

Municipality of Chatham-Kent

Finance, Budget, Information Technology & Transformation

Budget & Performance Services

To: Mayor and Members of Council
From: Steven Brown, CPA, CMA
Director, Budget & Performance Services
Date: July 15, 2020
Subject: Multi-Year Budgeting

Recommendations

It is recommended that:

1. A Multi-Year Budget beginning with the four-year period of 2024 through 2027 be adopted for Chatham-Kent.
2. Administration develop, for Council's consideration, a Multi-Year Budget Policy and related bylaw in order to provide administration with the necessary direction to proceed with the development of the multi-year budget.
3. Administration be directed to review the Municipality's existing financial policies and bring forward, for Council's consideration, new or amended policies to ensure alignment with the multi-year budget process.

Background

Councillor Carmen McGregor introduced the following notice of motion on March 23, 2020 and received approval from Council on April 6, 2020:

"Whereas there are significant staff resources required to develop the annual budget;

And whereas there may be economic advantages for multi-year infrastructure and operational purchases;

I therefore move that administration investigate the pros and cons of multi-year budgeting, including investigating municipalities that have moved to this practice, including a recommended implementation strategy, and report back with a recommendation to Council on or before the August 10, 2020 Council meeting."

What is a Multi-Year Budget?

Council sets a Strategic Plan for the four year Council term. How much of that plan can be implemented over the four year Council term will in part depend on the cost, which will ultimately impact tax changes over that same period. Linking the strategy to the budget provides accountability between what is achieved and the cost to the taxpayers.

Rather than approving a budget annually, Council would approve budgets for a four year period, with the last year being subject to reconfirmation by the new term of Council, and link those changes to the Strategic Plan. The strategic plan for a new Council is completed by the summer following the October election. Once the strategic plan has been completed, Administration would start developing the multi-year budget tying the budget back to Council's strategic plan. The strategic plan would be developed mid-way through Council's first year and the multi-year budget being tied to Council's new strategic plan would be completed in November and December with approval in January of Council's second year of their four-year term.

It is important to note that the Municipality of Chatham-Kent has always provided a multi-year forecast for the annual operating budget and a multi-year capital budget.

This will not be a new funding mechanism. There is no "new money" initially. This process will provide a clear link between the Council approved Strategic Plan and the cost of implementing that strategy. Some hard choices will therefore need to be made, both in terms of budget changes and setting expectations. The benefits of multi-year budgeting include:

- Alignment of longer-term goals and objectives with longer-term funding plans;
- Greater certainty is provided to taxpayers/residents about the future direction of taxes and the timing of implementation of the Council approved Strategic Plan;
- Improved accountability and transparency over spending plan changes; and
- Prioritization principles aligned with service delivery principles that include:
 - Risk profile,
 - Degree and speed of implementation,
 - Balancing competing needs across various strategic areas of focus, and
 - Impact to the community.

Comments

Advantages and Disadvantages of Multi-Year Budgeting

There are several advantages and disadvantages with respect to multi-year budgeting. In providing a list of both advantages and disadvantages, it is also required to examine some mitigation strategies to address the disadvantages.

A major issue that emerges in the multi-year budgeting process that needs to be addressed concerns years where there would be an election. If done correctly, a multi-year budget will straddle election years.

For example, municipal Council is elected to a four-year term. With the next term starting in December of 2022, and running to December 2026, ideally, a four year budget cycle would then take effect on January 1, 2024 and continue to December 31, 2027. The lag time in the budget cycle gives a newly-elected Council the opportunity to educate itself, develop its strategic plan and priorities, and direct administration to implement various initiatives. Similarly, because the budget cycle will overlap with the next election, a new Council will not be thrown immediately into making major budgetary decisions just weeks after an election.

The advantages of this process are as follows:

- Majority of new Council members are provided the opportunity to learn the business and set strategic plans before approving a budget.
- New Council has the opportunity to set direction for its term.
- Council is not “thrown into” budget immediately after being elected.

However, the perceived disadvantage with this approach is that it may be more difficult for a new Council to effect budgetary change immediately following an election. This assumes that the new Council has a strong understanding of the budgetary challenges and opportunities of the municipality.

Municipalities that have adopted multi-year budgets, including London, Ontario, ensure that they straddle election years for the reasons listed above. Below addresses some general advantages, disadvantages, and mitigation strategies with respect to multi-year budgeting.

Advantages

According to research conducted by the Government Finance Officers Association (GFOA), the advantages of multi-year budgeting far outweigh the disadvantages. These include:

- Significant savings in Council and administration time, as they are not spending several months of the year on the annual budget.
- Potential to redeploy staff to other functions such as completing departmental service reviews.
- Enables Council to implement multi-year vision which flows through business plans to be incorporated into the operating budget.
- Encourages a focus on achieving longer-term plans, goals, and objectives.
- Improves financial management and long-range strategic planning.
- Better alignment with (infrastructure) funding from other levels of government and planning projects.

- Provides a better link between capital and operating investments and activities.
- The longer-term view is said to produce better, more thoughtful budgets.

Disadvantages

The GFOA lists the following as the primary disadvantages with multi-year budgeting:

- Discomfort with forecasting longer-term revenues and expenditures.
- Publishing of potential property tax increases.
- Additional effort required for implementation.
- Perceived loss of flexibility in making budgetary decisions.

Mitigation Strategies

Many of the disadvantages identified above may be addressed through various mitigation strategies such as:

- Amending existing financial and budget policies and procedures.
- Producing, monitoring, and updating socio-economic outlooks/forecasts.
- Adopting an extensive public engagement process to obtain public input.
- Establishing a budget review process for ensuring compliance with budget policies, processes, and targets.

What Flexibility Will Council Have Once a Multi-Year Budget is Approved?

Following the approval of a multi-year budget, in each subsequent year of the multi-year budget, Council is required by the Municipal Act, 2001 to review and re-adopt the budget for that year. As part of the review process, Council is required to make changes that are required for the purpose of making the budget compliant with the provisions of the Act which include ensuring that the municipality has sufficient funds to pay all debts and amounts required for boards, requisitioning or other bodies. As such, Council will have the opportunity to make other amendments or fine-tune the budget annually. In addition to the matters required to be addressed by the Municipal Act, 2001, the scope of annual budget changes may include, but are not limited to, the following:

1. Changes to Council priorities impacting municipal services that require amendments to business plans and budgets;
2. External factors such as changes to Federal/Provincial policies that impact municipal costs, unanticipated changes in purchased services such as insurance premiums, or changes imposed on pension plan contributions;
3. Unanticipated changes to economic forecasts that impact municipal costs or revenues; for example, significant changes to interest rates may result in higher/lower costs of borrowing; and
4. Changes to budgets resulting from the annual service review process.

How Would an Economic Downturn be Handled?

The current economic downturn caused by COVID-19 is not one that could have been predicted during the last two budget cycles. In the event such an occurrence were to happen in any of years two (2) through four (4) of a multi-year budget, Council would have the ability to open the budget and make modifications through the annual review process. For example, as noted under “What Flexibility Will Council Have Once a Multi-Year Budget is Approved?” unanticipated changes to economic forecasts that affect municipal costs or revenues allowing for the reopening of the budget. With COVID-19 affecting municipal operations substantially in both revenues and expenses, Council would be within the principals of the multi-year budget to request administration to re-examine the full budget.

Service Reviews

In addition to multi-year budgets, administration will be undertaking service reviews during year’s two (2) to four (4) of the budget that may yield savings that could be used over time to either reduce the pressure on the taxpayer or to expand the scope and/or accelerate delivery of Council’s Strategic Plan initiatives. These service reviews will include techniques such as:

- Zero-based budget analysis on the service or department
- Lean Six Sigma
- Organizational redesign

Next Steps

With the approval of the recommendations, administration will come back with a Multi-year Budget Policy and review existing financial policies to align them with heading to a multi-year budget.

Areas of Strategic Focus and Critical Success Factors

The recommendations in this report support the following areas of strategic focus:

- Economic Prosperity:
Chatham-Kent is an innovative and thriving community with a diversified economy
- A Healthy and Safe Community:
Chatham-Kent is a healthy and safe community with sustainable population growth
- People and Culture:
Chatham-Kent is recognized as a culturally vibrant, dynamic, and creative community
- Environmental Sustainability:
Chatham-Kent is a community that is environmentally sustainable and promotes stewardship of our natural resources

The recommendations in this report support the following critical success factors:

- Financial Sustainability:
The Corporation of the Municipality of Chatham-Kent is financially sustainable
- Open, Transparent and Effective Governance:
The Corporation of the Municipality of Chatham-Kent is open, transparent and effectively governed with efficient and bold, visionary leadership
- Has the potential to support all areas of strategic focus & critical success factors
- Neutral issues (does not support negatively or positively)

Consultation

The Executive Management Team was consulted on the recommendations contained within this report.

Financial Implications

There are no financial implications resulting from the recommendations contained within this report.

Prepared by:

Reviewed by:

Steven Brown, CPA, CMA
Director, Budget & Performance Services

Gord Quinton, MBA, CPA, CGA
Chief Financial Officer, Treasurer

Attachments: None

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