

Thinking Two Steps Ahead: Multi-Year Budgeting in Small Municipalities

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Clarington

What Are We Going to Talk About?

- ▶ What is multi-year budgeting?
- ▶ Laying the Foundation
- ▶ Capital Budgeting
- ▶ Operating Budgeting
- ▶ What are the next steps and lessons learned

What is Multi-Year Budgeting

The background of the slide is white with abstract, overlapping geometric shapes in various shades of blue (light blue, medium blue, and dark blue) on the right side, creating a modern, professional look.

Why Do We Budget

- Legislative Requirements
- Allocation of resources
- Accountability
- Fiscal Management
- Internal Control
- Management Information
- Financial Sustainability
- Long term Financial Planning
- Managing multiple Business Units
- Achieving strategic planning goals

Multi-year Budgets Are Allowed

- ▶ “Multi-year budget - *The Municipal Act*
- ▶ 291. (1) Despite sections 289 and 290, a municipality may prepare and adopt a budget covering a period of two to five years in the first year to which the budget applies or in the year immediately preceding the first year to which the budget applies.
- ▶ ...
- ▶ (4) For the second and each subsequent year to which a multi-year budget applies, the municipality shall, in the year or the immediately preceding year,
 - ▶ (a) review the budget for that year;
 - ▶ (b) make such changes as are required for the purpose of making the provisions of the budget for that year comply with the requirements of section 289, except clause 289 (4) (b), or section 290, except clause 290 (4) (b), as the case may be; and
 - ▶ (c) readopt the budget for that year and for subsequent years to which the budget applies.”

Beyond the Municipal Act.... (Long Term Planning)

- ▶ Financial and strategic advisor to Council
- ▶ Ensure sustainability of assets and services
- ▶ Encourage Council to gain focus that is longer than a single year or single term of office
- ▶ Develop credibility and rapport with Council and senior management and move financial vision to the longer term
- ▶ Help shape the future of your community
- ▶ New Grants from the Province and Federal Government are tied directly into Long Term Planning (Asset Management Plan)

Multi-Year Budgeting

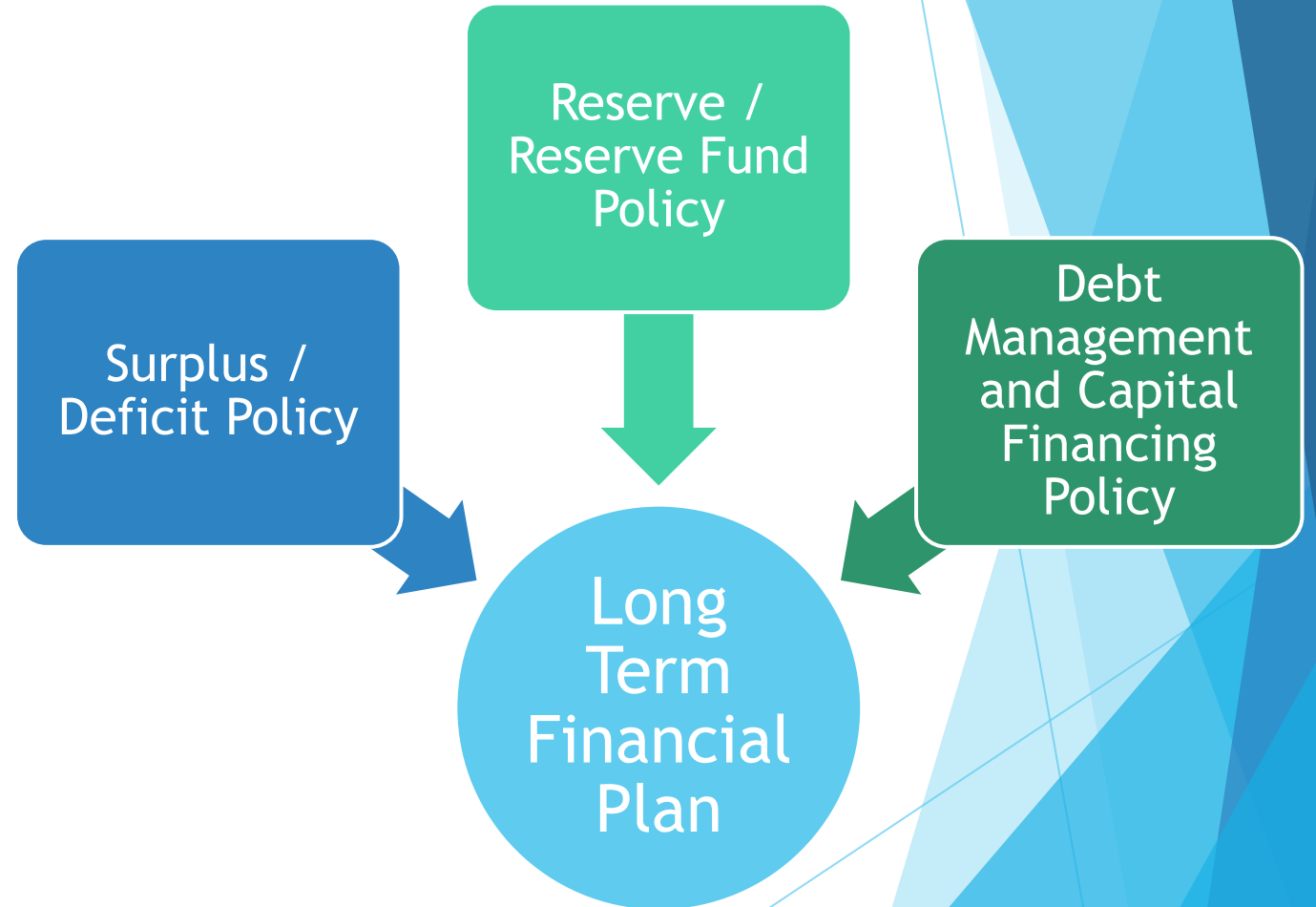
- ▶ Taking steps towards thinking long term
- ▶ Does not mean you have to adopt a budget by-law
- ▶ Think
 - ▶ Sustainable
 - ▶ Predictable
 - ▶ Stable

Laying the Foundation

The background features abstract, overlapping geometric shapes in various shades of blue, ranging from light sky blue to deep navy blue. These shapes are primarily located on the right side of the frame, creating a modern, layered effect. The rest of the background is plain white.

Financial Policy

- ▶ Financial Policy are overall corporate policy on the Municipalities guideline
- ▶ Policies provide the guidance or “rules of the game” that shape the decisions of public managers.
- ▶ When policies are effective, they can preserve or enhance the fiscal health of governments.



Financial Policies

- ▶ Start with the basics and build to comprehensive policy
- ▶ Review with Council annually and re-confirm or amend
- ▶ Typical contents:
 - ▶ Accounting Process
 - ▶ Budget Process
 - ▶ Financial Plan - FP development, monitoring/reporting, changes
 - ▶ Revenue - include: cost recovery, tax distribution policy
 - ▶ Cash Management / Investments
 - ▶ Capital Improvement Program
 - ▶ Debt Financing
 - ▶ Surplus
 - ▶ Reserves

Reserves and Reserve Funds

Reserves

- ▶ Funds set aside at the discretion of Council for a municipal purpose
- ▶ Interest earned allocated to operating budget not reserves, generally

Reserve Fund

- ▶ Funds are segregated (at least in the GL)
- ▶ Funds must be used for the purpose they were established
- ▶ Interest earned stays within the reserve fund
- ▶ May be discretionary or obligatory (Gas Tax)

Key Points

- ▶ It is possible to have too many reserves and reserve funds
 - ▶ Started in Parry Sound with over 90
 - ▶ Was able to get down to 20ish
- ▶ They are not “Rainy Day Funds”
 - ▶ They are a key aspect of long term planning
- ▶ While historically tend to be capital related they don’t have to be
 - ▶ Once every 5 year operating expenses
 - ▶ Self-funding operations (water, wastewater)

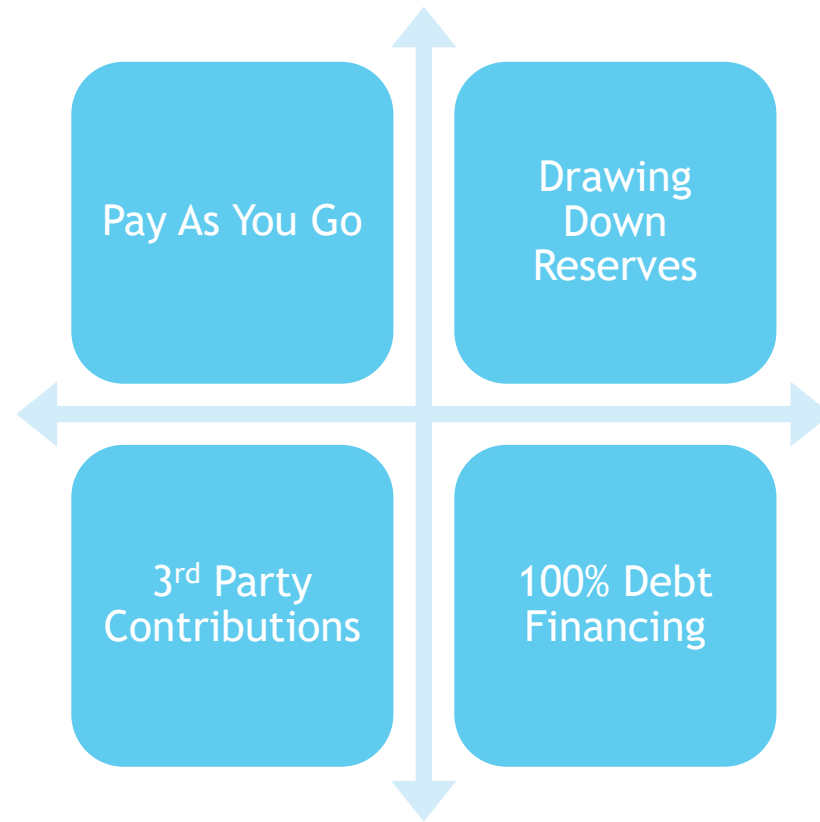
Capital Budgeting

The background features a series of overlapping, semi-transparent blue triangles and polygons of various shades, ranging from light sky blue to deep navy blue. These shapes are primarily located on the right side of the slide, creating a modern, geometric aesthetic.

Capital Planning

- ▶ **Capital planning or budgeting** is the planning process used to determine an organization's long term investments such as new and/or replacement equipment, new facilities, new infrastructure in support of development. It is a budget for major capital investments to support programs & services.
- ▶ Is a plan for an organization's capital expenditures.
- ▶ Capital expenditures are payments made over a period of more than one year.
- ▶ They are used to acquire assets or improve the useful life of existing assets; eg. the funding to construct/rebuild a road or bridge, water plant, etc.
- ▶ Developing a capital budget must account for the potential profitability of the plans involved. Calculating the net present value [NPV] or the internal rate of return [IRR] are two methods for determining a capital budget

Capital Financing Strategies Continuum



What it looked like

- ▶ Council was shown 1 year capital
- ▶ All departments in one list with funding sources underneath
 - ▶ Rink Replacement \$1,000,000
 - ▶ Transfer from XX (\$50,000)
 - ▶ Transfer from YY (\$50,000)
 - ▶ Funding from Feds (\$25,000)
- ▶ Hard at year end to easily reconcile (especially because the cost and the funding were far apart on the page)

Baby Steps

- ▶ Year 1 (2015)
 - ▶ Capital broken down into departments
 - ▶ Sources of funding across columns
 - ▶ Summary totals to the “Determination of Levy” rather than each project
- ▶ Year 2 (2016)
 - ▶ Each department required to provide a 5 year forecast of costs (not funding)
 - ▶ Very much a “wish list”
 - ▶ Council provide the “wish list”
 - ▶ Fleet and rolling stock 20 year forecasts included

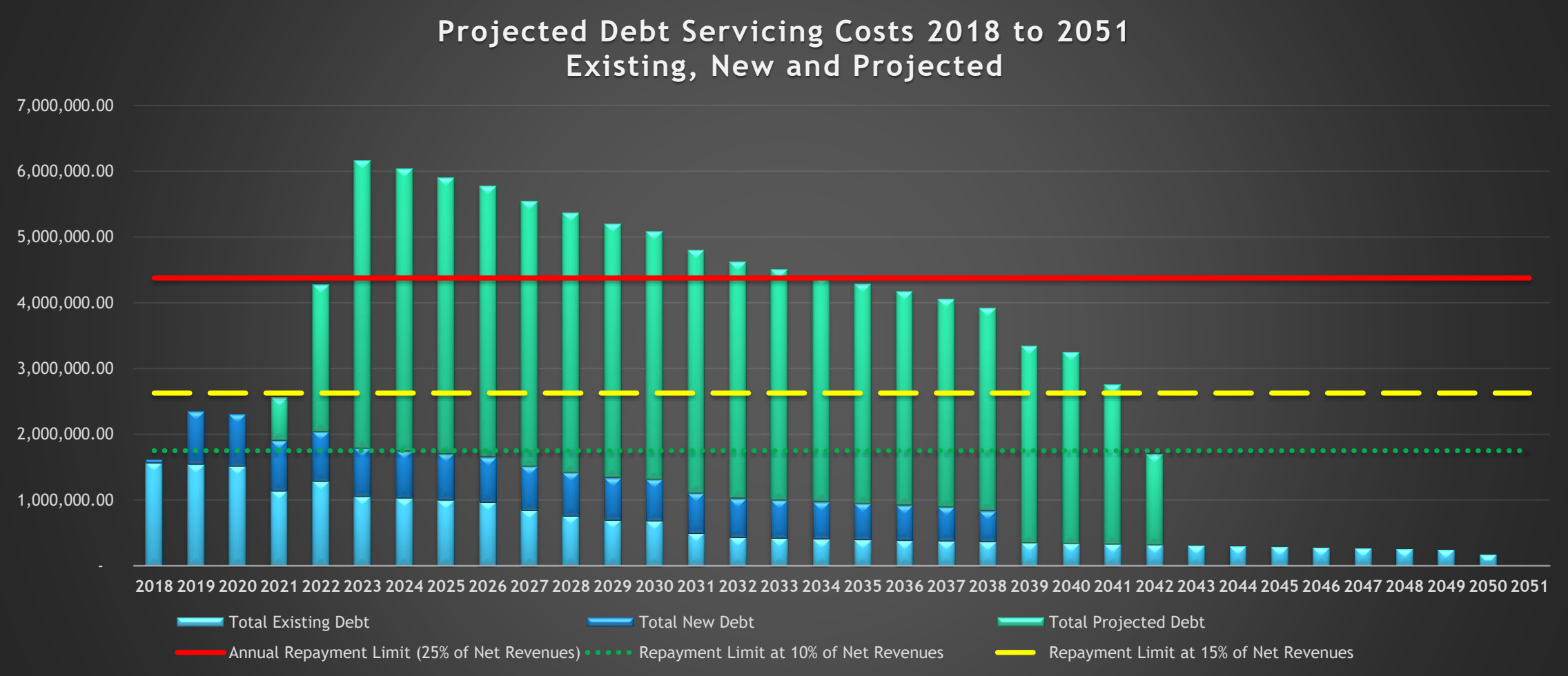
Refinement

- ▶ Year 3 (2017)
 - ▶ 5 Year forecast reviewed but not really updated
 - ▶ Debt forecasting based on ongoing or proposed projects
 - ▶ Started work with MFOA on 10 year template
- ▶ Year 4 (2018)
 - ▶ Worked with departments to get 10 year template (hard to do with public works)
 - ▶ Updated 5 year plan for 10 year figures
 - ▶ Updated debt with refined figures

Sample from Budget Book

Development and Leisure Services Parks and Recreation	2017	2018	2019	2020	2021	Total
Skate Park Resurface	\$ 20,000	\$ -	\$ -	\$ -	\$ -	
Splash Pad	-	269,000	-	-	-	269,000
Dehumidifier for Ice Surface - BOCC	41,000	-	-	-	-	41,000
BOCC Awning	-	-	-	7,000	-	7,000
Ice pad refrigeration system	-	1,000,000	-	-	-	1,000,000
West Parry Sound Area Recreation Centre	-	2,300,000	-	-	-	2,300,000
Total	\$ 61,000	\$ 3,569,000	\$ -	\$ 7,000	\$ -	\$ 3,617,000

Debt Projection



Operating Budgets

The background features a complex, abstract design of overlapping, semi-transparent blue triangles and polygons. The colors range from light sky blue to deep navy blue. The shapes are layered, creating a sense of depth and movement. The overall aesthetic is clean, modern, and professional.

Not As Easy

- ▶ Hard to want to commit to future projects
 - ▶ Grant dependent
 - ▶ Priorities change
 - ▶ Tax levy impact
- ▶ Established budget policy
 - ▶ “Baseline”
 - ▶ “Service Change”
 - ▶ “Non-recurring”
- ▶ In 2017 and 2018 started to put “operating” contributions to reserves for smoothing needs (Official Plan... brush chipping, etc)

What are we putting into Reserves

\$5,000 into Waste Management Reserve (1/4 of compost program for future grinding needs)

\$25,000 into Parks Reserve for playground equipment replacement

\$28,569 into Emergency Capital Asset Replacement Reserve for contingent capital replacement needs

\$75,310 into Equipment Replacement Reserve for rolling stock 20 year plan

\$86,000 into Equipment Replacement Reserve for fire equipment replacement 10 year plan

\$167,000 into Building Replacement Reserve for operations shop (salt shed replacement) (1 of 3 years)

\$439,114 into Fleet Replacement Reserve (annual contribution)

\$47,000 into IT Reserve (\$7,000 for operating needs \$40,000 for capital)

\$100,000 into Tax Rate Stabilization Reserve (contingency for Council)

\$1,085,189 into Wastewater Stabilization Reserve (user fee)

\$525,118 into Water Stabilization Reserve (user fees)

What are Reserves Funding

Elections Reserve
\$15,000 (municipal
election)

Police Stabilization
Reserve \$30,600
(extra billing)

Stockey Centre
Reserve \$55,000
(capital items)

Parks Reserve
\$45,000 (capital
items)

Infrastructure
Replacement
Reserve \$210,000
(capital items)

Equipment
Replacement
Reserve \$332,400
(capital items)

Building
Replacement
Reserve \$105,200
(capital items)

Fleet Replacement
Reserves \$553,100
(fleet plan)

IT Replacement
Reserves \$45,100
(capital items)

Tax Rate
Stabilization
Reserve \$176,900
(operating needs)

Water and
Wastewater
Reserves (capital
needs)

What is Next? / Lessons Learned

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Multi-Year Plan

Why have a Multi Year Budget Plan - Tips for a better plan:

- Revenues - focus on big \$\$ items - property taxes & development fees
- Expenses
 - due to growth - review capital plan, departments submit decision packages
 - due to inflation - constant, reasonably conservative rate
- Service Area or Department Master Plans
 - systematically focus on key service areas and develop long-term service strategy
 - be careful about building up demand that can't be met
- Contingency in the later years - don't create false hope!

Steps Towards Multi-Year Budgeting

- ▶ Steps taken in past 4 years
 - ▶ 20 year fleet plan with annual contribution
 - ▶ 20 year rolling equipment plan with annual plan
 - ▶ 10 year IT plan with increasing annual contribution
 - ▶ 10 year fire plan with annual contribution
 - ▶ Started identifying 5 year capital (and later 10 year capital)
 - ▶ Some funding models completed
 - ▶ Basic foundation of reserves, increased investment activities and modeling

Any Questions

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