

Report to / Rapport au:

**Ottawa Public Library Board
Conseil d'administration de la Bibliothèque publique d'Ottawa**

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SUBJECT: Ottawa Public Library - Financial Framework

OBJET: Bibliothèque publique d'Ottawa – Cadre financier

REPORT RECOMMENDATION

That the Ottawa Public Library Board approve the Financial Framework as described in this report (Document 1).

RECOMMANDATION DU RAPPORT

Que le Conseil d'administration de la Bibliothèque publique d'Ottawa approuve le cadre financier, tel que d'écrit dans le présent rapport (document 1).

BACKGROUND

As per the *Public Libraries Act, RSO 1990, c.P.44* (the Act), the Ottawa Public Library (OPL) Board retains accountability for the full range of decisions affecting the organization. The OPL Board uses a model of governance that focuses trustee attention on setting strategic direction and objectives, making decisions on major projects, and monitoring performance. In keeping with Board Policy OPLB-002 Delegation of Authority (the DOA), the Board retains authority to approve strategic frameworks and delegates authority for implementation and management. Furthermore, the DOA identifies the Board's financial authority, the quantitative financial levels for the Chief Executive Officer (CEO), and the financial rules by which the Library operates.

The purpose of this report is to secure Board approval of the OPL Financial Framework (the Framework) in order to provide consistent guidelines to minimize financial risk to the organization through informed financial decision-making.

DISCUSSION

OPL is a separate legal entity from the City of Ottawa (City). Since 2001, OPL and the City have worked in a shared services model across multiple disciplines. The shared services model for finance affords OPL with transactional accounting systems and services, investment and banking services, account management, and multiple points of support in the implementation of financial policies. The City's Financial Services Unit (FSU) produces financial documents that support status updates to management and the Board. The shared services model has supported OPL in its financial decision making and has ensured that financial actions are applied in accordance with *The Municipal Act* and other relevant legislation and accounting principles.

OPL is a large, multi-million-dollar organization with multiple lines of business, with unique service delivery requirements, and diverse and passionate customers interested in both traditional and innovative offerings. The financial challenges that OPL faces are like those of many other organizations, and include capital requirements, prioritization of financial needs, access to alternative funding, and low risk tolerance in the stewardship of public monies. There are many financial options that must be considered regularly, including choices between continuing current services or adding new ones. As a public service, however, it is difficult to eliminate services that are no longer cost-effective.

Scrutiny of financial planning is present in the development of the annual budget, however, there has never been a guiding document based on best practices to ensure that the Board receives sufficient, consistent, and fulsome information to inform decision making. For this reason, staff have developed the first OPL Financial Framework.

The Framework – Overview and Structure

The Financial Framework acts as a bridge between strategic plans (long-term planning) and annual budget decision-making processes (short-term planning), providing parameters and guidelines for prudent fiscal planning and management. 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 addresses both short- and long-term issues 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 Framework is intended to be a high-level, flexible guide for organized financial planning. It is intended to be used by employees with financial experience as a reference when advising on financial issues. The Framework is not intended to be a document for training or to detail financial policy or procedures.

The Framework begins by identifying the strategic linkages with other OPL frameworks and documents, both existing and in development. It identifies overarching guiding financial principles and challenges, and the correlations with the City's Fiscal Framework. The Financial Framework is divided into nine elements that describe each financial activity and identify key points related to the respective financial management and decision-making considerations. Each element also includes specific guiding principles, accountability statements, and a set of risk considerations.

Most of the principles and priorities identified in the Framework have always existed and have been practiced consistently. However, the Framework also includes concepts, guiding principles, and accountabilities that are new or emphasized as critical to financial planning and decision-making. The following identifies each component that represents a change from OPL's current practice and provides relevant context.

Financial Elements

- Revenue – Recurring and Non-Recurring
OPL benefits from both recurring and non-recurring revenues to supplement base funding provided via the municipality. To clarify the intent of one-time dispositions of assets, “...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*”¹ (pg. 17) is added to the framework.
- External Funds
External funds are contributions that may be donated, raised, or bequeathed. Within this financial element (pg.26), it is stated that “*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 statement recognizes the recent development of a Fundraising department and clarifies the intention to use external funds strategically to address priorities.

¹ This policy is in development.

- **Total Cost of Ownership Approach**
The use of a Total Cost of Ownership (TCO) approach (pg.8) is not new in OPL financial planning. OPL has a history of TCO evaluation for large-scale projects. In terms of the Framework, TCO is newly identified as a mandatory requirement to enable more fulsome decision making. This is explicitly stated to document expectations for due diligence in planning large-scale or long-term projects.
- **Financial Continuity Tool**
The City's FSU provides financial continuity evaluations regarding four to 10-year capital plans, development charge continuity, and other long-range continuity as requested by OPL. These evaluations may be requested at any time but are not necessarily real-time assessments. Real-Time assessment is important in understanding the potential impacts, based on an identified set of assumptions, of large-scale financial choices. The Financial Framework identifies the need to develop and use a continuity tool (pg.21) to estimate operating costs, total capital costs, and reserve balances for each year within a 10-year window. The tool can provide insight on the future impact of decisions considered in the current year, and accounts for interdependencies that exist between all aspects of OPL. The tool is intended to be updated on a continuous basis, in order to provide estimated outcomes of "what-if" scenarios during financial discussions.

Guiding Principles

- **Asset Management**
Prioritization (pg.9) directs the decision-making process. In that light, 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.
- **Strategic Initiatives and Enhancements**
Strategic initiatives and enhancements are new projects that are not related to growth nor are they required to maintain existing assets or programs. These projects are approved by the Board annually and are aligned with the strategic plan. As part of the approval process, proposed strategic projects will be subject to cost and benefit analysis that considers the TCO (pg.14). The implementation of this principle will ensure that projects that are recommended and adopted have been prioritized according to their financial merit.

Another guiding principle in this element is “*financial status and sustainability of finances will be considered when recommending strategic initiatives and enhancements.*” The intent is to suggest that although a specific initiative may be beneficial and have a favorable TCO, initial funding must be available so as not to jeopardize the financial continuity of the organization or project in future years.

- **Revenue – Recurring and Non-Recurring**
Financial systems used by OPL include anticipated revenues as a planned budget line. While OPL has realigned revenue expectations in the past, self-generated revenues continue to trend downward. Allowing this trend to continue without incrementally adjusting planned revenue creates pressures on the operational budget. To ensure that the revenue gap (planned vs. actual) has minimal impact, the Framework captures the practice that “...*planned revenues should be adjusted on an annual basis based on the previous fiscal year-end performance except in exceptional circumstances.*” (pg.17).
- **External Funds**
To ensure the most strategic use of external funds, and to reduce administrative burden, the management of external funds will include the following new principles (pg.28): “*Trust funds will be created for directed funds,*” and “*Undirected funds will be deposited to the General Fundraising Trust Fund.*” Individually, these will streamline fund management and create a coherent portfolio of invested funds over time. Collectively, these will consolidate external funds received into interest-bearing accounts to maximize financial impact.
- **Reserve**
Research conducted into best practices for reserve minimums identified that targets are uniquely organization-based. Each organization should set its own target based on its operating and funding model and intended use of the Reserve. In the interest of financial prudence, staff conducted an environmental scan of large Canadian public libraries to determine their strategies and targets for reserves, and determined that the number, type, and targets vary widely:
 - Some library systems do not have reserves independent from the municipalities’ general reserve, and others have up to three reserves;
 - Where a public library had more than one reserve, at least one was for general (year-end cash flow) purposes, and the others for specified purposes (e.g. capital programs); and,

- Reserve targets or thresholds, where established, varied between 5% and 30% of the annual operating budget.

In keeping with OPL's intended purposes for the use of reserves, staff have included two new guiding principles for the management of reserves (pg.25):

- *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.*

Accountabilities

- **Asset Management Accountability**
The accountability statements for asset management (pg.10) insert new and repeating requirements for reporting to the Board. Accordingly, in line with the DOA, the Financial Framework identifies that *"the OPL Board approves the Asset Management Framework"*, and *"LSMT oversees asset management activities, and reports to the Board each term on the state of corporate assets."*
- **Long-Range Financial Planning**
To ensure that management can consider the impacts of new projects, the accountability section of long-range financial planning (pg.22) states that *"A published long-term financial plan will be provided and annually updated, with approval by Management. It is available to the Board upon request."*
- **Reserves**
Recognizing the targets identified in guiding principles, a new accountability (pg. 25) is introduced that *"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."* This includes Development Charge (DC) Reserve balances currently reported to the Board during the DC By-Law update every five-years.
- **External Funds**
The expenditure of external funds is reported to the Board through quarterly financial reports in total dollars by account name. To increase transparency, *"The expenditure of external revenues will be reported to the Board by category on an annual basis within the fourth quarter financial status report."* This will serve to advise the Board on the impact of external funds on base budgets and provide further insight as to the contribution of external funds towards core services.

CONSULTATION

Staff conducted an environmental scan of other large Canadian public libraries, and consulted City staff in various departments, including Financial Services Unit; Planning (asset management); and, Information Technology. Staff sought the guidance and advice of the Ad-Hoc Committee on Finance and Facilities (Trustees Begg and Higdon).

LEGAL IMPLICATIONS

There are no legal implications associated with this report.

RISK MANAGEMENT IMPLICATIONS

There are no risk management implications associated with this report.

FINANCIAL IMPLICATIONS

There are no financial implications associated with this report.

ACCESSIBILITY IMPACTS

There are no accessibility impacts associated with this report.

TECHNOLOGY IMPLICATIONS

There are no technology implications associated with this report.

BOARD PRIORITIES

This report is in alignment with the OPL value of integrity: “We embody the principles of public stewardship, transparency, and accountability in our operations and interactions.”

SUPPORTING DOCUMENTATION

Document 1 – OPL Financial Framework (February 2021)

DISPOSITION

Upon approval of this framework, all financial operations related to the nine financial elements and associated guiding principles and accountabilities will be adopted and implemented.