
Subject: Budget Planning By-law

Report to: Committee of the Whole

Report date: Thursday, October 3, 2019

Recommendations

1. That the draft Budget Planning By-law attached as Appendix 1, **BE APPROVED**.
2. That policy C-F-002 Affordability Guidance Policy **BE REPEALED**.
3. That the necessary by-law **BE PREPARED and PRESENTED** to Council for consideration.

Key Facts

- The purpose of this report is to approve a new By-law that formalizes best practices and currently used principles for the preparation of the annual budgets.
- This report builds off of CSD 41-2019 Budget Planning Policy Review, which presented a review of the current Affordability Guidance Policy and identified areas for improvement; the direction from Council regarding that report has been taken into consideration during the preparation of the draft By-law in appendix 1.
- The Budget Planning By-law will replace policy C-F-002 Affordability Guidance (previously C3-004) approved June 21, 2012.
- The By-law addresses base budget requirements including flexibility in base services inflation metrics, financing for capital plan and new programs, use of assessment growth revenue and a number of guiding principles.

Financial Considerations

There are no direct financial impacts as a result of this report. Any use of the principles applied within the by-law will impact the preparation and approval of future budgets.

Analysis

As identified in CSD 41-2019 Budget Planning Policy Review, the current policy guiding the annual development of budgets focuses solely on the inflationary factor of core consumer price index target. It doesn't take into account the uniqueness of municipal spending, nor the additions of new programs and services. A budget should strive towards goals of sustainability and transparency and to act as the plan for providing current and new services in an environment of fluctuating costs and changes in revenues.

The strategies and principles being established affect the direction of budget planning, preparation and approval which are guided by decisions of Council, therefore a Council approved by-law is the methodology of ensuring rules and guiding principles are supported and formalized for both Council and staff understanding and application.

Formalized Existing Principles and Rules

Sections 1 through 3 of this By-law identify purposes, goals and objectives, provide definitions of commonly used terms, and addresses its scope.

Sections 4.1 to 4.3 address the schedule for the budget specifically the order in which budget components are presented to BRCOTW. The Capital Budget is recommended as the first to be presented to BRCOTW for the following reasons:

- Debentures, reserve funding and pay-as-you-go/capital levy financing for the capital program impacts the operating budget therefore should be understood in advance of the operating budget deliberation.
- Additional operating costs or savings associated with the construction or acquisition of capital projects, are included in, and funded by, the operating budgets.
- Capital budgets are largely influenced by long-term strategic documents, such as the Asset Management Plan and the master servicing plans which are already approved and established to enable the early preparation of the capital plan.

The approval order of the operating budgets is set to address the following:

- Waste Management, Water and Wastewater are completed after October to incorporate municipal water consumption/flow information up to September in accordance with the requisition by-law and before year end to allow new wholesale rates to be incorporated into local area municipal budgets as timely as possible for the January 1 effective date.
- Agencies Boards and Commissions (ABCs) are funded through the consolidated tax levy, and impact the Region's portion of taxes.
- The Consolidated Levy approval by year end allows tax policy decisions to be approved early in the new-year for incorporation into local municipal taxation information and billing cycles.

Section 6 formalizes the roles and responsibilities of Regional Council, Corporate Leadership Team, Financial Management and Planning, budget owners and project managers, and Agencies Boards and Commissions (to the extent allowed within their respective acts).

New Principles and Rules

Budgeting for base services is addressed in section 4.4 and section 5.1 and 5.2 provide options of CPI and MPI as inflationary factors for the development of the base budget. Staff will continue to advocate for MPI, as it is a more appropriate reflection of the purchases made by the Region. Concerns municipal peers raised about the MPI are the result of a lack of wide spread understanding on the part of the public, which could be addressed through education and communication. It is acknowledged that any number of drivers, be they economic, environmental, etc., may influence the preferred factor for any given budget year, subject to the approval of Council annually. The factor chosen will not be applied equally across all lines of business, instead it will be used as a frame of reference for the overall expenditure budget.

Capital funding gap is addressed in section 4.5. It has been noted through the Asset Management Plan, Safe Drinking Water Act Financial Plan, and recent capital budget reports, that the Niagara Region is facing an infrastructure funding gap. This section allows for the transparent disclosure and request for sustainable funding of the infrastructure gap. The draft Capital Financing Policy establishes additional guiding principles for the basis of the capital financing request in the operating budget.

New services are addressed in section 4.6. New services or enhancements to existing services must be considered to address changes in provincial funding methodologies, Council priorities, and the changing needs of the taxpayers. To offer these programs funding should be identified that doesn't erode funding of existing programs and needs. The nature of the funding should match the program. Use of reserves is not recommended to fund new programs but may be appropriate for a pilot, transitional period or where it is time limited. Any program that is on-going should have sustainable tax, user-fee, or funding from other levels of government.

Assessment Growth funding prioritization is addressed in section 4.7. Net assessment growth, is the tax increase from change in property assessment less the incremental cost of any tax increment grants (TIG) payable from the new assessment. Use of net assessment growth has been the Region's practice over the last several years as TIG use has expanded and increased, and will not be established in the policy. The net balance is applied first to operating growth costs and the development charge residual on growth capital projects (i.e. growth capital costs that are not eligible for development charge funding if necessary). Remaining assessment growth funding will help to fund the capital financing gap and new programs, with any residual aimed at driving new growth or other Council priorities. Treatment included in the prior policy involved allocating growth between the Region and NRPS, regardless of growth requirements. The changes implemented here support the idea of growth paying for growth.

Section 4.8 addresses the criteria for additional detailed information to be included in the annual budget information provided to Council for greater transparency and decision making. Business cases will be prepared for:

- All requests for new services not previously offered by the Region
- New permanent FTEs, in alignment with policy C-HR-005 Corporate Delegation of Authority.

A Budget Driver Summary will be provided for the following base budget changes:

- Any net departmental increase or decrease in excess of \$500,000 (excluding corporate compensation related increases). The amount of \$500,000 represents no more than 10% of any Regional Department's gross budget, excluding Governance.
- Any gross divisional change in excess of \$1 million. This threshold ties to that in By-law 2017-63 Budget Control, where Council has delegated authority to Commissioners to make existing service or funding changes in year up to \$1 million. Note that where a change of less than \$1 million that results in a net increase or decrease greater than \$500,000 or is across department will be captured in the business case criteria above.
- Compensation related increases are reported on corporately.

As the 2020 budget is well underway Budget Driver summaries that would be required under the new criteria will not be prepared for the 2020 budget detail, but will continue to form part of the narrative in the 2020 budget reports. Full implementation would occur for the 2021 budget process.

Alternatives Reviewed

Council could choose to continue with the use of policy C-F-002 Affordability Guidance. This is not recommended as the limit imposed of the Core Consumer Price Index target has not allowed staff to properly budget for the cost of base services, nor allowed for new services or the replacement of existing capital infrastructure.

Relationship to Council Strategic Priorities

The budget planning process supports the provision of existing services as well as incorporating new priority services.

Other Pertinent Reports

CSD 40-2019 2020 Budget Planning
CSD 41-2019 Budget Planning Policy Review

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Appendices

Appendix 1 Budget Planning By-law