

Report from: Financial Management Services, Director

Report Date: June 6, 2022

Meeting Date: June 20, 2022

Report Number: FMS-B014-2022

File: 10.57.12

Subject: Multi-Year Budget Policy

Recommendation

That the Multi-Year Budget Policy attached as Appendix 1 be approved.

Summary

In [BSC Report FMS-B016-2020](#), staff laid out a plan to move towards multi-year budgeting as part of a multi-year recovery plan. This report is a follow up to that report requesting BSC's approval of a multi-year budget policy. One of the challenges ahead of BSC, City Council and staff is to implement budget strategies that will enable the city to accommodate inflationary and staffing level pressures in the budget to maintain service levels, while addressing various enhanced service levels. The approval of a multi-year budget policy is another tool that will provide BSC, Council and staff with greater efficiencies, in a more predictable financial framework which encourages forward looking analysis and evaluation. Finally, the Municipal Act, 2001 provides City Council with the ability to approve multi-year budgets.

Background

As discussed in BSC report FMS-B016-2020, best practices indicate that multi-year budgets result in the best outcomes when they are based on approved policy that clearly articulates the objectives of the multi-year budget and is fully supported by Council.

Over the past year, staff have been researching and communicating with municipalities that have implemented multi-year budget policies. The City of St. Catharines currently budgets on an annual basis. The City has also presented operational Multi-Year Forecasts in recent years. In addition, the City has adopted several long-term strategic plans including St. Catharines Strategic Plan (2019-2028), Strategic Asset Management Policy (2019), 2021 Asset Management Plan (AMP) for Core Assets, Development Charges Background Study and Related Charges (2021); Transportation Master Plan (2021), Culture Plan (2015), Recreation Facility and Programming Master Plan (2015), Climate Adaptation Plan (2021), Energy Conservation and Demand Management Plan

(2019) and Four-Year Capital Forecasts. These strategic documents support the development of a multi-year budgets for both operating and capital.

Report

Based on research conducted by the Government of Finance Officers Association (GFOA), implementing multi-year budgeting and planning processes enables Council to implement multi-year visions which improves financial management and long-range planning. As the City continues to navigate out of the global pandemic and a new term of Council set to begin later this year, this is an ideal time to implement a multi-year budget policy as it aligns well with long-term financial planning which is critical to a comprehensive recovery strategy. A multi-year budget policy also allows Council to focus on objectives within the strategic plan, while ensuring staff can also align workplans to a long-term program.

Multi-Year Budget Approval

Section 291 of the Municipal Act, 2001 provides Council with the ability to approve multi-year budgets. The first year of any Council term must be a one-year budget approval, but the remaining three years can be approved in one, three-year approval if Council desires.

Some of the advantages of multi-year budgets include the ability to:

- Set priorities and deliver services that are efficient, accountable and innovative
- Balance competing needs across various strategic areas of focus
- Greater integration between short term goals to long range plans
- Identify future opportunities and challenges
- Provide tax / rate payers / residents with greater certainty regarding the direction of the City's services, finances, and tax levies / rates
- Improve cash flow management and identify potential investment opportunities

The current legislation gives Council the flexibility to adjust the approved budget. Council may make specific or strategic adjustments. As with a one-year approval, both the capital and operating budgets can be completely re-visited in year two and / or year three if Council wishes. However, the primary goals of the three-year budget approval are to gain efficiencies in administration by focusing on the required adjustments in year two and year three as opposed to rebuilding the entire budget.

Changes and Challenges Moving Forward

The upfront challenge to prepare a three-year budget is much more significant than that of preparing a one-year budget. Staff believe that the benefits of a three-year budget approval will outweigh the additional upfront effort required to prepare it. With the organizational realignment being implemented by the Chief Administrative Officer, which includes the creation of a Budget Office and the introduction of three additional Budget Specialists, this will continue and further enhance the partnership between all City Departments with Financial Management Services while maintaining a focus on financial predictability and aligning Council term and strategic plan with the budget and

business cycle. Therefore, staff are recommending that BSC consider the Multi-Year Budget Policy with the first three-year budget approval for 2024 to 2026.

With the City moving towards multi-year budgeting this is both an exciting and challenging time. As shared by the City's external auditor in the audit findings report in the past couple of years, the City's current accounting software creates certain limitations which impede management's ability to efficiently carry out their tasks and is in critical need of replacement. City staff have begun working on the replacement plan starting with the City's tax billing system which is expected to go live later this year. In addition, City staff are working with the Niagara Region in partnership which includes the development of a shared services agreement for the replacement of the City's financial enterprise resource planning system (ERP) with a report scheduled to come forward to Council this July.

As the staff teams move through the ERP replacement, there may also be some changes to the City's budgeting software and processes. This is likely to create the need to adjust some other existing budget policies and procedures, such as our current policy which utilizes a portion of the prior year surplus in the following year's budget and the movement toward reserve usage being for one-time / limited-time expenditures. This means directly linking cash flow, operating costs and timing for the Capital Budget, and moving to business cases for all new services or removal of existing services and change cases for increasing or decreasing the level of service. This creates the ability to clearly identify the service changes being brought forward, what they're intended to address, how you can measure the success and what the costs and any potential related revenues would be.

Currently the budget information provided is very detailed and moving to multi-year budgets will mean the movement to more summarized information, especially with the longer-term goal being towards service level budgeting. However, this is a longer-term objective.

One of the challenges that staff will be looking to address over the next year or more, is around the capital budget improvements. Currently, capital budgets are developed using Microsoft Excel. This does provide some limitations with available information to complete a multi-year budget and adequately link to expected operating costs of capital projects to the following years operating budget. There is a lot of work to be done and this is a significant change for staff and City departments to undergo over the next twelve months or so. The introduction of the Budget Office will help facilitate this transformational shift in the City's budget processes. As a result of these changes, BSC and staff need to remain flexible and accommodating as we complete this makeover to the City's budgeting processes. Staff will provide updates to BSC on the transition to multi-year budgeting and bring forward any policies that require revisions or updates.

Next Steps

- 2022 – One Year Operating Budget developed and presented to Council; One year Capital Budget developed with four-year forecast and presented to Council

- 2023 – Three Year (2024 to 2026) Operating Budget developed and presented to Council; Three Year Capital (2024 to 2026) Budget with four-year (2027 to 2030) forecast
- 2024 – Reconfirmation of the Operating and Capital Budgets
- 2025 - Reconfirmation of the Operating and Capital Budgets and expansion of the Capital Budget Forecast from four to seven years which needs to be aligned with the implementation of a capital budget software system
- 2026 and beyond development of service level budgets

Financial Implications

This report does not have a direct impact on the City's finances. The approval of a multi-year budget policy serves an important tool for the City that will provide BSC, Council and staff with greater efficiencies, in a more predictable financial framework which encourages forward looking analysis and evaluation, especially as the City moves forward and out of the global pandemic.

Conclusion

As the City continues to navigate out of the global pandemic and a new term of Council set to begin later this year, this is an ideal time to implement a multi-year budget policy as it aligns well with long-term financial planning and the requirements of the Municipal Act, 2001. Based on research multi-year budgets best outcomes occur when they are based on an approved policy that clearly articulates the objectives of the multi-year budget and is fully supported by Council. Appendix 1 of this report includes the proposed multi-year budget policy for the City. The introduction and approval of a multi-year budget policy allows Council to focus on objectives set out within the strategic plan, while ensuring staff can also align workplans to a long-term program.

Notifications

Ken Su and Karen Smith Curtis, St. Catharines Public Library
 Dan Pilon, Niagara District Airport
 Colleen Smith and Carlos Robayo, FirstOntario Performing Arts Centre
 Jeff Dixon, Meridian Centre

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Appendices

1. Multi-Year Budget Policy

Subject: Multi-Year Budget Policy

Prepared by: Financial Management Services

Approved by: City Council

Issue Date: June 20, 2022 **Policy #:**

Review Date: May 1, 2026 **Revision Date:**

Policy:

The Council for the City of St. Catharines is committed to demonstrating financial leadership and sustainability. This policy assists in formalizing a defined, transparent, and flexible process for budgeting.

Purpose:

The purpose of this policy is to establish guidelines and approach for the planning, development, and approval of multi-year budgets. This policy also provides direction for the adjustment of multi-year budgets, if required, to recognize major changes in budgetary assumptions, legislation, and Council priorities.

Scope:

The scope of multi-year planning and operating budgeting extends to all City departments, as well as the Agencies, Boards and Commissions and any civic partners whose budget requests are included in the corporate budget document.

Background:

The Ontario Municipal Act, 2001 as amended provides greater flexibility allowing municipalities to prepare and adopt a budget covering a multi-year period. Several Canadian municipalities have acknowledged the benefits of a multi-year budget and have been successful in its implementation.

Benefits of a multi-year budget approach can include the ability to:

- Set priorities and deliver services that are efficient, accountable, and innovative
- Balance competing needs across various strategic areas of focus
- Greater integration between short term goals to long range plans
- Identify future opportunities and challenges
- Provide tax/rate payers/residents with greater certainty regarding the direction of the City's services, finances, and tax levies/rates
- Improve cash flow management and identify potential investment opportunities

Application:

Budget and Business Plans

1. Departments will prepare a one-year budget in the first year of a new Council term and a three-year budget in the second year for the remaining term of Council with business plans that will establish three years of service levels and three years of revenue requirements.
2. Departments are expected to operate within their approved budget in each of the three years.
3. Annually, if a surplus exists, it will be allocated to respective reserve funds based on existing surplus allocation policies.

User Fees

1. Rates and Fees will be reviewed and approved by Council as part of the budget process for a single year in the first year of a Council term followed by a three-year approval for the remainder term of Council.
2. Significant changes, including legislated changes will be brought to Council for review and approval.

Adjustment Process

The intent is to adhere to the three-year business plans and budgets while providing the opportunity to fine tune them only when warranted by the circumstances. Adjustments are not meant to reopen the plans or the budgets for a full-scale review. In the second and third years of the three-year cycle and as required under the Municipal Act, 2001, City Council is required to review and readopt the budget for that year.

Proposed changes to future years' business plans and operating budgets should only be brought forward and approved during the annual adjustment process. Adjustments are limited to once per year, during the annual update period, to ensure that all requests are considered together and from a corporate perspective. One exception to once per year adjustments, is that changes with no net budget impact related to grants can be made outside of the annual adjustment process.

Capital Budget adjustments, being more time sensitive may be brought forward anytime during the year. Delegated authority for capital allows at the discretion of management to transfer projects budgets up to \$250,000 to other related/similar asset categories.

Annual adjustment process will occur late in the calendar year to allow for adjustments to the business plans and budgets for the following years. Adjustments can be made for the following circumstances:

- a) Legislated or regulatory required changes with a financial impact to the municipality;
- b) Unforeseen change to economic forecasts affecting costs, service demand or revenue projections;
- c) Adjustments to the operating budget for impact related to capital project adjustments;

d) Council directed changes.

The City Treasurer or designate is authorized to adjust considered “housekeeping” in nature including operating and capital budget transfers made by a service that do not change the net budget.

Compliance:

It is the responsibility of the City to make every effort to ensure all employees are aware of the policy through internal communication methods. Implementation and ensuring staff comply with this policy is the responsibility of staff management team under the direction of the Chief Administrative Officer. In cases of policy violation, the City may investigate and determine appropriate corrective action.

Questions:

Questions concerning the interpretation of this policy will be addressed by Financial Management Services Department.

Reference:

Municipal Act, 2001, section 291