and capital requirements from strategic initiatives, and identify potentially disruptive expenditures and unintended impacts. Due diligence in considering what to do, what not to do, and the rationale should be done prior to budget documentation.

OPL receives one overall budget envelope from City Council annually. The amount allocated toward operating and capital initiatives is at the Board's discretion. As such, thorough financial planning is critical to maximize the use of funds. The operating allocation is intended to fund daily business activity for the current year, and the capital allocation is used for longer-term investments. The planning function determines which financial pressures and projects fall into each category and identifies the priority order for addressing each one. The categories and priorities are as follows:

### **Operating:**

- Priority 1 – Mandatory

- Revenue adjustments (as per accounting principles);
- Compensation: Cost of living allowances (COLA), Benefits, Premiums;  
  
Service charges from City partners – Facilities, Operations, Fleet, insurance, etc.;
- Legislated requirements;
- Legal outcomes;
- Contractual obligations; and,
- Priority 2 – Maintenance of Existing Services
  - Collections and content (physical and virtual);
  - Facility repairs that do not meet Tangible Capital Asset (TCA) thresholds;
  - Replacement of unserviceable small equipment or technology; and,
  - Any other pressures related to maintaining services (e.g. licensing and maintenance).
- Priority 3 – Discretionary Costs
  - Projects and initiatives that are linked to the Strategic Plan; and,
  - Projects and initiatives that result from program and service reviews.

**Capital:**

- Priority 1 - Lifecycle maintenance or replacement of existing assets and infrastructure
  - Technology lifecycle requirements meeting TCA;
  - Facilities or Fleet requirements meeting TCA; and,
  - Co-funding of infrastructure grant opportunities, as available.
  
- Priority 2 – Renewal
  - Renewal, renovation, or expansion of assets; and,
  - Growth Studies or other required studies.
  
- Priority 3 – Strategic Initiatives
  - Projects or initiatives approved by the Board.
  
- Priority 4 – Growth
  - Facilities, Fleet, or Technology that is required to meet growth demand;
  - Co-funding of Development Charge projects; and,
  - Co-funding in collaboration with City or other partner organizations.

The order of importance listed above is intended for budget development purposes. The actual priority often depends on circumstances at the time of budget approval.

**Guiding Principles**

- On average, 4.5 percent of the total budget will be allocated to capital initiatives.
- Discrepancies or significant variances will be compared to the previous years' actual expenses to identify irregularities.
- Three-year average expenditures may also be referenced as required to further pinpoint the cause of the variance(s).
- Mechanisms are in place to monitor and control the budget;
- Ensure corrective actions are being made in a timely manner; and,
- A collaborative approach is utilized to identify all necessary data.

### **Accountability**

- LSMT will monitor the budgets on a quarterly basis with comparison of budgeted to actual year expenditures in all categories.
- Any significant discrepancy in expenditures will be reported to the Board with accompanying detailed explanation.
- LSMT oversees the annual work plan and budget process and reports to the Board annually.
- The Board reviews and approves the budget annually, and recommends to Council, which has final authority.

### **Risk Mitigation Considerations**

The following questions need to be considered:

- Does the current timeline for annual planning and budget process allow input from all relevant stakeholders?
- What are the assumptions, and are they clearly articulated and documented?
- Is the current budget in range when compared with the three-year average?
- Are there any significant shift/change in expenditures and revenues and why?

## Long-Range Financial Planning

Long-range financial planning combines financial forecasting with strategizing, and is critical to help OPL navigate challenges and achieve long-term goals. The process considers future scenarios, and projects revenues and expenditures over a 10-year horizon using assumptions about economic conditions, spending plans, political impacts, Board decisions, and other variables.

The long-range financial forecasting process considers corporate planning, the strategic plan adopted by the Board, the state of corporate assets, and departmental plans for future service delivery. The planning process should take place in a collaborative environment to identify all human resourcing, technology, and operating requirements.

The basis for useful financial forecasting requires employees, managers, and senior managers to participate directly or indirectly in the process. The use of a continuity tool is essential in understanding the financial feasibility of the resulting long-term plan. The continuity tool documents connections between operating and capital allocations over multiple years and provides data to inform sound business decisions. The forecast is continually updated, using the continuity tool, by tracking decisions, approvals, directions, and the results of unforeseen circumstances. The continuity tool can also be used to perform scenario or “what-if” tests to determine the potential impacts of funding programs or initiatives. The main elements / steps of the process are:

- 1) Develop baseline from the previous fiscal year;
- 2) List all assumptions made in the continuity tool:
  - a. Interest rates;
  - b. Debt financing rates;
  - c. Inflation rates;
  - d. USD exchange rate;
  - e. Cost of living adjustments;
  - f. Average cost per FTE; and,
  - g. Monitor provincial and federal budgets for impacts to grants and funding.
- 3) Estimate ongoing funding envelopes over the 10-year period:
  - a. City of Ottawa;
  - b. Provincial grants;
  - c. Recurring revenues;

- d. Library Reserve;
  - e. Development Charges; and,
  - f. External Funds.
- 4) Collect cost estimate data for ongoing initiatives, programs, or projects not funded from existing base departmental budgetary envelopes:
    - a. Strategic Plan;
    - b. Corporate Planning Process;
    - c. Departmental Frameworks; Plans, and Strategies
    - d. Asset Management;
    - e. Legislation;
    - f. Economic conditions;
    - g. Human Resourcing Requirements;
    - h. Inflation Rates; and,
    - i. Legal Agreements;
  - 5) Conduct a sensitivity analysis – performed to determine the most influential variables by impact magnitude;
  - 6) Update models – update projection models, scenarios, and analysis based on input from key stakeholders and reference documents to analyze and anticipate potential strategies, issues, options and impacts;
  - 7) Ensure key stakeholder review; and,
  - 8) Amend as necessary the annual baseline, assumptions, and environmental scan corrections, based on steps 1-7.

### **Guiding Principles**

- Identification and quantification of the impact of influencing factors such as macro-economic environment, and demographics;
- Identification of potential funding gaps;
- Consideration of all appropriate funds to reduce or eliminate potential or actual funding gaps;
- Analysis of the financial environment, revenue, and expenditure forecasts;

- Analysis of human resourcing, technology, facilities, capital assets, and operating requirement projections for all areas of the organization;
- Development of strategies for achieving and maintaining financial balance long-term; and,
- Monitor and report on financial goals and achievements.

### **Accountability**

- A published long-term financial plan will be provided and annually updated, with approval by Management. It is available to the Board upon request.

### **Risk Mitigation Considerations**

The following questions need to be considered:

- Are the assumptions used for long-range financial forecasting realistic and meaningful?
- Have inflation, potential increases or decreases in grant opportunities, changes to costs that are beyond inflation levels, etc. been considered to determine the magnitude of change and how these will affect financial projections?
- What are the key challenges and plans to address these challenges?

## Library Reserve

Underpinning operating and capital funding is the Library Reserve Account (“Reserve”). The Reserve is a financial account through which all library funding is transacted into operating and capital budgets. The *Public Libraries Act* is silent about Reserve funds, and while it is common practice for municipalities to establish and hold reserve funds for the library, library boards have authority to establish reserve funds under the *Municipal Act*. Given the financial relationship and shared services with the City, By-Law No. 2019-205 (reflecting revisions), to establish the Ottawa Library Reserve Fund for Ottawa Public Library. According to the by-law, the fund is established to “...provide funding support for the Ottawa Public Library and to assist the Board’s long-term planning and resource requirements.” The complete By-Law can be found in Appendix 1.

The Reserve serves many financial functions related to the annual delivery of library services. The main purpose is to help stabilize the impact of unforeseen financial pressures or fluctuations in planned operating or capital expenditures. The reserve also serves as a financial means to provide for future growth of library services. Legislatively, the *Ontario Municipal Act* requires that the City of Ottawa, and therefore OPL, not budget an operating deficit and, further, that any operating deficits in a fiscal year must be balanced by offsetting funding to bring the year-end operating balance to net zero. To achieve this, monies are deposited to (surplus) or withdrawn from (deficit) the Reserve. This practice, although not required by the *Ontario Public Libraries Act, R.S.O. 1990, c. P.44* or the *Ontario Municipal Act*, is supported by the City’s financial accounting practices.

In addition to this accounting role, the Reserve also serves as a savings account for the Library. Maintained properly, the Reserve is a valuable way to fund opportunities or to pay for unforeseen financial pressures such as legislative decree, legal decision or settlements, labour relations, changes in social factors, political environment, and economic factors. The investment in, and maintenance of, a healthy Reserve also enables the Library to fund capital infrastructure projects not related to growth. In addition, the Reserve may be used to fund one-time initiatives (for no longer than one fiscal year) that are required to support short term initiatives or pilot programs that do not meet TCA thresholds.

The Reserve should be maintained at a balance that is able to service unplanned costs but should not be exceedingly large to appear to be a hoarding of tax revenues. Further to the By-Law, Library Reserve will be used for the following financial requirements, in order of priority:

- a) Resolution of annual operating deficits;

- b) Unforeseen legislative and legal pressures;
- c) Co-funding (leveraging) of non-tax-based envelopes for growth such as Development Charges;
- d) Growth projects not funded through Development Charges; and,
- e) One-time initiatives approved by the Board that support services (customer or employee), facilities, technology, fleet, or security.

The practice of transferring an annual surplus to the Reserve must be approved by City Council. No Council approval is required to withdraw money from the Reserve to balance a deficit. There are three methods by which the Board may withdraw or redirect funds from the Reserve for non-deficit purposes: a) via the annual budget process, b) at the time of year-end (Q4) financial reporting, and c) via a report to Council.

In addition to the Library Reserve, OPL has a reserve fund for the collection of Development Charges (refer to Growth and Planning section).

### **Guiding Principles**

- The reserve should be maintained at a minimum of 7.5 percent and a target of 10 percent of the total OPL budget.
- Approximately 60% of the Reserve should be held for capital purposes.

### **Accountability**

- Decision-making which may impact the Reserves are included in the Financial Implications section of the related report to the Board.
- Withdrawals from the Reserve for non-deficit related expenditures requires approval of Ottawa City Council.
- The balance of the Library Reserve and Development Charges Reserves will be reported to the Board as per OPL Board Policy #10 – Reporting and Monitoring. The Reserve balance may also be requested by the Board at any time.<sup>2</sup>

### **Risk Mitigation Considerations**

The following questions need to be considered:

- Does the Reserve adequately protect OPL from unexpected circumstances?
- What is the trend on contribution to, and withdrawal from, the Reserve?

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<sup>2</sup> Reference: *City Reserve Management Policy – Approved by City Council March 28, 2018.*

- In what area(s) have Reserves been consumed and are there any patterns or trends that can be avoided?

## External Funds

External funds are contributions that are received from sources that are external to OPL and the City. External funds may be donated, raised, or bequeathed in the form of in-person donations, major gifts, gifts-in-kind, and legal settlements (e.g. estates). Sources of external funds vary greatly and may include private citizens, companies, charitable organizations, non-governmental organizations, and other benevolent entities within Canada and abroad.

The revenue received from contributions are accounted for separately from OPL's annual operating budgets. These funds may be used to augment operating expenditures for items such as furniture and general maintenance, funding a portion of service delivery operations, or providing for pilot funding to test new initiatives or programs that would otherwise encumber the operating budget. External funds may also be used to offset capital projects by providing for furniture, equipment, or other aspects of the project that may otherwise be charged to the project costs in a capital account. Essentially, products and services that are purchased using external funds alleviate the pressure of purchasing those same products and services through the OPL's annual budget.

Fund management encompasses the establishment of priorities for utilizing external funds received and related administration of the funds, including record keeping related to the expenditure of funds or dividends received. In the context of OPL, fund management is subject to numerous conditions, legalities, and intents under which monies may be donated, granted, raised, or bequeathed to the Board. Similarly, the accounting, receipting, and spending of external funds must be clearly defined.

The development of spending priorities for external funds is important and should be a wholistic process undertaken in alignment with the annual budget process. This process will ensure that external funds will be directed to the intended uses and will also provide an opportunity to redeploy remaining undirected funds to address additional needs.

## Trust Funds

As an agency of the City of Ottawa, OPL benefits from services provided by the City for the investment aspect of fund management. Trust funds are donations or bequests that merit the creation of a trust fund (usually because the contribution is directed to a particular program/service) and subsequent meaningful interest dividends. As such, as significant donations or other gifts are made to OPL, "funds" are established for

investment purposes. As a general guideline, the interest earned on monies invested by the City is between 0.5 to 2 percent subject to economic conditions.

### **Legacy Funds**

OPL is the recipient of interest earnings from legacy funds administered by a not-for-profit external fund management foundation. These legacy funds are interest-bearing and contain directed and undirected funds. Interest revenues from these funds are received annually.

### **Donations**

Donations are received at branches, through the OPL website, or through direct mail, and can be both unsolicited or solicited through targeted fundraising efforts.

OPL provides donors meeting the minimum donation value of \$10, the opportunity to request or direct the donation towards a branch, program, or service. It should be noted that this is not legally required of OPL. Failing any description of the use of a donation, the donation is understood to be “undirected,” meaning it can be used as OPL deems best. OPL provides further clarifications and procedures regarding monetary donations in an applicable administrative procedure reviewed each three-year period. In general, the policies and procedures related to donations and gifts-in-kind and their differentiation are governed by City of Ottawa financial policies.

Where the donation is considered a major gift or partnership, these funds may be subject to legal contract, Memorandum of Agreement (MoA), Memorandum of Understanding (MoU), or other legal documents to which both the funding party and OPL are legally bound, including confidentiality agreements.

### **Spending Priorities**

External funds can have an impact on the organizational budget as prioritization of spending from this revenue source can help to: maximize the Library Reserve account balance, minimize peripheral pressures on annual budget envelopes, provide for one-time goods and services purchase to enhance the customer experience, and garner support from the community at large and library customers. The following priorities outline the order in which external funds will be applied:

- Priority 1 – Directed Funds
  - All directed external fund revenues are expended in a way consistent with the donor’s intent (where possible).

- Priority 2 – Undirected Funds
  - Customer Experience
  - Strategic Initiatives and Enhancements (as per approved Strategic Priorities)
  - Employee Experience

### **Guiding Principles:**

- Where practicable, external funds will be utilized in a manner consistent with the donors wishes;
- External funds are collected and maintained by OPL, with receipting services provided by the City;
- Managers receiving external funds will be provided with balances on a quarterly basis including directions for expenditure;
- Trust funds will be created for directed funds;
- Undirected funds will be deposited to the General Fundraising Trust Fund;
- Funds that are derived from “Invested Principal” will only be available for expenditures not in excess of the interest earned;
- Funds that are derived from “Fundraising Bearing Interest” may be available for expenditures in their entirety;
- An administration procedure (ADM-900-PRO) is established to manage the processing of donations.

### **Accountability**

- The expenditure of external funds will be reported to the Board on a quarterly basis by fund name.
- The expenditure of external funds will be reported to the Board on an annual basis by category as part of the fourth quarter financial status report.
- LSMT will monitor external funds (receipt and expenditures) on a monthly basis, with comparison to the prior fiscal year.

### **Risk Mitigation Considerations**

The following questions need to be considered:

- Does the organization have a fundraising plan which has reliably demonstrated the ability to produce the levels of funding required?
- Are anticipated contributions based on a written plan and a grants and fundraising calendar with projections for each type of fundraising?
- Are there any regulatory constraints and compliance issues?
- Is the organization in the position to comply with the donor's request?
- How can we demonstrate to the donor that the conditions of the gift were met?
- How do we track the use of gift?
- Can we track the use of a donation practicably?
- Does the fundraising event and/or potential donor(s) have the potential to cause any negative image on OPL reputation?
- Is the donation being utilized in the most advantageous way?

## **Monitoring and Evaluation**

To ensure the efficacy of this framework, regular monitoring and periodic evaluations will take place. The guiding principles and priorities outlined in this framework should be implemented with good judgement, and with appropriate levels of approval based on delegated financial authorities.

### **External Evaluation**

- Periodically perform industry reviews and environmental scans to assess current or emerging issues and to collect information for policy discussions and/or to update the Financial Framework.

### **Internal Evaluation / Audit**

- Reinforce compliance by comparing actual practices to the guiding principles of this financial framework;
- Collect data and evidence of compliance/non-compliance with core financial principles, and report out with recommended corrective measures;
- Engage relevant stakeholders to ensure that views and perspectives are heard and considered during evaluation;
- Report on current financial status and long-term financial forecasts recommending action for budgetary controls;

- Explain variances with appropriate details to allow informed decision-making;
- Ensure budget and resource allocations meet the organization's short-term needs while addressing long-term goals;
- Review the governance structure and resulting delegation of authorities and responsibilities and amend as required; and,
- Track and report on management of corporate financial risk and the mitigating measures to manage these risks.

## Definitions

### ***Accessibility Program***

A program funded by the City of Ottawa to remove barriers to existing facilities based on ongoing condition assessments in accordance with the Accessibility for Ontarians with Disabilities Act, 2005, S.O. 2005, c. 11

### ***Capital Budget***

Funding used to acquire, maintain, and replace Tangible Capital Assets (TCA). OPL capital requirements fall into one of four categories: 1) Renewal of City Assets, 2) Strategic Initiatives, 3) Growth, and 4) Lifecycle and accessibility programs.

### ***Capital Expenditure***

A capital expenditure is any significant expenditure meeting financial value thresholds, incurred to acquire or improve land, buildings, engineered structures, machinery and equipment. It normally provides a benefit lasting beyond one year and results in the acquisition or extension of the life of a fixed asset. Examples in the context of library services include facilities, vehicles, technology, and equipment.

### ***Debt Financing***

Borrowed funding to finance long-term capital projects or assets.

### ***DC Growth***

Refers to capital projects which are eligible for funding through the Development Charges Act (DCA), and City of Ottawa Development Charges By-law # 2019-156. Revenues collected for Library services under the current Development Charges By-Law remain in the Library DC Reserve and are available for expenditure under the rules in which they were collected.

### ***Expenses***

Short-term costs incurred to deliver services or earn revenues. Expenses are related to the cost of operations.

### ***Expenditures***

Long-term costs incurred to purchase or increase the value of the fixed assets of the organization. Expenditures are related to cost that are tangible or capital in nature.

### ***External Funds***

Funds that are received from sources that are external to the City of Ottawa and OPL.

***Financial Framework***

An overarching set of principles and guidelines for responsible financial management used to guide OPL through the allocation of resources to ensure alignment of opportunities with aspirations articulated in OPL Strategic directions.

***Fundraising***

The process of soliciting, promoting and collecting voluntary contributions from individuals, businesses, organizations, and charitable foundations and/or government agencies to support OPL growth and services.

***Fund Management***

A process to ensure efficient and effective expenditure of funds raised or bequeathed to the Board. These sources of revenue are financially separated from OPL annual operating budget but may help to offset operating pressures.

***Growth***

Refers to the net expansion of or adding to assets retained and maintained by an organization.

***Interest***

Money earned through investments.

***Lifecycle Program - OPL***

A program funded by the City and supported by asset management systems for the replacement and repair of key components and systems of the OPL facility infrastructure.

***Operating Budget***

Annual funding that represents the expenses required to deliver day-to-day library services.

***Pay as You Go (PAYG)***

Capital funding not derived from borrowed money (debt issuance) or new revenues, but by saving or freeing money from existing sources.

***Renewal of City Assets***

A category of capital expenditure utilized to describe repair, replacement, or upgrade of an existing capital asset.

***Reserve***

A financial account through which all library funding is transacted into operating and capital budgets.

***Sensitivity Analysis***

A financial model that determines how target variables are affected based on changes in other variables known as input variables. This model is also referred to as what-if or simulation analysis. It is a way to predict the outcome of a decision given a certain range of variables.

***Strategic Initiatives & Enhancements***

Programs or projects that support the achievement of objectives which are linked to Strategic Priorities and long-term goals as established and approved by The Board.

***Strategic Priority***

An area of focus for the Term of the Board that is linked to long-term goals and the vision of OPL.

***Tangible Capital Assets (TCA)***

Assets which represent long-term investment in infrastructure and are subject to the accounting treatments stipulated in the City of Ottawa Tangible Capital Assets Policy for any asset meeting minimum financial thresholds, with: legal title held by the City or OPL, controlled by the City or OPL, or are capital leases entered into by OPL.

***Total Cost of Ownership (TCO)***

The total cost of ownership, or TCO, includes the purchase price of a particular asset, plus operating costs over the asset's lifespan. Looking at the total cost of ownership is a way of assessing the long-term value of a purchase to a company or individual.

***User Fees***

Fees charged, in accordance with the *Ontario Public Libraries Act, R.S.O. 1990, c. P.44*, to customers of many Library services to offset all or in-part the costs of providing these services.

## Appendix 1 – Ottawa Library Reserve Fund By-Law 2019-205

A by-law of the City of Ottawa to establish the Ottawa Library Reserve Fund for The Ottawa Public Library.

WHEREAS subsection 417(1) of the *Municipal Act, 2001* allows for every municipality to provide in its budget for the establishment or maintenance of a reserve fund for any purposes of which it has authority to spend money;

AND WHEREAS subsection 417(4) of the *Municipal Act, 2001* provides that a municipality may by by-law provide the money raised for a reserve, be spent, pledged or applied to a purpose other than that for which the fund was established;

AND WHEREAS section 418 of the *Municipal Act, 2001* provides that a municipality may invest in prescribed securities in accordance with the prescribed rules;

AND WHEREAS it is desired to establish and maintain a Library Reserve on behalf of all present and future libraries in the City of Ottawa;

THEREFORE, the Council of the City of Ottawa enacts as follows:

### LIBRARY RESERVE FUND ESTABLISHED

1. A reserve fund to be known as the Library Reserve Fund is hereby established.

### PURPOSE

2. The Ottawa Library Reserve Fund to provide funding support for The Ottawa Public Library which is governed by the Board of Trustees appointed by Council for the City of Ottawa pursuant to the Public Libraries Act (hereinafter called the “Board”) and to assist the Board’s long-term planning and resource requirements.

### INVESTMENT

3. The funds in the Ottawa Library Reserve Fund shall be held in a special account and may be invested in accordance with the prescribed securities in accordance with the prescribed rules pursuant to provisions of the *Municipal Act, 2001*, and its regulations, as may be amended from time to time.

### OPERATION OF THE RESERVE

4. The Ottawa Library Reserve shall be operated, managed and maintained by the City Treasurer from:

- (a) contributions from the library operating budget;
- (b) the operating surpluses related to the library operating budget of the City of Ottawa;



## Appendix 2 – Strategic Linkages (Crosswalk)

<b>Document</b>  <b>Financial Element</b>	Asset Management	Growth and Development	Strategic Initiatives and Enhancement	Revenue	Annual Planning / Budget	Long Range Financial Planning	Reserves	External Funds
Comprehensive Asset Management Plan	X				X			
City of Ottawa Development Charges By-Law no.2019-156		X	X		X	X		
City of Ottawa OPL Reserves By-Law no.2019-205		X	X		X	X	X	
Corporate Planning Process			X		X	X		X
Content Services Framework	X	X	X		X	X	X	X
Facilities Framework and Master Plan (in	X	X			X	X	X	X
Financial Long-Range Continuity Tool	X	X			X	X	X	
<i>Ontario Public Libraries Act, R.S.O. 1990, c.</i>	X	X	X	X		X		
OPL Development Charges Project List – Area		X	X		X	X	X	
OPL Development Charges Project List – City Wide		X	X		X	X	X	

OPL Related Growth Studies	X	X	X			X	X	
Technology Roadmap	X	X	X		X	X	X	X
Strategic Plan		X	X		X	X	X	