

**Report from** Financial Management Services

**Date of Report:** June 15, 2016

**Date of Meeting:** June 20, 2016

**Report Number:** FMS-B003-2016

**File:** 10.57.10

**Subject:** Budget Guidance

## Recommendation

That the Budget Standing Committee receive the multi-year forecasts for information purposes; and

That the Budget Standing Committee support the continuation of the current City practice of zero line-item budgeting; and further approve, in principle, staff's efforts to move toward a service level budgeting method following additional review and a plan of how to achieve this new budgeting method for future budget cycles.

## Background

At its meeting of May 9<sup>th</sup>, 2016 the Budget Standing Committee (BSC) directed staff to bring information to the June 20<sup>th</sup> meeting on multi-year budget and zero-based budget process to facilitate their discussion on budget guidance.

## Report

The 2016 budget year as the first year in recent years that staff prepared a multi-year forecast. The multi-year forecast prepared by staff is the starting point for the full development of the future year budgets based on the existing programs and services. The multi-year forecast for years 2017 to 2019 is attached as Appendix 1. It is the City's departmental expenditures forecast only as these are the amounts that Staff have the most control in managing.

Zero-based budgeting in its truest form is a budget process where the budget is built from the ground up, starting every line item at zero. The theory is that by starting at zero, every item that is added to the budget must be justified and analysed. Further details on zero-based budgeting can be found in Appendix 2.

In St. Catharines, the City has always maintained that the goal during the budget process is to realize the benefits of the zero-based budgeting cost cutting focus while at the same time focusing on customer service and program delivery. The current method the City used during the budget process is the zero line-item budgeting which ensures staff justify line items and funding requirements. Staff does, however, recognize the

benefits of a service level budgeting method and are reviewing its potential for future budget cycles.

Both of the appendices attached to this report are useful information and resources to assist the BSC determining the appropriate level of budget guidance for the City for 2017. Council's Strategic Plan, under the Economic Pillar, has one goal to be an affordable city for young people, families and retired older adults with an action item to work towards achieving a budgetary tax rate increase at or below the rate of inflation by 2018. The Bank of Canada's Core Consumer Price Index (CPI) is one commonly used inflation measure for municipalities. The Bank of Canada's Core Consumer Price Index (CPI) percentage as of April 2016 is 2.2%. The Core CPI has ranged, over the last twelve months, from a low of 1.9% to a high of 2.4% with an average of 2.1%.

## **Relationship to Strategic Plan**

Review of the budget process addresses the Strategic Plan goal, under the economic sustainability pillar, to be an affordable city for young people, families and retired adults. Specifically, it targets the action items which call for:

- updating financial controls and debt management strategy to better manage escalating costs of City operations and services
- Institute a core service review
- implement multi-year budgeting to improve long-term financial planning;
- and it may also assist the City with working to achieve a budgetary tax rate increase at or below the rate of inflation by 2018

### **Prepared and Submitted by:**

Kristine Douglas, Director, FMS and  
Maggie Riopelle, Executive Research Assistant,  
Commission of Corporate Services

### **Approved by:**

Shelley Chemnitz, Commissioner, Corporate Services



**Financial Management Services  
Multi-Year Budgets  
Budget Standing Committee, April 25, 2016**

## Background

At its meeting of February 9, 2016, the Budget Standing Committee deferred the multi-year budgeting report until its first meeting following Council's approval of the 2016 budget.

## Report

Staff have used the final approved 2016 budget as the starting point for the development of the future years forecast. The following are the assumptions used to develop the three year forecast.

Description	Estimation	Rationale
Salaries and Wages	1.25%	Based on settled union contracts
Benefits	2.50%	Based on historical experience
Equipment Operations	5.00%	Based on historical experience and age of equipment
Materials	2.00%	Based on historical experience
Building and Maintenance	7.00%	Based on historical experience with utilities and age of facilities
Contracts	2.00%	Based on historical experience
Office and related expenses	2.50%	Based on historical experience
Property Expenditures	One-time	Based on computer replacement schedule and needs of individual departments
Other Service Charges	2.00%	Based on historical experience
Revenues	1.00%	Conservative estimate
Debt	N/A	Based on future debt payments for existing debenture and estimated future debt payments for projects not yet complete – see Appendix 2

With these estimates the City departmental expenditures expected are included in the table below.

<b>Year</b>	<b><u>City Departmental Expenditures (Including Debt)</u></b>	<b><u>Percentage Change from Previous Year</u></b>
2017	\$96,797,612	4.60%
2018	\$100,617,555	3.95%
2019	\$103,385,684	2.75%

Details of the various City departments' budget forecasts for 2017 to 2019 with significant changes are attached as Appendix 1.

As properties will be reassessed by MPAC in 2016, 2017 will be the first year of another four-year phase (2017 to 2020). It is difficult to predict, at this time, the tax rate for these future years. In addition, the outside boards and commissions information is required to determine the City's tax rate. Therefore Staff have presented the City's departmental expenditures forecast only as this is the amount that we have the most control in managing.

## **Recommendation**

Staff recommends that the Budget Standing Committee receive the 2017 to 2019 budget forecast for information purposes.

## **Conclusion**

The multi-year forecast is a document for information purposes for the Budget Standing Committee and Council. The receipt of these forecasts for information purposes will form the starting point of the departmental budgets in future years. The use of operating budget forecasts is another step forward for the city to be more sustainable in future years.

**City of St. Catharines**  
**Budget Forecasts for 2017 to 2019**

	<b><u>2016</u></b> <b>Budget</b>	<b><u>2017</u></b> <b>Forecast</b>	<b><u>2018</u></b> <b>Forecast</b>	<b><u>2019</u></b> <b>Forecast</b>
Office of Mayor and Members of Council	\$668,348	\$673,031	\$734,018	\$745,222
Grants and Committees	10,000	10,000	11,500	13,000
<b>City Departments</b>				
CAO	1,221,506	1,269,635	1,354,731	1,383,067
Legal Services and Clerks	2,795,494	3,287,976	3,292,593	3,348,665
Planning and Building Services	3,819,656	4,131,266	4,257,132	4,025,819
Fire Services	24,197,713	24,915,469	25,363,349	25,822,241
Economic Development & Tourism	940,908	931,494	951,978	972,978
<b>Operations Commission</b>				
Transportation & Environmental Services	18,262,483	18,762,251	19,369,716	20,027,037
Parks, Recreation and Culture Services	18,153,547	19,005,946	19,954,998	20,633,160
<b>Corporate Services</b>				
Financial Management Services	3,886,892	3,997,648	4,123,900	4,201,687
Corporate Support Services	5,183,761	5,590,947	6,067,561	6,387,181
Contribution to Capital	1,400,000	1,450,000	1,500,000	1,550,000
Total City Departments and Commissions	80,540,308	84,025,663	86,982,476	89,112,177
Debt Repayment	12,002,251	12,771,949	13,636,079	14,275,627
Total City Expenditures	<b>\$92,542,559</b>	<b>\$96,797,612</b>	<b>\$100,617,555</b>	<b>\$103,385,684</b>
Percentage Increase from Previous Year		<b><u>4.60%</u></b>	<b><u>3.95%</u></b>	<b><u>2.75%</u></b>

**City of St. Catharines****2017 Forecast****Significant Changes from 2016 Draft Expenditure Budget**

<b>Changes</b>	<b>Amount</b>	<b>Oper Bud %</b>
<b><u>Expenditures:</u></b>		
<b>Base Budget Increase</b>	1,935,355	2.09%
- includes negotiated settlements plus Fire Services estimate		
		0.00%
	1,935,355	2.09%
<b>Expanded Services</b>		0.00%
		0.00%
<b>Subtotal Expanded Services</b>	0	0.00%
<b>Infrastructure Maintenance/Improvements</b>		
Operations Equipment Allocation - TES, PRCS & Fire	200,000	0.22%
TES - Winter Control	50,000	0.05%
TES - Storm Sewer Improvements	50,000	0.05%
TES - Road Improvement Program	95,000	0.10%
PRCS - Trees Contracts/stumping	70,000	0.08%
Capital out of Revenue - annual Capital project commitment	50,000	0.05%
<b>Subtotal Infrastructure Maintenance/ Improvements</b>	515,000	0.56%
<b>Other</b>		
LCS - Clerks Office - mailing machine	45,000	0.05%
LCS - Elections - election allocation	275,000	0.30%
LCS - Canine/Humane Control	120,000	0.13%
PBS - Planning - Creative Cluster Master Plan Update	150,000	0.16%
PBS - Planning - Official Plan Update	100,000	0.11%
FMS - Technology upgrades (software)	50,000	0.05%
CSS - Information Systems - service contracts (updated software)	130,000	0.14%
CSS - Information Systems - Implementation Infrastructure	82,500	0.09%
CSS - Human Resources - Skills Development Training	45,000	0.05%
PRCS - St. Catharines Cultural Investment (SCCIP)	37,500	0.04%
Debt Repayment estimate	769,698	0.83%
<b>Subtotal Other Items</b>	1,804,698	1.95%
<b>Expenditure Increase</b>	4,255,053	4.60%

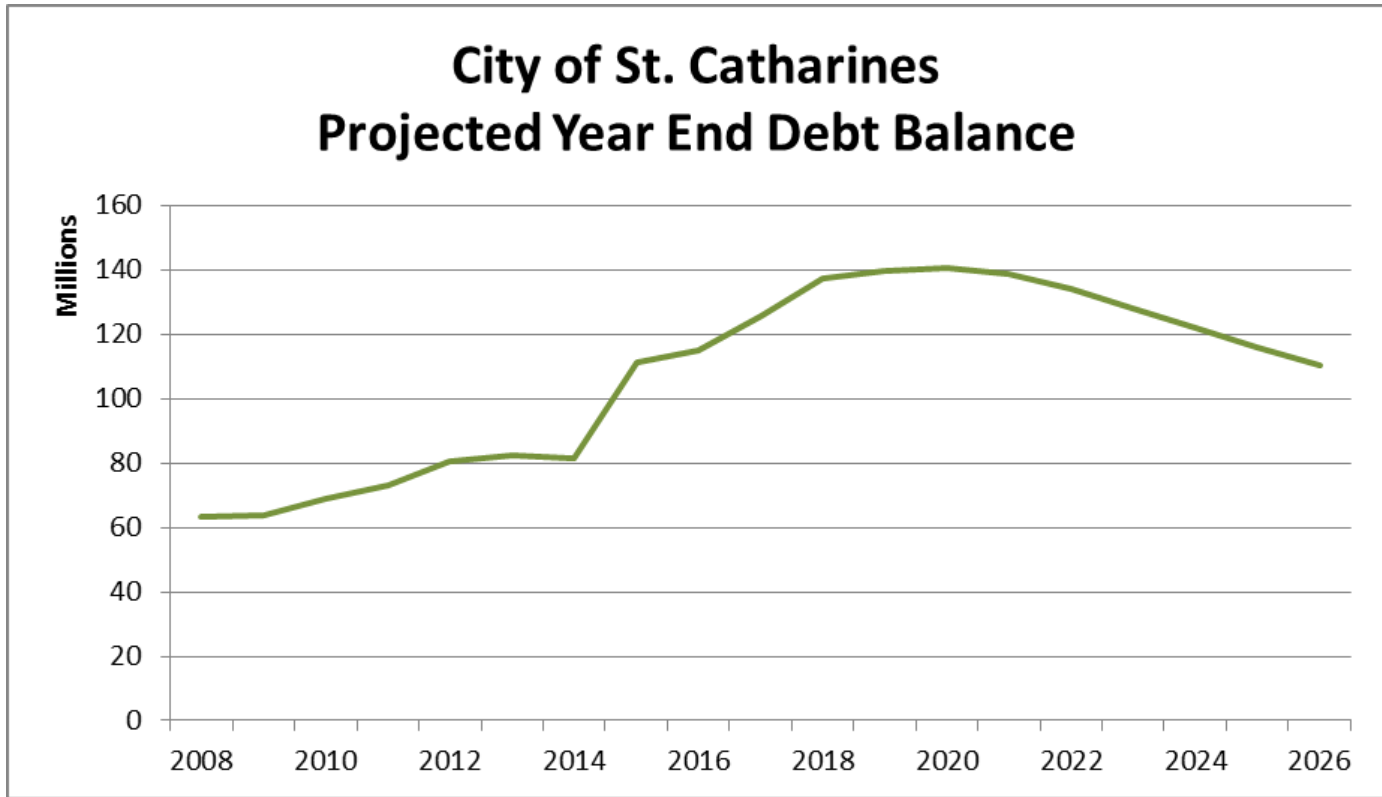
**City of St. Catharines****2018 Forecast****Significant Changes from 2017 Expenditure Forecast**

<b>Changes</b>	<b>Amount</b>	<b>Oper Bud %</b>
<b><u>Expenditures:</u></b>		
<b>Base Budget Increase</b>	1,984,813	2.05%
- includes negotiated settlements plus Fire Services estimate		
		0.00%
	1,984,813	2.05%
<b>Expanded Services</b>		0.00%
<b>Subtotal Expanded Services</b>	0	0.00%
<b>Infrastructure Maintenance/Improvements</b>		
Operations Equipment Allocation - TES	100,000	0.10%
PRCS - Trees contracts/stumping	70,000	0.07%
TES - Winter Control	50,000	0.05%
TES - Storm Sewer Improvements	25,000	0.03%
TES - Road Improvement Program	100,000	0.10%
Capital out of Revenue - annual Capital project commitment	50,000	0.05%
<b>Subtotal Infrastructure Maintenance/ Improvements</b>	395,000	0.41%
<b>Other</b>		
Communications - web site editor	75,000	0.08%
PBS - Planning - Civic Square Land Use Design Study	50,000	0.05%
PRCS - Meridian Centre - other equipment	25,000	0.03%
FMS - software upgrades	50,000	0.05%
CSS - Information Systems - service contracts (updated software)	180,000	0.19%
CSS - Information Systems - Implementation Infrastructure	100,000	0.10%
CSS - Human Resources - Skills Development Training	45,000	0.05%
PRCS - St. Catharines Cultural Investment (SCCIP)	51,000	0.05%
Debt Repayment estimate	864,130	0.89%
<b>Subtotal Other Items</b>	1,440,130	1.49%
<b>Expenditure Increase</b>	3,819,943	3.95%

**City of St. Catharines****2019 Forecast****Significant Changes from 2018 Expenditure Forecast**

<b>Changes</b>	<b>Amount</b>	<b>Oper Bud %</b>
<b><u>Expenditures:</u></b>		
<b>Base Budget Increase</b>	1,483,581	1.47%
- includes negotiated settlements plus Fire Services estimate		0.00%
	1,483,581	1.47%
<b>Expanded Services</b>		0.00%
<b>Subtotal Expanded Services</b>	0	0.00%
<b>Infrastructure Maintenance/Improvements</b>		
Operations Equipment Allocation - PRCS & TES	150,000	0.15%
PRCS - Tree Contracts	45,000	0.04%
TES - Storm Sewer Improvements	100,000	0.10%
TES - Road Improvement Program	150,000	0.15%
Capital out of Revenue - annual Capital project commitment	50,000	0.05%
<b>Subtotal Infrastructure Maintenance/ Improvements</b>	495,000	0.49%
<b>Other</b>		
CSS - Information Systems - service contracts (updated software)	20,000	0.02%
CSS - Information Systems - Implementation Infrastructure	100,000	0.10%
CSS - Human Resources - Skills Development Training	30,000	0.03%
Debt Repayment estimate	639,548	0.64%
<b>Subtotal Other Items</b>	789,548	0.78%
<b>Expenditure Increase</b>	2,768,129	2.75%

The City's estimated debt forecast is illustrated below.



As shown in the chart above, the City's debt at the end of 2015 was \$111.0 million. While debt is rising, it will begin to decline starting in 2021. Under the City's current Debt Management Strategy the objective is to minimize the annual impact of debt on the operating budget, while continuing to sustain and improve its infrastructure asset over the long term.



### Commission of Corporate Services Zero Based Budgeting Budget Standing Committee, June 20, 2016

## Summary

Zero-based budgeting (ZBB) was a popular method used during the 1970s and has seen a resurgence due to the economic slowdown. The reality is that governments and organizations face fiscal challenges requiring an extensive review of how resources are allocated. In response, they have looked for methods to cut costs and improve efficiency.

While the label of zero-based budgeting is often applied to budget methods, the purest form of ZBB is rarely used. The Government Finance Officers Association's (GFOA) study, [Zero-Based Budgeting: Modern Experiences and Current Perspectives](#), concluded that zero-based budgeting is a theory that once in practice its application is translated into zero line-item budgeting or service level budgeting – both of which use elements of ZBB. Additional information on these distinctions and the GFAO study are made within the body of the report.

In St. Catharines, the City has always maintained that the goal during the budget process is to realize the benefits of the zero-based budgeting cost cutting focus while at the same time focusing on customer service and program delivery. The current method the City used during the budget process is the zero line-item budgeting which ensures staff justify line items and funding requirements. Staff does, however, recognize the benefits of a service level budgeting method and are reviewing its potential for future budget cycles.

## Background

At a Budget Standing Committee meeting, May 9, a request for additional information on zero-based budgeting and best practices came as a result of the discussion on the Terms of Reference, budget guidance and philosophy.

This report provides additional information on the zero-based budgeting, as well as additional information on the methods more commonly used that involve components of a zero-based budgeting process.

## Report

Zero-based budgeting in its truest form is a budget process where the budget is built from the ground up, starting every line item at zero. The theory is that by starting at zero, every item that is added to the budget must be justified and analysed.

In order to justify items being added to the budget, the organization is first divided up into “decision units” – the lowest level at which budget decisions are made.

Decision units could be formed along functional or organizational lines – for example, a division of a department is a common decision unit, but programs could be used as well.

Managers then prepare a detailed description and evaluation of all activities it performs, including alternatives to current service delivery methods and the spending plans necessary to achieve the decision unit's goals.

Scenarios must be prepared for each decision unit which provide costs and may include review of the following categories: a base level of service, the current level of service and expanded levels of service. Decisions are then made for each individual decision unit.

The foremost theoretical advantage of zero-based budgeting is that it offers a rational and comprehensive means to cut the budget. However, in practice it can be challenging for an organization.

In practice, zero-based budgeting requires significant analysis with the creation of units and scenarios, as well as evaluation that involves a substantial amount of staff resources. With this method, another challenge is that the effort spent on individual decision units tends to be the focus as oppose to the entire organization and overall corporate priorities and goals.

The GFOA study, conducted on behalf of the City of Calgary, concludes that while the term zero-based budgeting is often used, it is rarely put into practice. Instead, the report states that governments are incorporating elements of the zero-based budgeting into existing budget processes to find more practical versions. The most common versions of this budget method are zero line-item budgeting or service level budgeting. For zero line-item budgeting, departments are given a blank budget request form instead of last year's budget or actual expenditures as the starting point. This provides departments an opportunity to build their budgets from the ground up and justify each line item.

With service level budgeting, the emphasis is on the decision-package feature of zero-based budgeting theory. Departments are responsible for developing decision-packages to represent the various services and projects they would like funded. Once the decision-packages are finished, departments ranked them while placing them into various categories similar to those described by ZBB theory. The number of decision packages are much more limited. A comparison of the budget methods from the GFOA study is demonstrated in **Table 1**.

[Zero-Based Budgeting: Zero or Hero](#), a Deloitte report on zero-based budgeting, concludes that despite increasing popularity and interest, ZBB is "not a cost-effective option for most organizations in either the public or private sectors" and "more practical and less costly budgeting alternatives are available that can meet organizational needs." That's not to say, however, that zero-based budgeting is without success stories, as noted in the Deloitte report.

An example of a government's success story related to zero-based budgeting, is the City of Calgary which has instituted a Zero-Based Review program following the GFOA study. The program is an internally led core service review with consultant support.

While not an annual program, the aim of the Zero-Based Review is to evaluate 80% of the City of Calgary's services by the year 2020. It is designed to achieve service improvements in the short-term as well as to develop and enhance the organizations culture with respect to continuous improvement. While on a much smaller scale, the City of St. Catharines' Business Process Improvement program has a similar process also with the aim to increase the focus on the effectiveness and efficiency of City services.

**Table 1**  
**Zero-Based Budgeting (ZBB) Methods Comparison, GFOA**

	Current City Process	Potential Future Process
	Zero Line-Item Budgeting	Service Level Budgeting
Textbook ZBB		
Key Features		
Budgets are built from the ground up. Decision units propose decision packages, which describe detailed resource requirements and which budget authorities use to choose service levels.	Line items require detailed justification, in some cases including unit costs and quantities. Last year's spending is not the key reference point. Decision packages are not used.	Departments develop decision-packages to allow budget authorities to choose service levels. Less emphasis on detailed examination of line-item composition.
Advantages		
<ul style="list-style-type: none"> <li>• Rational and comprehensive means for cutting budget</li> <li>• Gives decision makers insight into operations</li> <li>• Highlights entirely new ways of providing services.</li> <li>• Engages lower-level management in budgeting.</li> </ul>	<ul style="list-style-type: none"> <li>• Changes conversation about costs for the better.</li> <li>• Helps reallocate spending with departments.</li> <li>• Engages managers in budget discussions.</li> <li>• Can lead to efficiency gains.</li> </ul>	<ul style="list-style-type: none"> <li>• Decision-makers can select different service levels.</li> <li>• Implications of cut back decisions are very clear.</li> <li>• Often supplemented by strategic plan.</li> <li>• Approaches rationality and comprehensiveness of textbook ZBB.</li> </ul>
Disadvantages		
<ul style="list-style-type: none"> <li>• Amount of work to develop decision packages.</li> <li>• Reluctance of managers to propose decision packages that are less than current spending.</li> <li>• Does not have a planning process that is separate from budgeting.</li> </ul>	<ul style="list-style-type: none"> <li>• No structured means for considering different service levels.</li> <li>• Does not have a separate planning process.</li> <li>• Efficiency gains are not systematic.</li> </ul>	<ul style="list-style-type: none"> <li>• Paperwork intensive, but less than textbook ZBB.</li> <li>• Efficiency is not addressed directly.</li> <li>• Loose connection between strategic plan and budgeting.</li> <li>• Requires good performance data.</li> </ul>
Who Uses It		
Very rare in practice. The GFOA found only two governments from a sample of 413.	Case examples include: City of O'Fallon, Missouri; City of Frederick, Maryland; City of Johnson City, Tennessee; School Employees Retirement System of Ohio.	Case examples include: Hillsborough County, Florida; Manatee County, Florida; City of Windsor, Ontario; Town of Orangeville; Ontario.