

---

**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 That policy C-F-002 Affordability Guidance Policy **BE REPEALED**.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

---

**Prepared by:**

Helen Chamberlain, CPA, CA  
Director, Financial Management and  
Planning, Deputy Treasurer  
Corporate Services

---

**Recommended by:**

Todd Harrison, CPA, CMA  
Commissioner, Corporate Services,  
Treasurer  
Corporate Services

---

**Submitted by:**

Ron Tripp, P.Eng.  
Acting, Chief Administrative Officer

*This report was prepared in consultation with Tyler Potts, Senior Budget Analyst, and reviewed by Margaret Murphy, Associate Director, Budget Planning and Strategy.*

**Appendices**

Appendix 1              Budget Planning By-law

## THE REGIONAL MUNICIPALITY OF NIAGARA

## BY-LAW NO. &lt;&gt;

A BY-LAW TO DEFINE BUDGET PLANNING  
REQUIREMENTS FOR THE REGIONAL MUNICIPALITY  
OF NIAGARA

---

WHEREAS Section 224(d) of the Municipal Act, 2001, S.O. 2001, c. 25, as amended, states that it is the role of council to ensure that administrative policies, practices and procedures and controllership policies, practices and procedures are in place to implement the decisions of council;

WHEREAS Section 289(1) of the Municipal Act, 2001, S.O. 2001, c. 25, as amended, requires that for each year, The Regional Municipality of Niagara, in the year or the immediately preceding year, prepare and adopt a Budget including estimates of all sums required during the year; and,

WHEREAS the Council of The Regional Municipality of Niagara has deemed it desirable to set out its policies with respect to the development of the Budgets in this By-law

NOW THEREFORE the Council of The Regional Municipality of Niagara enacts as follows:

1. PURPOSES, GOALS, AND OBJECTIVES

- 1.1. Establish the timing of annual budget approval as predictable and sufficient for obtaining Council approval.
- 1.2. Ensure sustainability of Niagara Region's level of service.
- 1.3. Ensure transparency in the communication of budget planning.
- 1.4. Ensure alignment with Regional Council's strategic priorities.
- 1.5. Establish expectations of staff for the development of the annual budget.
- 1.6. In order to achieve the preceding purposes, goals and objectives of this By-law it is important that all persons involved in Niagara Region Budget process abide by the requirements of this By-law

2. DEFINITIONS

- 2.1. For the purposes of this By-Law:
  - a) "AARI" means average annual renewal investment;

- b) "ABCs" means all agencies, boards, commissions and other legal entities that report to and/or are funded directly or indirectly by Niagara Region and as a result impact Niagara Region's Budget process;
- c) "Act" means Municipal Act, 2001, S.O. 2001, c. 25;
- d) "Base budget" means the budget to maintain current service levels;
- e) "BRCOTW" means the Niagara Region's Budget Review Committee of the Whole;
- f) "Capital Budget" means a multi-year plan based on the estimated expenditures and offsetting sources of financing for a Capital Project;
- g) "Capital Project" means a project during which expenditures are incurred that result in the creation of a tangible capital asset;
- h) "Council" means the Council of The Regional Municipality of Niagara;
- i) "Departmental budget" means the budget of an operating unit overseen by a Commissioner or equivalent;
- j) "FTE" means the equivalent of a full-time employee providing service throughout a Fiscal Year. Depending on the category of employee and nature of that employee's service, the fixed number of hours of work tied to an FTE may vary. As per existing union and employee contracts with Niagara Region, the following annual hours are currently considered to comprise an FTE for different categories of employees:
  - i. 35-hour work week X 52 weeks = 1820 hours = 1 FTE
  - ii. 40-hour work week X 52 weeks = 2080 hours = 1 FTE
  - iii. 37.5-hour work week X 52 weeks = 1951 hours = 1 FTE;
- k) "Levy" means the net cost of Niagara Region services that requires funding from the residents of the municipality through property taxation;
- l) "MPAC" means the Municipal Property Assessment Corporation;
- m) "Niagara Region" means The Regional Municipality of Niagara;
- n) "Operating Budget" means a financial plan of current operations that encompasses both estimated revenues and expenditures for a specific period, normally a Fiscal Year;
- o) "Reserve" means an allocation of accumulated net revenue that does not require the physical segregation of money or assets;

- p) “Tax Increment Grant” or “TIG” means a refund of taxes on assessment growth directly related to a development;

2.2. Any defined term herein may be referenced in the plural as the context requires;

### 3. SCOPE

3.1. This By-law applies to all of Niagara Region's departments and to Niagara Region's directions to the ABCs that report to, or form part of, the Budget approval process at Niagara Region.

### 4. RULES

4.1. That a meeting of BRCOTW for a new budget year involve the planning for the new budget year and that it be scheduled within the second quarter of the year preceding the new budget year.

4.2. That a schedule of BRCOTW meetings, which deliberate budget approvals, be presented to BRCOTW during the planning meeting identified in 4.1 whereas;

- a) The annual operating and capital budgets are scheduled to be approved in the year prior to the new budget year.

- b) That the exception to item 4.2.a) be where the new budget year immediately follows a year in which a municipal election is held, as allowed in the Act.

4.3. That the schedule in which the budgetary reports are presented to BRCOTW in the following order:

- a) Capital program

- b) Water, Wastewater, and Waste Management programs

- c) ABCs

- d) Consolidated levy programs

4.4. That the increase in budget to provide base services, excluding revenues and the costs of growth and capital, be prepared with reference to an appropriate inflationary factor as determined by Council at the planning meeting for the new budget year.

4.5. That the incremental operating budget requirements to support the capital asset plan be provided with a separate increase.



- 4.6. That any new programs and services to be considered be provided with a separate increase.
- 4.7. That net assessment growth revenue be prioritized in the following order:
- a) Incremental operating costs of growth
  - b) Costs to fund new and growth capital assets
  - c) Gaps in funding items in sections 4.5 and 4.6 of this By-law
  - d) Programs aimed at driving economic growth or other Council priorities

Other factors such as growth and strategic plans may be incorporated into the overall prioritization of assessment growth.

- 4.8. That a Business Case be prepared for Council information where any one of the following conditions are met:
- a) The request includes the addition of (a) permanent FTE(s)
  - b) The request adds (a) new service(s) not offered by the Niagara Region in the year prior to the new budget year
    - i. This excludes changes in delivery of (a) service(s) within a division
- 4.9. That a Budget Driver Summary be prepared for Council information where any one of the following conditions are met:
- a) The net request is in excess of \$500,000 increase or decrease to a departmental budget
    - i. This excludes increases or decreases for general labour-related costs (other than those in 4.8.a) as these general costs will be reported on corporately
  - b) The gross divisional change is in excess of \$1,000,000. A gross change less than \$1,000,000, with a net impact less than \$500,000 will be at the discretion of the Commissioner and/or Treasurer

## 5. PRINCIPLES

- 5.1. That a price index that may be used for an inflationary factor for section 4.4 is the core consumer price index (CPIX) as made available through StatsCan.

- 5.2. That a price index that may be used for an inflationary factor for section 4.4 is the municipal price index, calculated annually using the following equation:

$$MPI = K_1 \times (W_1/W) + K_2 \times (W_2/W) + \dots + K_n \times (W_n/W)$$

where:

$K_n$  = Inflation factor for expenditure category  $n$

$W_n$  = Total expense of expenditure category  $n$  in the operating budget

$n$  = The expenditure category as identified in appendix 1

$W$  = Total expense of the Region's operating budget

$W_n/W$  = Weight of expenditure category  $n$  in the Region's operating budget

- a) That the expenditure categories and inflation factors as outlined in appendix 1 may be amended from time to time to align with the categories of expenditures established in the budget planning process.
  - b) That separate municipal price indexes be calculated for each of the Rate programs and ABCs.
- 5.3. That the incremental operating budget impacts in section 4.5 of this By-law be in accordance with the funding required to close the capital funding gap as identified in the Asset Management Plan.
- 5.4. That assessment growth be treated as gross and net, whereas:
- a) Gross assessment growth is new assessment calculated as the change in weighted real property assessment as determined by MPAC.
  - b) And net assessment growth be calculated as gross assessment growth less any Tax Increment Grants related to new assessment.
- 5.5. That the base budget for staffing complement be based on the approved complement of the year prior to the new budget year including any adjustments approved in-year.
- 5.6. That approvals of operating programs or capital projects that will result in a future increase to the budget in subsequent years be budgeted with the full annual impact in the year of the program approval.

- a) That estimated incremental debt payments for a project be included in the operating budget in the year the capital project is approved as a placeholder for the payments that will be made. Where a surplus may occur due to timing, that placeholder will be used to fund pay-as-you-go capital.
  - b) That estimated incremental operating costs inclusive of annual labour-related costs for programs or projects be budgeted in the year of the program or project approval as a placeholder for the operating costs that will occur. Where a surplus may occur due to timing, that placeholder will be used to fund pay-as-you-go capital or otherwise as approved in the budget.
  - c) That a reduction in costs or increase in revenues be included in the budget year in which they are expected to be recognized.
- 5.7. That the exception to 5.6 be where a financial plan has identified a strategy to implement an initiative where the budget must be established over a period of time to support the principle of affordability.
- 5.8. That budget planning and preparation will include any relevant information as available to staff, including:
- a) The most recently completed year's actual audited financial position.
  - b) The most recently completed quarterly financial forecast.
  - c) Items forecasted in the multi-year's budget of the prior year.
  - d) Strategic documents developed for planning.
  - e) Newly identified pressures, risks, and opportunities for the budget year.
- 5.9. Where an operational surplus is identified in the financial results of the year prior to the new budget year, the surplus will inform the new budget year for potential cost savings or revenue increases.
- a) The use of a surplus will be directed by Niagara Region policies and the Act in the year prior to the new budget year.
  - b) Budget development will not include the year surplus as a funding source for the new budget year.
- 5.10. That operating programs that are time limited or one-time in nature may be funded by time limited or one-time sources, such as reserves.

- a) Time limited or one-time revenues will not be used to fund on-going programs.

## 6. RESPONSIBILITIES

### 6.1. The responsibility of Regional Council

- a) To approve an annual budget planning report and timetable. The approval of a budget planning report for a new budget year shall not limit Regional Council's ability to approve a budget or budgets equal to or less than the recommendations therein upon consideration of the annual budgets.
- b) To provide direction to staff on the services to include in the new budget year.

### 6.2. The responsibilities of members of the Corporate Leadership Team

- a) To recommend and support the budget submissions to Council.

### 6.3. The responsibilities of Financial Management and Planning Team

- a) To transparently consolidate and present budget considerations to Council.
- b) To direct staff on strategy to meet Council's expectations of the annual budgets.

### 6.4. The responsibilities of budget owners and project managers

- a) To use these rules in the preparation of the annual operating and capital budgets.

### 6.5. The responsibilities of ABCs

- a) To adhere to the schedule of budget approval meetings as approved annually by Council.

## 7. SEVERABILITY

- 7.1. If any Section or Sections of this By-law or parts thereof are found by an adjudicator of competent jurisdiction to be invalid or beyond the power of Council to enact, such Section or Sections or parts thereof shall be deemed to be severable and all other Sections or parts of the By-law shall be deemed to be separate and independent there from and shall continue in full force and effect unless and until similarly found invalid or beyond the power of Council to enact.

## 8. SHORT TITLE

8.1. The short title of this By-law is "Budget Planning By-law".

9. EFFECTIVE DATE

9.1. That this by-law shall come into force and effect on the day upon which it is passed.

THE REGIONAL MUNICIPALITY OF NIAGARA

---

James Bradley, Regional Chair

---

Ann-Marie Norio, Regional Clerk

Passed: <date>

## Appendix 1

## Municipal Price Index Inflation Factor Sources

Expenditure Category	Inflation Factor	Geographical Area	Source/ Publisher
<b>Compensation</b>	Average Weekly Wages, Public Administration	Canada	Conference Board of Canada (CBOC)
<b>Professional &amp; Contractual Services</b>	Consumption Deflator, Services, Insurance, financial and legal services	Canada	CBOC
<b>Telecommunications</b>	Consumption Deflator, Services, Communication, Recreation and culture services	Canada	CBOC
<b>Materials &amp; Commodities</b>	Consumer Price Index	St. Catharines-Niagara	CBOC
<b>Asset Maintenance &amp; Rental</b>	Consumer Price Index	St. Catharines-Niagara	CBOC
<b>Fuel, Oil, &amp; Natural Gas</b>	Consumption Expenditures, Non-durable goods, Motor fuels and lubricants	Canada	CBOC
<b>Electricity &amp; Water</b>	Electricity Power Price Index	Canada	CBOC
<b>Equipment, Vehicle, &amp; Technology</b>	Consumption Deflator, Durable Goods, Vehicles and parts	Canada	CBOC
<b>Housing, Childcare &amp; Other Benefits</b>	Consumption Expenditures, Services, Education, health and other personal services	Canada	CBOC
<b>Rebates &amp; Grants</b>	Consumer Price Index	St. Catharines-Niagara	CBOC
<b>Other</b>	Consumer Price Index	St. Catharines-Niagara	CBOC