

## Multi-Year Budgeting

Presented To:	Finance and Administration Committee
Meeting Date:	May 16, 2023
Type:	Managers' Reports
Prepared by:	Kelsi Bernier Financial Support & Budgeting
Recommended by:	General Manager of Corporate Services

## Report Summary

This report provides a recommendation regarding multi-year budgeting, a process that links long-term planning to budgeting for a service's expenses and revenues for more than one year.

## Resolution

THAT Council directs staff to implement option 1 outlined in the report entitled "Multi-Year Budgeting", presented by the General Manager of Corporate Services at the Finance and Administration Committee meeting on May 16, 2023.

## Relationship to the Strategic Plan, Health Impact Assessment and Community Energy & Emissions Plan (CEEP)

This report refers to operational matters and has no direct connection to the Community Energy & Emissions Plan.

## Financial Implications

There are no direct financial implications associated with this report.

## Background

Many Canadian municipalities have implemented – or are in the process of implementing – integrated multi-year capital and operating budgets. This approach has been recommended by various organizations and associations, such as the Association of Municipal Managers, Clerks and Treasurers of Ontario (AMCTO) and the Government Finance Officers Association (GFOA), as a better way for municipal governments to plan and allocate resources.

AMCTO defines that a good budget process:

- Incorporates a long-term perspective

- Establishes linkages to broad organization goals
- Focuses decisions on results and outcomes
- Involves and promotes effective communication with stakeholders

The purpose of this report is to provide an overview of a fully integrated multi-year business plan and budget framework that may be useful and beneficial to the City of Greater Sudbury in achieving its long-term goals. This report responds to the motion passed at the March 28 Finance and Administration Committee meeting as follows:

Whereas a municipality's budget is a key policy document that describes annual service plans and methods of paying for planned service levels;

And whereas City Council's budget process includes several weeks of independent councilor review and public inquiry leading to a series of meetings intended to ensure the final budget reflects Council's service expectations;

And whereas the process of preparing the annual budget requires approximately 10,000 hours of staff time; Therefore, be it resolved that staff prepare a report for the May 16, 2023 Finance and Administration Committee meeting describing the process changes required to establish a multi-year budget starting with the 2024 Budget.

## **What is Multi-Year Budgeting?**

Multi-year budgeting is a process that links long-term planning to budgeting for a service's expenses and revenues for more than one year. In a multi-year budget Council approves service plans and budgets for more than one year at a time. The process includes a step to check on the status of the plans each year and adjust service levels and/or financing plans under specific conditions. This multi-year approach strengthens alignment with Council's Strategic Plan and introduces productivity improvements that improve organizational efficiency.

In the years following approval of a multi-year budget, the annual status check provides an opportunity to adjust the budget under conditions that Council defines. Typically, these conditions include recognizing service needs/special events that were unknown when the budget was established, taking advantage of funding opportunities that arose after the budget was approved, extraordinary events, legislative changes and desired service level or funding adjustments. This also brings the multi-year budget process into alignment with the Municipal Act, 2001, which requires a municipality to review and adopt a budget each year.

For example, if Council approves a two-year multi-year budget in the fall of 2023, it is adopted for 2024 and 2025. Council can then amend spending plans based on an annual budget update in late 2024 directing adjustments to the 2025 plan based on desired service changes, significant unanticipated changes in the costs associated with the plans or legislative/regulatory change.

### **Advantages and Disadvantages of Multi-Year Budgeting**

There are advantages and disadvantages to implementing multi-year budgeting. Also described below are some mitigation strategies to address the disadvantages according to research conducted by GFOA. Some of the benefits of multi-year budgeting include:

- Enables Council to implement multi-year vision which flows through business plans to be incorporated into the operating and capital budgets thus encouraging a focus on achieving longer-term plans, goals, and objectives.
- Allows municipal governments to perform long-term planning for their financial future, rather than just focusing on short-term goals.
- Improves financial stability as municipal governments can better anticipate their financial needs and allocate resources accordingly. This can help prevent unexpected budget shortfalls and reduce the need for emergency borrowing.
- Increases transparency as it makes it easier for citizens to see how the government is planning to

allocate its resources over the long term and provides greater certainty to residents about the future direction of their taxes.

- More efficient use of time and resources as the organization is not constantly preparing budgets. The 2023 budget process consumed over 10,000 hours of staff time. It is anticipated that the annual update process may require approximately 70% of that staff time (a reduction of approximately 3,000 hours), resulting in efficiencies for staff in Finance and Communications and the managerial staff from across the organization.
- Purchasing and contracting savings as procurements can be planned farther in advance and create more stable, longer term contracts.

Some of the challenges include:

- Additional effort would be required for implementation of information technology systems that would support multi-year operating budgets and reporting however this would be offset in future years' time savings.
- If a four-year budget is approved, it would result in changes to the budget timelines with budget to be tabled and approved in Q1 (possible Q2) 2024.

If one assumes that the goal of multi-year budgeting is to provide better alignment with various strategic or long-term plans of the City, then the disadvantages are relatively minor when analyzed in the context of a longer-term vision.

### **Election Years**

The best practice for municipal multi-year budgets is a “term budget” which begins in the second year of a Council term and straddles election years. For example, for a Council elected in October 2022, with a term that runs to October 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 the newly elected Council the opportunity to engage in strategic planning and develop implementation plans. Since the budget cycle will overlap with the next election, a new Council will not commence its term by making major budgetary decisions weeks after an election and it has the opportunity to set strategic direction for its term.

### **The City of Greater Sudbury’s Current Budget Cycle**

The City currently approves its capital and operating budgets annually. The process, which requires approximately 10,000 hours to complete, begins with an update to the long-term financial plan and budget direction report in June. Staff assemble workload estimates and financial estimates throughout the third and fourth quarters. In September, a budget update report is presented to Council, providing an opportunity for Council to understand the factors influencing the draft budget and, if desired, providing additional budget directions. The capital and operating budgets are published in November and, after several weeks of public and councillor review, deliberated by the Finance and Administration Committee in December. See Figure 1 below for more information.

The operating and capital budgets are linked to, and passed together with, the City’s annual business plan. The business plan lays out the projects, programs, and services that the City plans to deliver over the course of the year, while the capital and operating budgets illustrate the financial resources required to support the business plan.

Over the past six years, the City’s approach to budgeting has significantly evolved. With the inclusion of details about services and planned service levels, performance trends and benchmarks with other municipalities and narrative information to help illustrate connections between service plans and Council’s strategic priorities, the City’s current budget process can readily incorporate a multi-year budget format.

### **Implementing a Multi-Year Budget**

To help assess policy and process implications of adopting a multi-year budget, staff interviewed three municipalities that have or are in the process of implementing multi-year budgeting. Information about multi-year budget and preparation policies for the City of London, City of Guelph and the Municipality of Chatham Kent, all in Ontario, can be found in Appendices 1 to 3.

## **Information Technology System Changes**

Staff assessed current technology capabilities to support a multi-year budget. Further testing will confirm that the corporation's current system (PeopleSoft Budget) can support a two-year operating budget process. This testing is underway, and staff are confident a two-year planning horizon can be readily incorporated. A longer planning horizon is subject to further testing.

The capital budget does not rely on specialized software. The multi-year nature of capital budgeting makes transitioning to a multi-year budget process relatively straightforward. Nevertheless, there are also software tools that integrate with the corporation's asset management data that could further improve this process. Staff are assessing these tools but they are not required to adopt a multi-year budget.

## **Updates to Policies**

A number of policies will need to be created/updated to support a multi-year budget. These include but are not limited to:

### ***Multi-Year Budget Policy (New)***

The purpose of the multi-year budget policy is to define the approach used, and Council approvals required, for multi-year budgets. This policy would typically address:

1. The term of the multi-year budget (2 years, 4 years, etc.)
2. Guidelines for approving an average annual tax levy adjustment
3. Annual Budget Update procedures
4. Housekeeping adjustments

Sample multi-year budget policies are provided in Appendix 1 and 3 for the municipalities of London and Chatham-Kent.

### ***Assessment Growth Policy (New)***

The purpose of this policy is to establish a standard process for assigning new revenues recognized each year due to assessment growth. Currently, these funds serve as a funding source to reduce the annual levy requirement. While this could continue in a multi-year budget process, a good practice is to have this decision established via policy.

### ***Operating Budget Policy (Revised)***

The corporation has an Operating Budget policy. This policy would need to be revised to account for changes resulting from having a multi-year planning horizon. For example, the policy would provide guidance regarding budget monitoring, variance reporting, adjustments to the operating budget and inter-period allocations.

### ***Budget Preparation Policy (Revised)***

The corporation has a Budget Preparation Policy. This policy would be updated to define areas of responsibility and planning, while ensuring effective budget preparation control given a multi-year budget environment. It will include enterprise-wide guidelines for budgeting for inflation and other specific expense/revenue types. It would specify the responsibility budget preparers and/or subject matter experts have for making reasonable planning assumptions covering multiple years, and directions to follow if/when actual experience significantly differs from the planning assumptions.

### ***Capital Budget Policy (Revised)***

The corporation has a Capital Budget Policy. Revisions to this policy would be relatively minor, covering guidance that ensures sufficient, appropriate estimates and monitoring occur throughout the planning period.

## **Community Involvement**

The corporation's budget communications and engagement plan would be adjusted in relatively minor ways to recognize a multi-year planning horizon. Additional messaging and outreach would be undertaken to promote awareness of the change, if approved.

## Budget Preparation Timeline Changes

### Operating Budget

Over two years, the operating budget process would see a significant productivity improvement worth, conservatively, 3,000 hours. It is important to note the majority of hours saved would be in year two. The transition to a multi-year budget and efforts to create reasonable workload and financial forecasts in the first year will require some incremental effort from staff. The overall budget process for a two-year multi-year budget would remain similar in year one compared to the method currently followed.

Figure 1 Draft 2024 Budget Schedule

#### 2024 Budget Schedule

<b>2024 Budget Direction</b>	Tuesday, June 20, 2023
<b>2024 Budget Update</b>	Tuesday, September 19, 2023
<b>Community Consultation Session</b> On-Line Submissions	September - October, 2023
<b>Table Budget Document</b> 2024 Operating and Capital Budget Overview Presentation (CAO & CFO) Presentation from Outside Boards (tentative)	Wednesday, November 15, 2023
<b>Budget Deliberation Meetings</b> Review and approve Operating and Capital Budgets and Water/Wastewater Rates	December 13-14, 2023
<b>City Council Approval of 2024 Operating and Capital Budget</b>	December 2023

Should Council direct staff to prepare a four-year budget, timelines for budget tabling and deliberation will be extended due to the additional staff time required to budget a further three years. Most municipalities producing a multi-year budget follow a timeframe similar to the first budget after an election which is generally tabled in January or February, deliberated in February or March and then approved.

### Capital Budget

Overall timing of a two year capital budget would follow the schedule above, along with revised timelines if a four-year capital budget is directed.

Time for the preparation and prioritization of requests, review by committee and preparation of the capital plan in the budget document would double in the first year of a multi-year period.

### Annual Budget Update

An important element of a multi-year budget is the Annual Budget Update. The Municipal Act, 2001 requires Council to adopt a budget each year. An annual update would provide Council the opportunity to adjust the budget in specific circumstances. Such adjustments could include:

1. **New or Changed Regulation:** A new or changed legislation or regulation with a financial impact to the municipality.
2. **New Council Direction:** A new Council direction provided after the approval of the multi-year budget (i.e. business cases, change to capital project).
3. **Cost or Revenue Driver:** A budget adjustment as a result of changes in economic conditions or extenuating circumstances (i.e. changed contractual obligation, service utilization such as transit ridership, or natural disasters/catastrophic asset failures).

The Annual Budget Update would occur in November 2024 to adopt the 2025 operating and capital budgets.

### Conclusion and Recommendation

Multi-year budgeting is a natural evolution of our continued efforts at longer term service planning and enriching the understanding of the relationships between services and costs. There are two options for Committee's consideration:

### **Option 1**

Staff prepare a multi-year budget policy with the following:

1. Term of two years commencing for the years 2024 and 2025.
2. Council to approve a two-year average annual tax levy
3. Commencing in the second year, that Council (as required under the Municipal Act, 2001) readopts the budget subject to the following adjustments through the Annual Budget Update:
  - a. New or Changed Regulation
  - b. New Council Direction
  - c. Cost or Revenue Driver

### **Option 2**

Staff prepare a multi-year budget policy similar to option 1 above however, with a four-year term.

To maintain existing timelines and provide opportunity to evaluate budget software capabilities, staff recommend implementing a two-year multi-year budget for the 2024/2025 budget cycle.

## **Resources Cited**

KPMG Presentation from AMCTO entitled "Multi-Year Budgeting, A Practical Approach"

<https://www.amcto.com/getattachment/cc0159da-0b4b-4726-bf9f-2b8d9cdf20d/.aspx>

MFOA Presentation from Municipality of London "Budgeting Approaches for Municipalities"

[https://www.mfoa.on.ca/mfoa/main/pdfs/AC17\\_Tues\\_Sept19\\_Budgeting\\_Approaches\\_Dunbar\\_Collins.pdf](https://www.mfoa.on.ca/mfoa/main/pdfs/AC17_Tues_Sept19_Budgeting_Approaches_Dunbar_Collins.pdf)

Multi-year Budgeting: A Primer for Finance Officers

<https://www.thefreelibrary.com/Multi-year+Budgeting%3A+A+Primer+for+Finance+Officers.-a063795829>

2019-2027 City of Greater Sudbury Strategic Plan

<https://www.greatersudbury.ca/city-hall/mayor-and-council/city-council/pdf-documents/2019-2027-strategic-plan/>

London's Assessment Growth Policy

<https://london.ca/council-policies/assessment-growth-policy>