

For Information Only

Budget Preparation Methodology

Presented To: Finance and
Administration
Committee

Presented: Tuesday, Sep 15, 2020

Report Date Monday, Aug 31, 2020

Type: Managers' Reports

Resolution

For Information Only

Relationship to the Strategic Plan / Health Impact Assessment

This report refers to operational matters.

Report Summary

A staff report was requested to address the 2021 Budget Preparation Methodology deferred motion and provide additional information. The purpose of this report is to provide clarifying information and sources.

Financial Implications

There are no financial implications associated with this report.

Signed By

Report Prepared By

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Digitally Signed Aug 31, 20

Division Review

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Financial Implications

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BACKGROUND

A draft motion regarding 2021 budget preparation was presented at the July 7, 2020 Finance & Administration Committee meeting. This motion was deferred to the September 15, 2020 Finance & Administration Committee meeting. Staff was requested to provide a report addressing the information provided as part of the draft motion's preamble and provide additional information. This report responds to Council's request.

ANALYSIS

There have been opinions expressed regarding the process used for developing the corporation's annual budget. The current process began with the development of the 2017 Budget following consultation with individual councillors and after incorporating process changes that reflect contemporary municipal budgeting practices. Feedback from councillors following each approved budget is also a source for continuous improvements that are typically reflected in the next year's budget process and publication. The corporation's budget consistently meets the criteria for receiving the Government Finance Officers of North America's "Distinguished Budget Presentation" award.

Data Clarification

The draft motion, as presented, is attached as Appendix A. Staff and several councillors noted inconsistencies between the data cited in the draft motion and official sources for the same data. For context, following Council's request, staff reviewed the official source data and prepared this report.

Nothing in this report should be viewed as staff debating the draft motion's intent or its direction. This report provides the information Council requested to clarify the information provided in the draft motion's preamble.

The draft motion presented at the July 7, Finance & Administration Committee meeting includes references to a variety of data. Staff provide the following comments based on its review of official source data:

Cost of Living

The draft motion states: "WHEREAS cost of living over the last six (6) years from 2014 to 2020 has risen by 9%"

Staff note that "Cost of living" is an expression typically associated with changes in the level of consumer prices. According to the Bank of Canada's Inflation Calculator, between 2014 – 2020 inflation increased 9%. For further context, household incomes over the last three years in Greater Sudbury increased by 12% (source: Conference Board Of Canada, Winter 2020 Outlook). In 2018, Sudbury was ranked as the second most affordable city in Ontario (<https://www.sudbury.com/local-news/sudbury-ranks-second-most-affordable-place-to-live-in-ontario-zoocasa-930103>).

Population Changes

The draft motion states, "WHEREAS the population of Greater Sudbury has seen a 2% decline over six (6) years"

Staff note that the May Labour Force Survey (2014-2020) indicates Sudbury is realizing a 1% increase in population. This has been confirmed by the Conference Board of Canada.

Income Levels

The draft motion states, “WHEREAS the demographics are rapidly shifting from high income earners to fixed income or income tied to cost of living”

Staff note several elements of this statement are difficult to support with data. For the city as a whole, Greater Sudbury's income per capita is higher than the provincial average. In 2019, the income per capita in Ontario was \$49,916 whereas Sudbury was \$52,063 (Conference Board of Canada). Whether demographic shifts are occurring “rapidly” or whether a substantive change in a persons’ income occurs when transitioning to a pension requires subjective judgments.

The draft motion states, “WHEREAS the 2016 Statistics Canada Census determined that 54% of Greater Sudbury earners are earning less than the Canadian poverty line”

Staff note that Statistics Canada defines low income cut-offs (“LICOs”) as income thresholds below which a family will likely devote a larger share of its income on the necessities of food, shelter and clothing than the average family. The approach is essentially to estimate an income threshold at which families are expected to spend 20% more than the average family on food, shelter and clothing.

The 2016 Census indicates the prevalence of low income based on the Low-Income Cutoff, after Tax for Greater Sudbury is 6.9% compared to 9.8% for Ontario.

The draft motion states, “WHEREAS household debt to income ratios have reached 176%”

Staff note that Canada’s debt-to-income ratio is 177.1% (<https://www.cbc.ca/news/business/debt-to-income-ratio-second-quarter-1.5282226#:~:text=The%20debt%2Dto%2Dincome%20ratio,cent%20to%20177.1%20per%20cent>). A Sudbury-specific data point is unavailable.

Municipal Property Tax

The draft motion states, “WHEREAS Property Taxes over six (6) years have increased by 26%”

Staff note that based on Council-approved tax levy increases from 2015 to 2020, the compounding effect is approximately 20.37%. The tax increases for 2015-2020 were 0%, 3.9%, 3.6%, 3.0%, 3.6% and 4.8% respectively.

The draft motion states, “WHEREAS Greater Sudbury over six (6) years has increased by 23%”

Staff are unsure of the intended meaning of this statement.

The draft motion states, “WHEREAS Greater Sudbury cost impact on City residents has increased by more than 27% over the last six (6) years”

Staff are unsure of the intended meaning of this statement. If it is referring to changes in gross municipal expenditures, these increased by 20.5% over the last six years. However, it is important to note that both the service mix and approved service levels changed over this period. For example, the 2020 Budget included a large increase in expenditures as a result of the incorporation of the Greater Sudbury Housing Corporation. So while gross expenditures increased to reflect these services, so did offsetting municipal revenues.

Municipal Revenue

The draft motion states, “WHEREAS Property Taxes constitute 50% of Greater Sudbury spending”

Staff note that, as reported in the 2020 Budget, property taxes fund approximately 47% of the corporation’s expenditures.

The draft motion states, “WHEREAS User Fees constitute 22% of Greater Sudbury spending”

Staff note that this figure includes the corporation’s water and wastewater services, which are 100% user-pay, non-tax supported services. Excluding water and wastewater services, User Fees constitute approximately 11% of Greater Sudbury revenues.

The draft motion states, “WHEREAS Greater Sudbury has been becoming increasingly reliant on debt financing”

Staff note that this statement can be supported with data. The corporation modified its debt policy so that it could borrow funds that required up to 10% of annual revenue to repay them. However, this remains well below the provincially-authorized municipal limit, which is 25% of annual revenue.

For further context, since 2015 City Council determined it was appropriate to repair or replace aging infrastructure at a faster rate than previous Councils. With relatively low reserve levels and property taxes that are among the lowest in the province among cities that serve similar-sized populations, debt financing is a legitimate source of funds City Council can use to address this strategic priority.

The draft motion states, “WHEREAS debt financing imposes another layer of cost on the Greater Sudbury population”

Staff note that this statement can be supported with data, although whether the statement’s implication that debt financing is an *additional* cost is less clear. For example, in exchange for having new or renewed assets available for use in the community, the corporation pays interest on the borrowed funds.

Fortunately, staff secured the lowest-available interest rate in the history of Canadian municipal borrowing when it secured funds for a 30-year term at a rate of 2.42%. So the relative cost of borrowing is not as significant as it was thought to be when Council approved the use of debt to finance infrastructure work. Similarly, the cost avoidance associated with having renewed or new assets that don’t incur emergency repair or maintenance costs like the assets they replace may actually reduce the corporation’s net costs.

The 2001 Municipal Amalgamation

The draft motion states, “WHEREAS cost reductions promised by amalgamation have not materialized” and, “WHEREAS fewer employees promised by amalgamation have actually increased by 4% and the associated cost has increased by 21%”

Staff are unsure of the intended meaning of these statements. Over the last 20 years, staffing levels changed as municipal services changed. Significant changes occurred during this time that affected staffing levels, such as the ones resulting from the transfer of provincial services and related costs to municipalities. Various staff reports at the time fully described their impacts. Other changes in the corporation’s approved staff complement result from Council approvals. All staffing changes are fully disclosed in the annual budget.

Zero-Based Budgeting

The draft motion states, “WHEREAS traditional budget preparation techniques have not provided opportunities to allow Greater Sudbury to keep spending more closely aligned with public ability to fund that spending”

Staff note that while this statement refers to “affordability”, which is a concept that requires judgment, several data sources are available to suggest local property taxes are among the most affordable in the province. The corporation’s budget includes extensive public consultation, a four-week public review and comment period, and thorough deliberations by City Council before they are approved.

The draft motion states, “WHEREAS there are other budget preparation techniques that readily allow preparation of Zero-Based Budget (ZBB) preparation; and WHEREAS the application of ZBB has resulted in many corporations and an increasing number of municipalities to become more efficient and more cost effective”

Staff note that these statements refer to a specific budgeting method. The corporation’s budget currently emphasizes Council’s desired service levels, and follows directions Council provides at the start of the budget development process.

A 2018 Deloitte study indicated the rate of ZBB use is low. The study also noted ZBB use is declining and that, globally, 10% of survey respondents planned to use ZBB over the next 24 months. Further, it noted that 58% of respondents using ZBB did not meet their cost targets. The study notes several possible factors that could influence that result, which might also apply to companies that don’t use ZBB.

References

Deloitte Study – “Zero-Based Budgeting Usage and Trends”

(<https://www2.deloitte.com/us/en/pages/operations/articles/zero-based-budgeting.html>)

2020 Budget Process Evaluation -

<https://agendasonline.greatersudbury.ca/index.cfm?pg=feed&action=file&agenda=report&itemid=6&id=1558>

Long-term Financial Plan (2017)

<https://agendasonline.greatersudbury.ca/index.cfm?pg=feed&action=file&agenda=report&itemid=1&id=1126>

Appendix A – Motion to Define 2021 Budget Preparation Methodology

Motion to Define 2021 Budget Preparation Methodology

As presented by Councillor Vagnini:

WHEREAS cost of living over the last six (6) years from 2014 to 2020 has risen by 9%; and

WHEREAS the population of Greater Sudbury has seen a 2% decline over six (6) years; and

WHEREAS the demographics are rapidly shifting from high income earners to fixed income or income tied to cost of living; and

WHEREAS the 2016 Statistics Canada Census determined that 54% of Greater Sudbury earners are earning less than the Canadian poverty line; and

WHEREAS Property Taxes over six (6) years have increased by 26%; and

WHEREAS Greater Sudbury over six (6) years has increased by 23%; and

WHEREAS Greater Sudbury cost impact on City residents has increased by more than 27% over the last six (6) years; and

WHEREAS Property Taxes constitute 50% of Greater Sudbury spending; and

WHEREAS User Fees constitute 22% of Greater Sudbury spending; and

WHEREAS cost reductions promised by amalgamation have not materialized; and

WHEREAS fewer employees promised by amalgamation have actually increased by 4% and the associated cost has increased by 21%; and

WHEREAS household debt to income ratios have reached 176%; and

WHEREAS traditional budget preparation techniques have not provided opportunities to allow Greater Sudbury to keep spending more closely aligned with public ability to fund that spending; and

WHEREAS Greater Sudbury has been becoming increasingly reliant on debt financing; and

WHEREAS debt financing imposes another layer of cost on the Greater Sudbury population; and

WHEREAS there are other budget preparation techniques that readily allow preparation of Zero-Based Budget (ZBB) preparation; and

WHEREAS the application of ZBB has resulted in many corporations and an increasing number of municipalities to become more efficient and more cost effective;

THEREFORE BE IT RESOLVED that City staff is hereby directed to prepare a two page report for next Council Meeting on the resources and time requirements to replace the traditional budget preparation process with a ZBB process for the 2021 Budget Year.