

Budgeting Approaches for Municipalities



London
CANADA



MUNICIPAL FINANCE
OFFICERS' ASSOCIATION
OF ONTARIO



Alan Dunbar

Manager of Financial Planning & Policy
City of London

Ian Collins

Director, Financial Services
City of London



London
CANADA

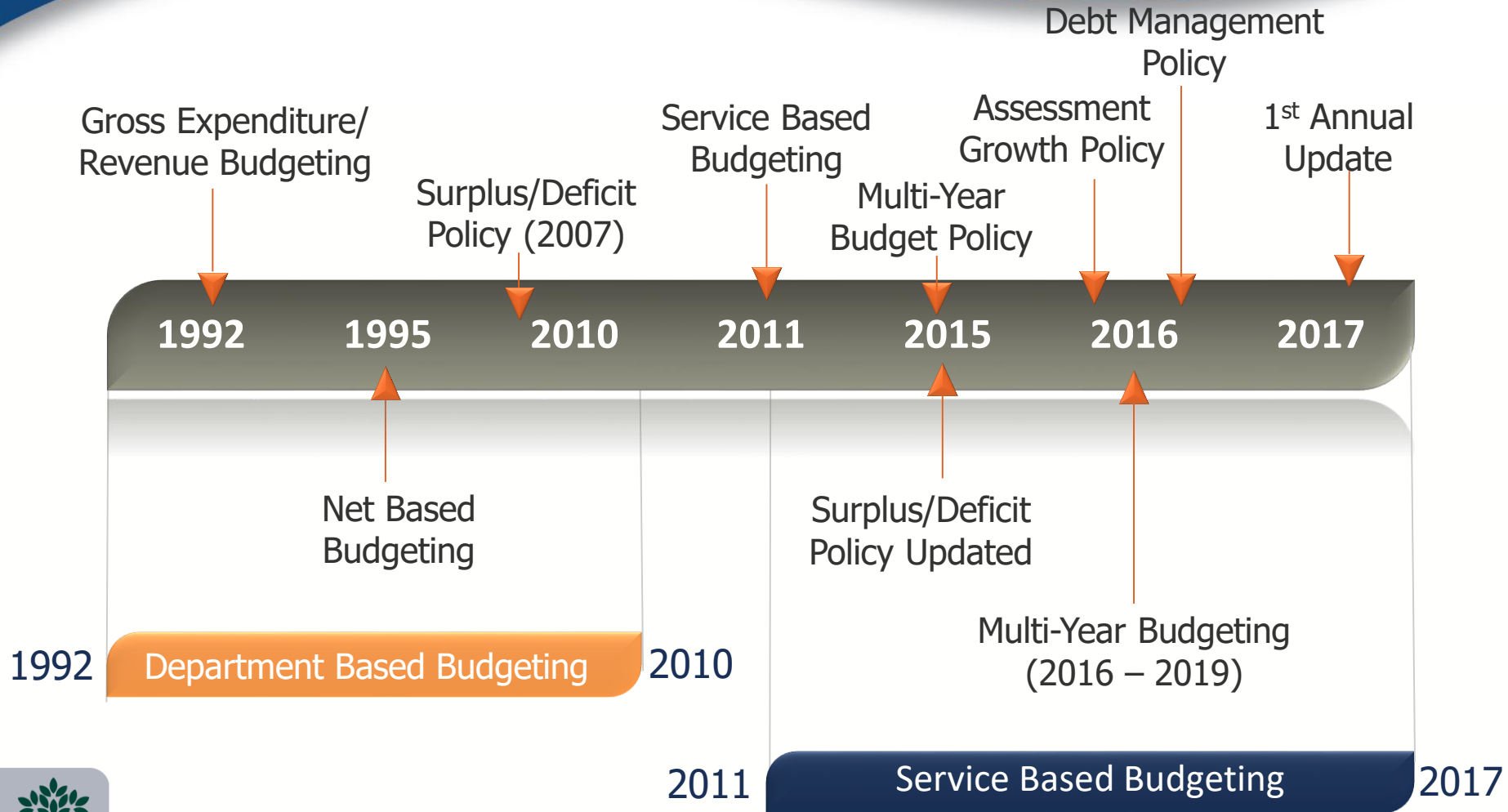
Agenda

Topics for Discussion

- **Part One**
 - Gross Expenditure/Revenue Based Budgeting
 - Net Based Budgeting
 - Departmental Based Budgeting
 - Service Based Budgeting
 - Key Financial Policies
- **Part Two**
 - Multi-Year Budgeting
 - Service Reviews
 - Public Engagement
- **Conclusion – Key Takeaway**
- **Questions**



City of London – Budget Timeline



Approaches

- **Gross Expenditure/Revenue Based Budgeting**
- Net Based Budgeting
- Departmental Based Budgeting
- Service Based Budgeting
- Key Financial Policies
- Multi-Year Budgeting
- Service Reviews
- Public Engagement

Gross Expenditure/Revenue Budgeting

What is it?

- Gross expenditure is the total cost to deliver programs and services
- Each city department budgets for “**cost**” of program service delivery
- Revenues are budgeted centrally by one area (Finance – Revenue Division)



1992 CURRENT BUDGET ORGANIZATIONAL SUMMARY

	<u>1991 Budget</u> \$	<u>1991 Revised Budget</u> \$	<u>1991 Actual</u> \$	<u>1992 Budget</u> \$
DEPARTMENTS				
City Administrator's	27,716,453	27,799,469	27,705,977	28,568,068
Finance	3,152,942	3,126,223	3,052,697	3,201,049
Planning and Development	5,295,061	5,193,415	5,070,171	5,435,180
City Clerk's	3,736,885	3,744,296	3,729,107	3,511,975
Social Services	88,881,533	92,939,754	93,501,499	140,002,449
City Engineer's	46,414,737	46,123,370	46,376,815	46,924,415
Legal	665,163	715,163	706,222	703,497
Elected Officials	1,181,562	1,180,625	1,147,781	1,284,693
Economic Development	2,707,083	2,869,593	2,727,221	2,892,865
Financial Management	35,698,738	37,984,497	38,094,078	41,791,920
Outside Boards and Commissions	<u>70,430,484</u>	<u>70,664,484</u>	<u>70,519,641</u>	<u>76,461,438</u>
Total Corporate Costs	<u>285,880,641</u>	<u>292,340,889</u>	<u>292,631,209</u>	<u>350,777,549</u>
OBJECTS OF EXPENDITURE				
Personnel Costs	106,190,991	105,684,865	105,677,795	112,994,188
Administrative Expenses	2,226,800	2,372,305	2,082,017	2,156,115
Financial Expenses	36,199,265	38,469,544	38,577,226	41,145,672
Purchased Services	21,708,964	21,355,442	21,297,361	22,703,559
Materials & Supplies	14,752,019	14,681,930	14,468,515	14,753,115
Equipment & Furniture	10,579,130	10,832,358	10,338,831	11,567,411
Transfers	99,273,225	103,951,698	104,836,317	150,510,669
Other Expenses	67,450	67,450	65,923	137,610
Recovered Expenses	<u>(5,117,203)</u>	<u>(5,074,703)</u>	<u>(4,712,776)</u>	<u>(5,190,790)</u>
Total Corporate Costs	<u>285,880,641</u>	<u>292,340,889</u>	<u>292,631,209</u>	<u>350,777,549</u>

**1992 CURRENT BUDGET****CORPORATE REVENUE SUMMARY**

	1991 Budget \$	1991 Revised Budget \$	1991 Actual \$	1992 Budget \$
TAXATION REVENUE				
Taxes Levied	139,057,506	139,057,506	139,064,278	154,085,265
Supplementary Taxes	1,800,000	4,200,000	4,280,366	2,500,000
Bell Receipts	2,685,488	2,685,488	2,685,488	2,714,250
Special Rates on Collectors Roll	439,800	564,110	564,106	546,300
Grants-in-Lieu	<u>8,406,230</u>	<u>8,475,725</u>	<u>8,474,239</u>	<u>9,207,756</u>
Total Taxation Revenue	<u>152,389,024</u>	<u>154,982,829</u>	<u>155,068,477</u>	<u>169,053,571</u>
GRANTS & SUBSIDIES				
Provincial Conditional Subsidies	80,590,892	84,768,992	85,864,572	125,933,438
Provincial Unconditional Grants	26,598,591	26,598,591	26,598,591	26,864,576
Federal Grants	0	60,000	109,394	0
Other Municipal Contributions	<u>5,100</u>	<u>5,100</u>	<u>5,495</u>	<u>5,182</u>
Total Grants & Subsidies	<u>107,194,583</u>	<u>111,432,683</u>	<u>112,578,052</u>	<u>152,803,196</u>
MUNICIPAL REVENUES				
Licences and Permits	2,754,760	3,090,380	3,256,758	3,282,200
Parking Facilities	670,000	728,000	748,456	750,000
Rental Revenue	287,400	369,900	386,306	393,300
Concessions and Franchises	509,500	533,500	536,136	544,000
Fines and Fees	1,756,400	1,596,400	1,594,909	1,861,400
Service Charges Revenue	7,720,572	7,923,287	7,948,833	7,172,538
Interest and Penalties	3,855,000	4,810,000	4,940,879	4,307,500
Work for Outsiders	499,500	390,400	452,561	410,000
Dearness Home Revenue	4,311,559	4,279,559	4,185,432	4,504,195
Transfers from Reserve Funds	1,931,000	1,933,019	1,933,019	831,737
Other Revenue	<u>726,343</u>	<u>806,426</u>	<u>1,708,673</u>	<u>851,912</u>
Total Municipal Revenues	<u>25,022,034</u>	<u>26,460,871</u>	<u>27,691,962</u>	<u>24,908,782</u>
SURPLUS	<u>1,275,000</u>	<u>1,275,000</u>	<u>1,275,789</u>	<u>4,012,000</u>
TOTAL REVENUES	<u>285,880,641</u>	<u>294,151,383</u>	<u>296,614,280</u>	<u>350,777,549</u>

Gross Expenditure/Revenue Budgeting

Pros

- Traditional, simple expenditure and revenue based approach
- Easy to compose
 - Grants and subsidies can be grouped together

Cons

- Less transparent
 - difficult to decipher net cost of department/program
- Difficult to compare year to year
 - are increased costs of department being offset by increased revenues?



Approaches

- Gross Expenditure/Revenue Based Budgeting
- **Net Based Budgeting**
- Departmental Based Budgeting
- Service Based Budgeting
- Key Financial Policies
- Multi-Year Budgeting
- Service Reviews
- Public Engagement

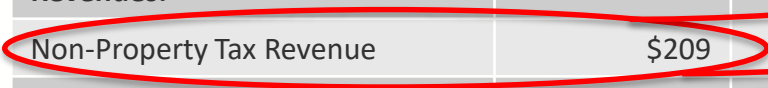
Net Based Budgeting

- **What is it?**
 - Gross Expenditure is the total cost to deliver programs and services
 - However, expenditures are often partially offset by subsidies for cost-shared services and fees charged for programs and services
 - **The net budget is the difference between gross expenditures and these revenues/subsidies**
 - The net budget is the amount of the budget that is paid by property taxes

Net Based Budgeting

1995 Budget (\$millions)			
Department	Gross Expenditure	Revenue Recovery	Net
City Administrator's	\$34	(\$1)	\$33
Finance	4	(1)	3
Planning & Development	6	(4)	2
City Clerk's	4	(2)	2
Social Services	144	(121)	23
City Engineer's	50	(16)	34
Legal	1	-	1
Elected Officials	1	-	1
Economic Development	2	-	2
Parks & Recreation	19	(10)	9
Boards & Commissions	72	(6)	66
Corporate Expenses & Revenues	49	(48)	1
Total Expenditures	\$386	(\$209)	\$177
Revenues:			
Non-Property Tax Revenue	\$209		
Property Tax from Rates	177		
Total Revenues	\$386		

Non-property tax revenues assigned to each area i.e. user fees, subsidies



Net Based Budgeting

Pros

- Empowers more responsibility and planning
 - Creates more incentive to efficiently manage revenues AND expenditures
- More transparent
 - Net cost to taxpayer
- Can improve decision making and investment returns

Cons

- Time consuming to set up
- Difficult to allocate shared resources
- Can be difficult to explain to the general public
 - What is the difference between the expenditure and net?



Approaches

- Gross Expenditure/Revenue Based Budgeting
- Net Based Budgeting
- **Departmental Based Budgeting**
- Service Based Budgeting
- Key Financial Policies
- Multi-Year Budgeting
- Service Reviews
- Public Engagement

Departmental Based Budgeting

What is it?

- A budget that is built by departments
- Each department is responsible for developing and presenting their budget to Council

Departmental Based Budgeting

2010 Budget	\$millions
City Administrator's Department	\$70
Community Services	99
Environmental & Engineering Services	64
Finance & Corporate Services	22
Local Government	2
Planning & Development	6
Boards & Commissions	122
Corporate Revenues and Expenses	71
Total 2010 Tax Levy	\$456

Departmental Based Budgeting

Pros

- Department heads can speak to their areas
- Most of the work is done by the departments

Cons

- Too many presentations to Council
- Not specific to services increasing cost pressures within the departments
- Not as transparent as other strategies



Approaches

- Gross Expenditure/Revenue Based Budgeting
- Net Based Budgeting
- Departmental Based Budgeting
- **Service Based Budgeting**
- Key Financial Policies
- Multi-Year Budgeting
- Service Reviews
- Public Engagement

Service Based Budgeting

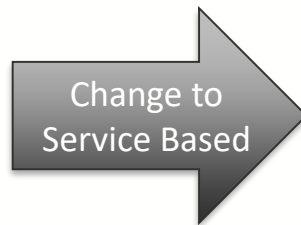
What is it?

- A budget that is built around city services instead of city departments

Service Based Budgeting

2010 City of London Property Tax Operating Budget Comparison 2010 Presentation Compared to 2011 Presentation

Department Based	\$millions
City Administrator's Department	\$70
Community Services	99
Environmental & Engineering Services	64
Finance & Corporate Services	22
Local Government	2
Planning & Development	6
Boards & Commissions	122
Corporate Revenues and Expenses	71
Total 2010 Tax Levy	\$456



Service Based	\$millions
Culture	\$21
Economic Prosperity	5
Environmental Services	18
Parks, Rec & Neighbourhood Services	25
Planning & Development Services	4
Protective Services	134
Social & Health Services	72
Transportation Services	50
Corporate, Operations & Council Services	127
Total 2010 Tax Levy	\$456

Service Based Budgeting

2017: 10 Service Programs

Service Program
Culture
Economic Prosperity
Environmental Services
Parks, Rec & Neighbourhood Services
Planning & Development Services
Protective Services
Social & Health Services
Transportation Services
Corporate, Operations & Council Services
Financial Management



95+ Services



Urban Forestry



Golf



Winter Maintenance



Libraries



Fire



Garbage



Parks



Animal Services



Service Based Budgeting – City of London

Culture	Economic Prosperity	Environmental Services	Parks, Rec & Neighbourhood Services	Planning & Development Services
Centennial Hall	Business Attraction & Retention	Kettle Creek Conservation Authority	Neighbourhood & Recreation Services	Building Approvals
Arts, Culture & Heritage Funding	Community Improvement	Lower Thames Valley Conservation Authority	Parks & Urban Forestry	Planning Services
Museum London	London Convention Centre	Upper Thames Valley Conservation Authority	Arenas	Development Services
Eldon House	Tourism London	Environmental Action Programs & Reporting	Community Centers	
Heritage	Covent Garden Market	Garbage Recycling & Composting	Children Services	
London Public Library			Community Recreation	

Service Based Budgeting – City of London

Protective Services	Social & Health Services	Transportation Services	Corporate, Operations & Council Services	Financial Management
Animal Services	Social Housing	Parking	Corporate Services	Corporate Financing
By-Law Enforcement & Property Standards	London Middlesex Housing Corporation	Public Transit	Corporate Planning & Administration	
Corporate Security & Emergency Management	Long Term Care	Roadways	Council Services	
London Fire Services	Land Ambulance		Public Support Services	
London Police Services	Middlesex-London Health Unit			
	Social & Community Support Services			

Service Based Budgeting

Pros

- Provides a cost of many different services → council can make more focused decisions
- Gives a more transparent view of how tax dollars are spent

Cons

- Designing and implementing a new system for an organization with unique services is complex and time consuming
- Who presents the budget to Council for the service area?
- Difficult to determine where services that have cross departmental roots will go



Service Based Budgeting

Council can make more focused decisions during budget deliberation:

- If we reduced the service level, what would be the cost reduction?
- Are we delivering the service to a regulated service level or better?
- Who set the service level that we are currently delivering our services at?
- What service level do our taxpayers want?
- Are they prepared to pay for their desired service level?

Transition to Service Based Budgeting

What's involved in the transition to service based budgeting?

- Not just an exercise of “plopping” services under corporate departments
- Forming project teams or committees to undertake a review on the service based budget and develop a plan to place services under each department
- Extensive engagement with Corporate Departments, Council, and Stakeholders on where services should be placed
- Many hours reviewing feedback and deciding where services will go
- Presenting Council with a plan on the new service based structure, deliberating the plan and receiving Council approval on the new structure
- Modifying the service based structure to ensure ultimate effectiveness and efficiency as the landscapes around the service based budget can change



Approaches

- Gross Expenditure/Revenue Based Budgeting
- Net Based Budgeting
- Departmental Based Budgeting
- Service Based Budgeting
- **Key Financial Policies**
- Multi-Year Budgeting
- Service Reviews
- Public Engagement

Key Financial Policies

Adherence to strong financial principles and policies are critical to the success of any organization and to the budgetary process. Benefits of strong financial policies include:

- A form of financial control that ensures resources are spent and funded in a fiscally prudent manner
- Decision making is applied in a consistent manner
- Reducing uncertainty about future funding needs

Key Financial Policies

- Financial policies should be approved by Council before the budget development process
- Strong financial policies will set the foundation for your budget and keep Council on track
- Key financial policies should include review criteria to ensure they are updated regularly

Key Financial Policies

Some key financial policies for the budgetary process:

- Surplus/Deficit Policy
- Assessment Growth Policy
- Debt Management Policy
- Multi-Year Budget Policy

City of London financial policies are available on the City of London website:

<http://www.london.ca/city-hall/city-council/Pages/Policy-Manual.aspx>

Surplus/Deficit Policy

The City of London's Surplus/Deficit Policy was developed to provide an overarching framework for managing the annual surplus or deficit.

Policy Options

In a year of surplus:

1. Contribution to reducing the tax levy impact?
2. Contribution to reducing debt?
3. Contribution to reducing infrastructure gap?
4. Support Council Initiatives?

Surplus/Deficit Policy

Policy Options continued

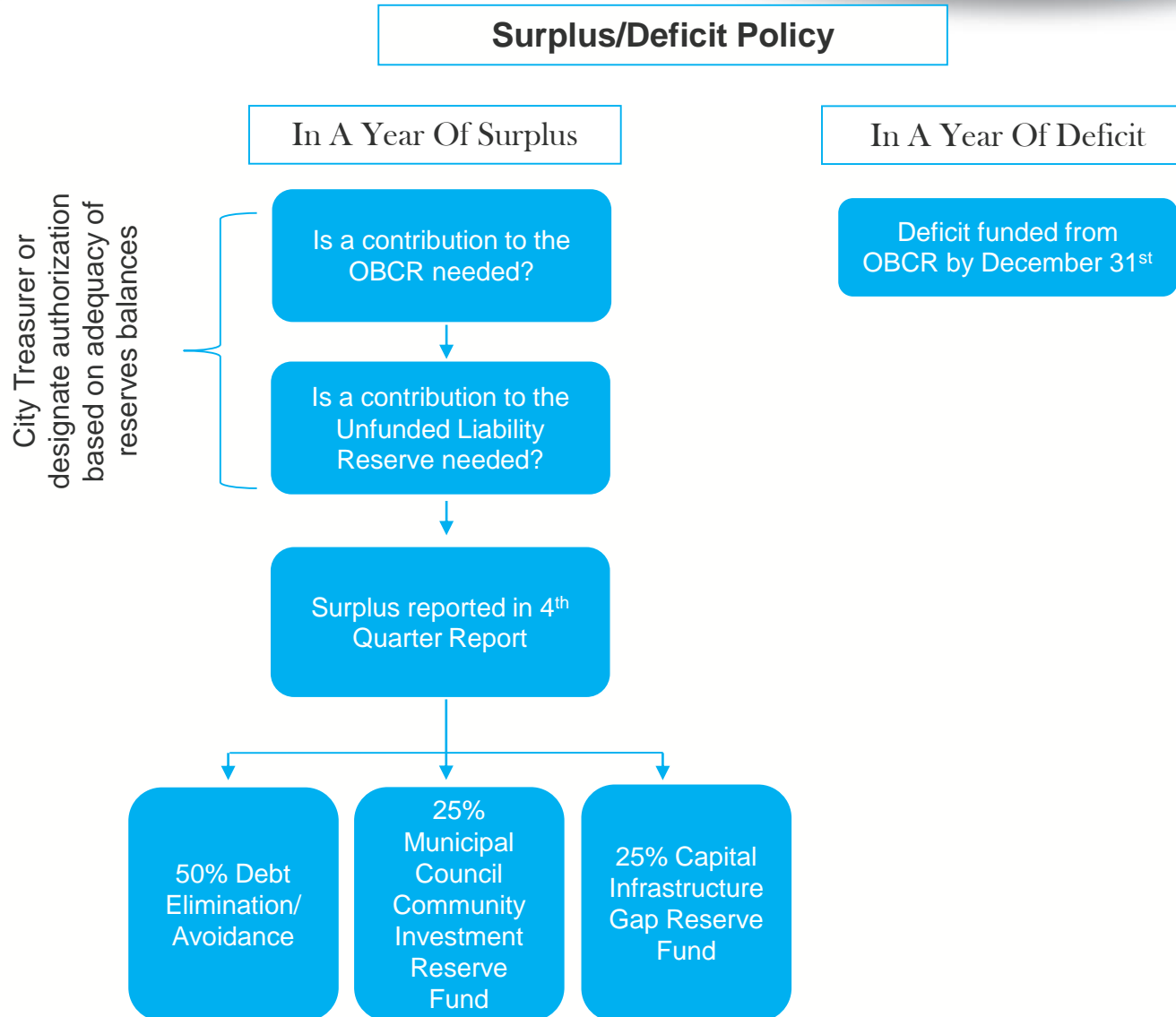
In a year of deficit:

- Drawdown from the Operating Budget Contingency Reserve to balance year-end operations

Reporting:

- Keep Council updated by reporting the projected surplus or deficit position on a regular basis

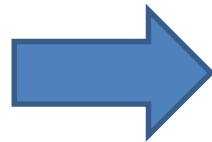
Surplus Deficit Policy Example



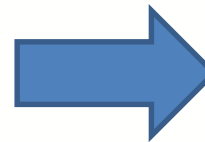
Assessment Growth Policy

What is Assessment Growth?

Assessment growth funding comes from taxes levied on new homes and businesses to pay for the services they receive.



Generates
new tax
revenue



fund the
extension of
municipal
services

Requires Services;

- Garbage pickup
- Snow plowing
- Road maintenance
- Police and Fire services



Assessment Growth Policy

An assessment growth policy establishes a priority framework to be used by Municipal Council and Civic Administration for the allocation of assessment growth funds.

Budgeting for Assessment Growth

- Assessment growth assumed to be fully allocated to growth costs

Assessment Growth Policy

Assessment Growth Priority Framework

Business Cases:

- Service areas that incur costs to provide existing core services are required to submit business cases to the City Treasurer
- The first available assessment growth funds are applied to business cases approved by the City Treasurer

If business cases exceed assessment growth funding:

- Approved cases are funded based on a priority order
- Unfunded cases are then resubmitted for consideration in the following year



Assessment Growth Policy

Assessment Growth Priority Framework (continued):

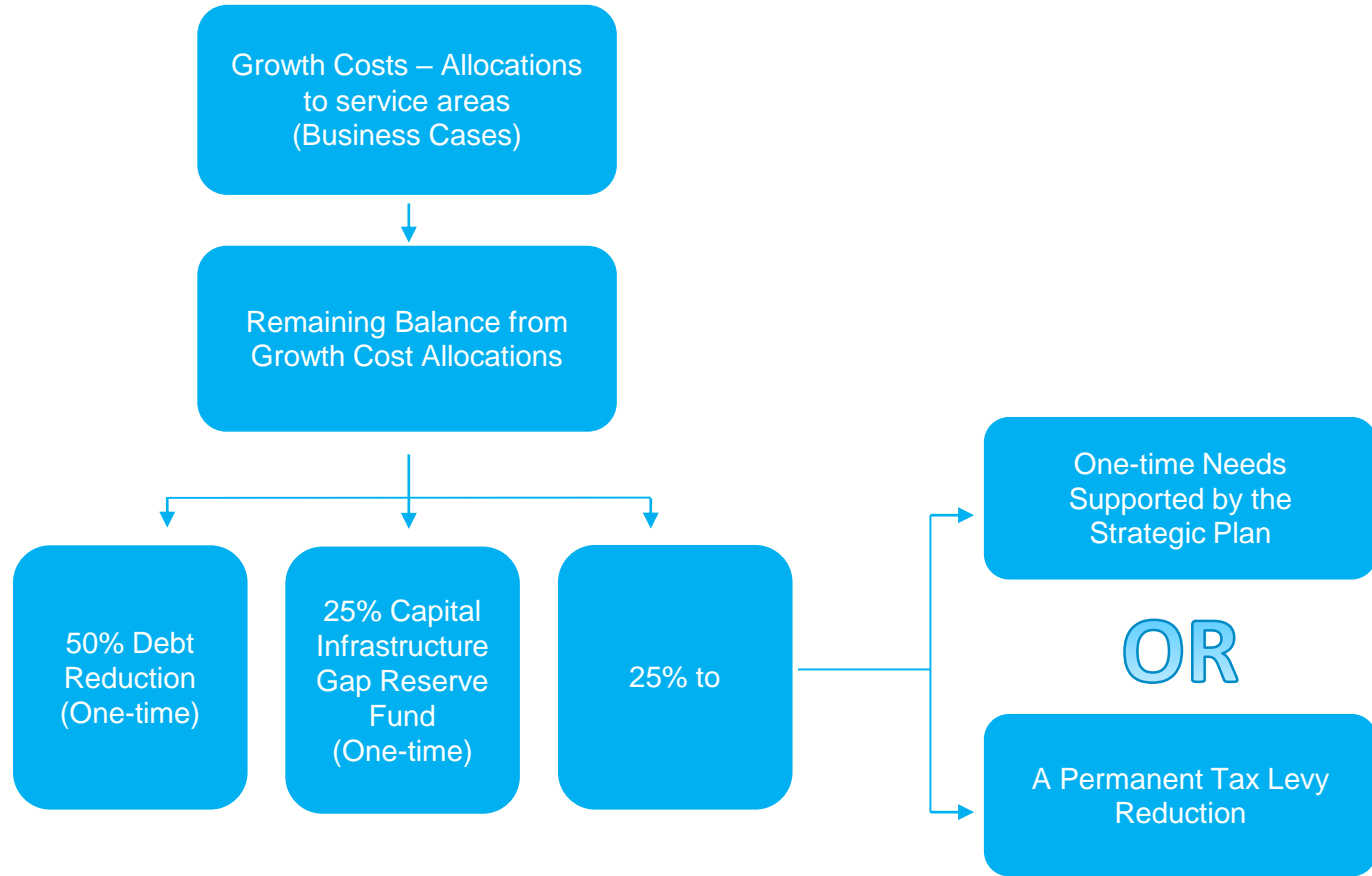
- If assessment growth funding exceeds the growth costs of service areas the balance available can be applied to other financial priorities

Policy Review

- The Assessment Growth Policy includes a clause requiring that the policy come back to Council for review every four years, in the first year of each elected Council

Assessment Growth Example

Assessment Growth Allocation Example



Assessment Growth Example

The following chart provides an example of Assessment Growth Allocation

(\$millions)	2016	2017	2018	2019
Carry Forward Balance	\$0.0	\$0.4	\$0.3	\$0.0
Current Year Assessment Growth Funding	5.1	4.7	4.7	4.7
Growth Costs (Business Cases)	4.7	4.7	5.0	4.7
Remaining Available Funding Balance	\$0.4	\$0.4	\$0.0	\$0.0
One-time Allocations:				
Authorized Debt Reduction	0.2	0.2	0.0	0.0
Capital Infrastructure Gap Reserve Fund	0.1	0.1	0.0	0.0
One-Time Strategic Need	0.1	0.0	0.0	0.0
Ending Carry Forward Balance	\$0.4	\$0.3	\$0.0	\$0.0
Permanent Allocation:				
Tax Levy Reduction	0.0	0.1	0.0	0.0
Current Year Balance	\$0.0	\$0.0	\$0.0	\$0.0



Debt Management Policy

The Debt Management Policy is developed to guide the effective management of debt

- **Policy objective – minimize long-term cost of financing**
 - Limit tax burden on current and future rate payers
- **Strategies contained in Policy:**
 1. Limiting and Reducing Authorized Debt
 - Example – internal debt cap
 2. Minimizing Risk Associated with Issuing Debt
 - Example – issue debt on projects that are substantially complete (avoids over-issuing debt)
 3. Minimizing Debt Servicing Costs
 - Example – maintaining a strong credit rating to assist in securing a favourable cost of borrowing

Multi-Year Budget Policy

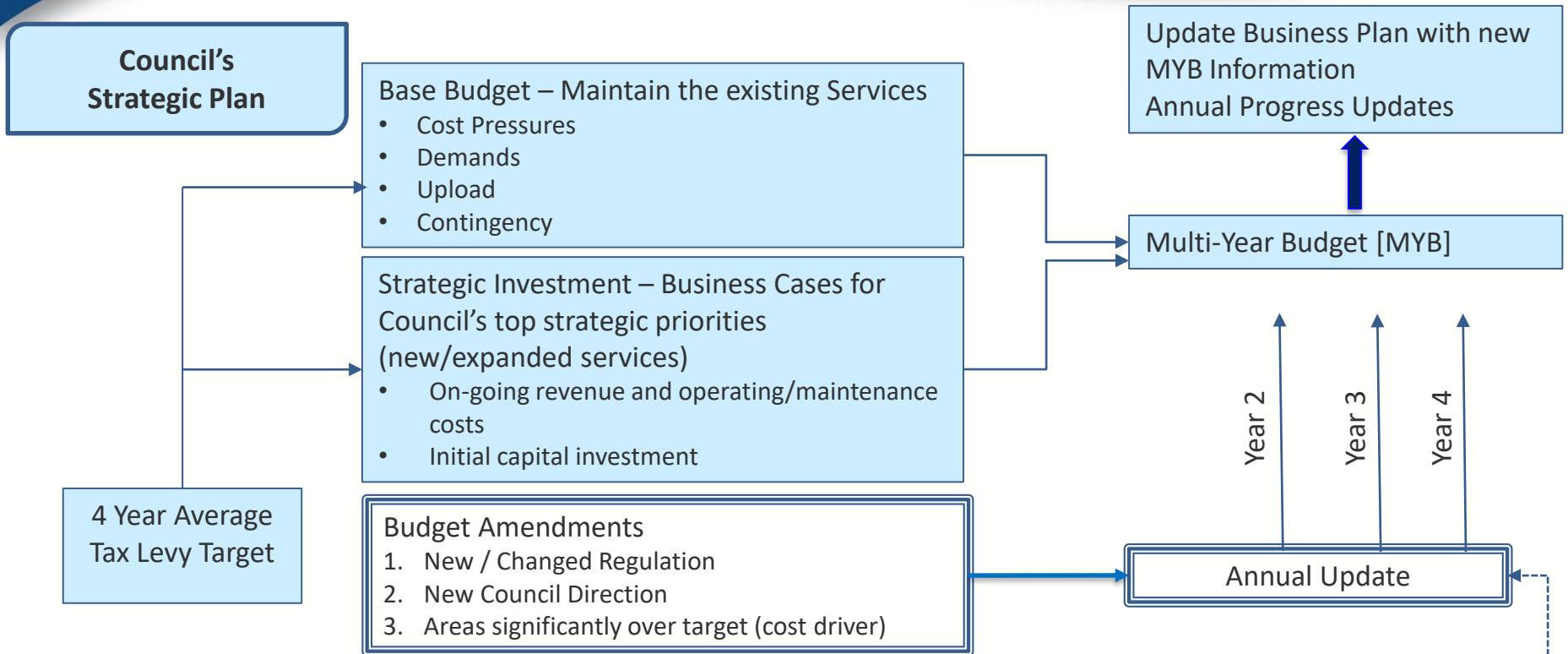
The Multi-Year Budget Policy defines the approach and process to be used for multi-year budget planning and Council approvals.

Approaches outlined in policy:

1. Outlining the term of the multi-year budget (2 years, 3 years, 4 years, etc.)
2. Guidelines for approving an average annual tax levy adjustment
3. Business plan preparation and timelines
4. Annual Update procedures
5. Housekeeping Adjustments

BREAK

2016-2019 Multi-Year Budget Process (City of London)



Service Review – Target included in budget. Reported on separately by City Manager in September of each year. Will form part of the annual budget update if targets cannot be met.

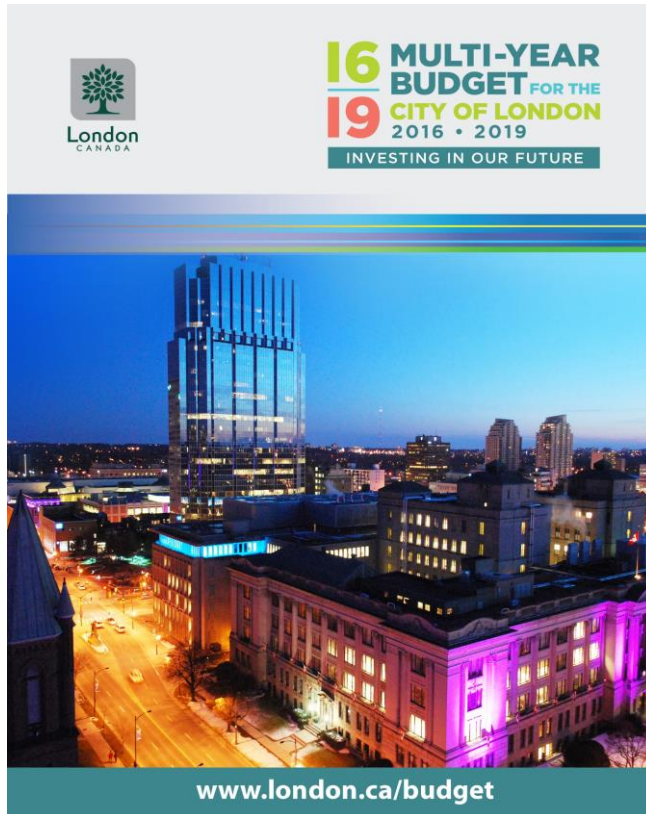
Assessment Growth – Set by policy and delegated to City Treasurer or delegate for distribution based on assessment growth business cases. Staff report for transparency in February of each year.

Annual Surplus – Set by policy. Reported in April of each year following financial year-end confirmation.

Approaches

- Gross Expenditure/Revenue Based Budgeting
- Net Based Budgeting
- Departmental Based Budgeting
- Service Based Budgeting
- Key Financial Policies
- **Multi-Year Budgeting**
- Service Reviews
- Public Engagement

Multi-Year Budgeting



In 2016 London City Council approved the City's first multi-year budget covering the period 2016 – 2019.

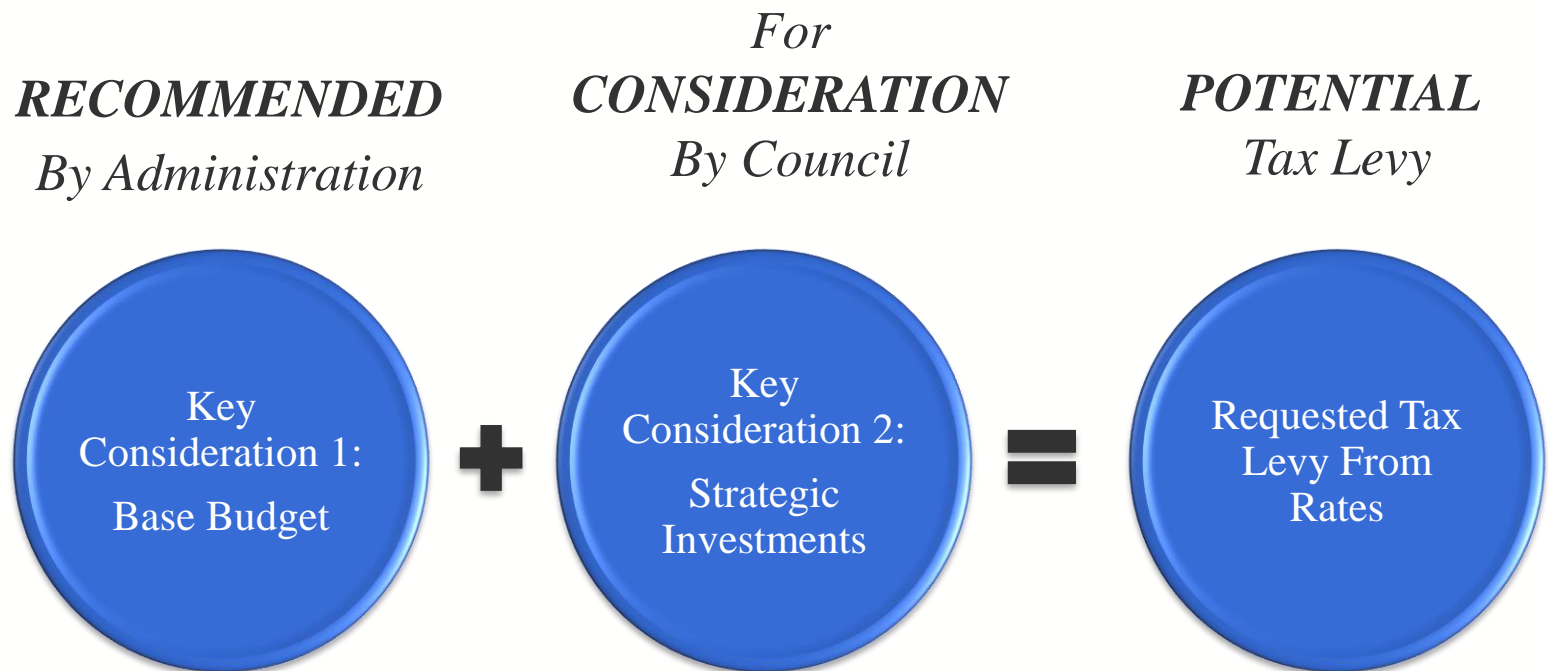
Multi-Year Budgeting

What is it?

- Council approved multi-year operating and capital budgets (2016-2019).
 - approved 4 year operating budget
 - approved 4 year capital plan and reserve fund and debt schedules with additional 6 year forecasts for a total of 10 years
- Council approved average annual tax levy increase of 2.8% for the 2016-2019 multi-year period
- Annual budget updates are approved by Council throughout the multi-year period
- Multi-Year Budget linked to Council's Strategic Plan



Multi-Year Budget Key Considerations



Multi-year Budgeting – Linkage to the Strategic Plan

- Focus on linking the budget to Council’s 2015 – 2019 Strategic Plan
- 4 strategic areas of focus from Strategic Plan are:



Multi-year Budgeting – 25 Strategic Investments

STRATEGIC AREA OF FOCUS INITIATIVE		TOTAL INVESTMENT 2016-2019 (\$000)			
		LEVY	DEBT	OTHER	TOTAL
Building a Sustainable City					
1	Library's Ten Year Capital Plan	\$600	-	\$1,300 (1)	\$1,900
2	Road Map 2.0 – Road to Increased Resource Recovery and Zero Waste	400	-	-	400
3	Urban Forest Strategy	1,655	-	1,800 (1)	3,455
4	Thames Valley Corridor Plan	-	1,200	-	1,200
5	Road Safety Strategy	500	-	-	500
6	Rapid Transit Implementation Strategy	-	-	-	-
7	State of Infrastructure Report	6,000	-	750 (1)	6,750
8	Green Bin Implementation Funding			135 (1)	135
Leading in Public Service					
9	Garbage Collection – On-board Weighing and Tracking Technologies	\$150	-	-	\$150
10	Technology - Amanda	600	-	400 (4)	1,000
11	Establish Public Engagement as an Area of Focus	100	-	-	100
12	Service London Implementation Plan	1,744	1,603	600 (2)	3,947
13	Computerized Maintenance Management System	2,100	-	-	2,100

Multi-year Budgeting – 25 Strategic Investments

STRATEGIC AREA OF FOCUS INITIATIVE		TOTAL INVESTMENT 2016-2019 (\$000)			
		LEVY	DEBT	OTHER	TOTAL
Strengthening our Community					
14	London Strengthening Neighbourhoods Strategy (LSNS) 2015-2020	\$750	-	\$30 (1)	\$780
15	Ontario Works Service Plan – Low Income Supports Enhancement	500	-	1,580 (3)	2,080
16	Mental Health and Addictions Strategy	-	-	200 (3)	200
17	A. London Homeless Prevention and Housing Plan 2010-2024 B. London Homeless Prevention System Implementation Plan	2,600	-	1,200 (2)	3,800
18	Winter Maintenance Strategy	574	-	-	574
19	Additional Funding to Enhance By-law Enforcement	364	-	104 (1) 627 (4)	1,095
Growing Our Economy					
20	London Community Foundation’s “Back to the River Project”	-	-	\$700 (1)	\$700
21	London’s Downtown Plan – Small Scale Projects	100	-	-	100
22	Regenerating Public Housing Plan	750	-	-	750
23	Dundas Place	614	15,000	-	15,614
24	City of London Internship Program	360	-	-	360
25	Brownfield Incentives	80	-	-	80
TOTAL BY SOURCE OF FINANCE		\$21,841	\$17,803	\$8,126	\$47,770
GRAND TOTAL		\$47,770			

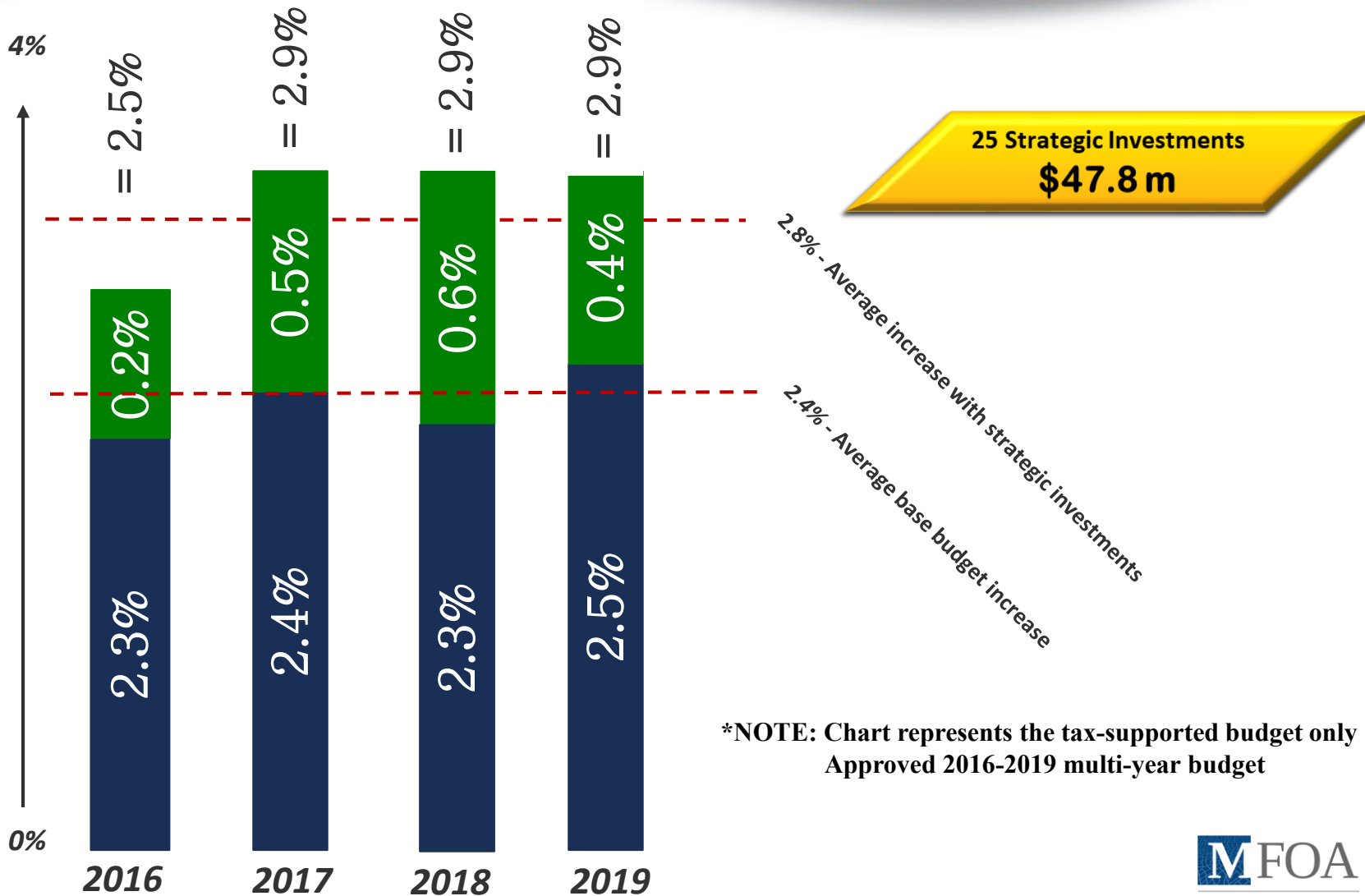
(1) Funding from Economic Development Reserve Fund (London Hydro Dividend)

(2) Funding from Efficiency, Effectiveness & Economy Reserve

(3) Funding from Social Service Reserve Fund and Provincial subsidy

(4) User Fees

Multi-year Budgeting - Tax Levy Increase (2016-2019)



Multi-year Budgeting – Annual Budget Update

Important element of the multi-year budget is the annual update process

- Opportunity to adjust the budget to provide flexibility for special events or circumstances that require funding and resource adjustments
- Required by Municipal Act, 2001 to review and readopt the budget for that year
- Annual update process focuses on 3 types of budget amendments

Multi-year Budgeting – What Qualifies as a Budget Amendment?

There Are Three Types Of Budget Amendments:

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 that has transpired after the approval of the multi-year budget

3. **Cost Driver**

A corporate or service area budget shortfall as a result of changes in economic conditions



Multi-year Budgeting – 2017 Annual Budget Update Details

Budget Amendment Examples:

	Budget Amendment Case 1 - Regulatory Energy Prices – New Cap and Trade Program	(\$000's)			
		2016	2017	2018	2019
Approved	Expenditure Inc/(Dec)	-	800	800	900
	Revenue (Inc)/Dec	-	(800)	(800)	(800)
	Net Requested Tax Levy From Rates (Cumulative)	-	-	-	100
	Incremental Net Increase / (Decrease)	-	-	-	100
	Rationale:	<ul style="list-style-type: none"> • Ontario is moving forward implementing a greenhouse gas emissions Cap and Trade Program with the overall goal of reducing human produced greenhouse gas emissions while rewarding innovations. The Province has indicated that its current go-live date is January 1, 2017. This regulation will increase the cost of consuming carbon-based fuels used by the City and its Agencies, Boards and Commissions. Carbon based fuels include; natural gas, steam, propane, gasoline, and diesel (excluding the 5 percent bio-diesel component of B5 blends). • Gross costs in 2017-2019 are budgeted at \$800 thousand, \$800 thousand and \$900 thousand respectively, with a strategic use of the Operating Budget Contingency Reserve to phase-in the net impact to the tax levy. 			

Multi-year Budgeting – 2017 Annual Budget Update Details

Budget Amendment Examples (continued):

	Budget Amendment Case 2 - Council Direction Carrying/Holding Costs On City Owned Properties	(\$000's)			
		2016	2017	2018	2019
Approved	Expenditure Inc/(Dec)	-	400	400	400
	Revenue (Inc)/Dec	-	(100)	(100)	-
	Net Requested Tax Levy From Rates (Cumulative)	-	300	300	400
	Incremental Net Increase / (Decrease)	-	300	-	100
	Rationale: <ul style="list-style-type: none"> The City has assumed/will assume a number of properties which will require costs to be incurred for property maintenance and security. Gross costs of \$400 thousand per year beginning in 2017 are required with a strategic use of the Operating Budget Contingency Reserve to phase-in the net impact to the tax levy. 				

	Budget Amendment Case 3 - Cost Driver Updated Debt Servicing Budget	(\$000's)			
		2016	2017	2018	2019
Approved	Expenditure Inc/(Dec)	-	(300)	(300)	(300)
	Revenue (Inc)/Dec	-	-	-	-
	Net Requested Tax Levy From Rates (Cumulative)	-	(300)	(300)	(300)
	Incremental Net Increase / (Decrease)	-	(300)	-	-
	Rationale: <ul style="list-style-type: none"> This budget amendment consists of savings within the multi-year budget debt servicing costs category, primarily a result of lower than anticipated interest rates (rate changes relate to issuance of 10 year debentures) for both debt that was issued in 2016 and future forecasted debt issuances. 				

Multi-year Budgeting – 2017 Annual Budget Update

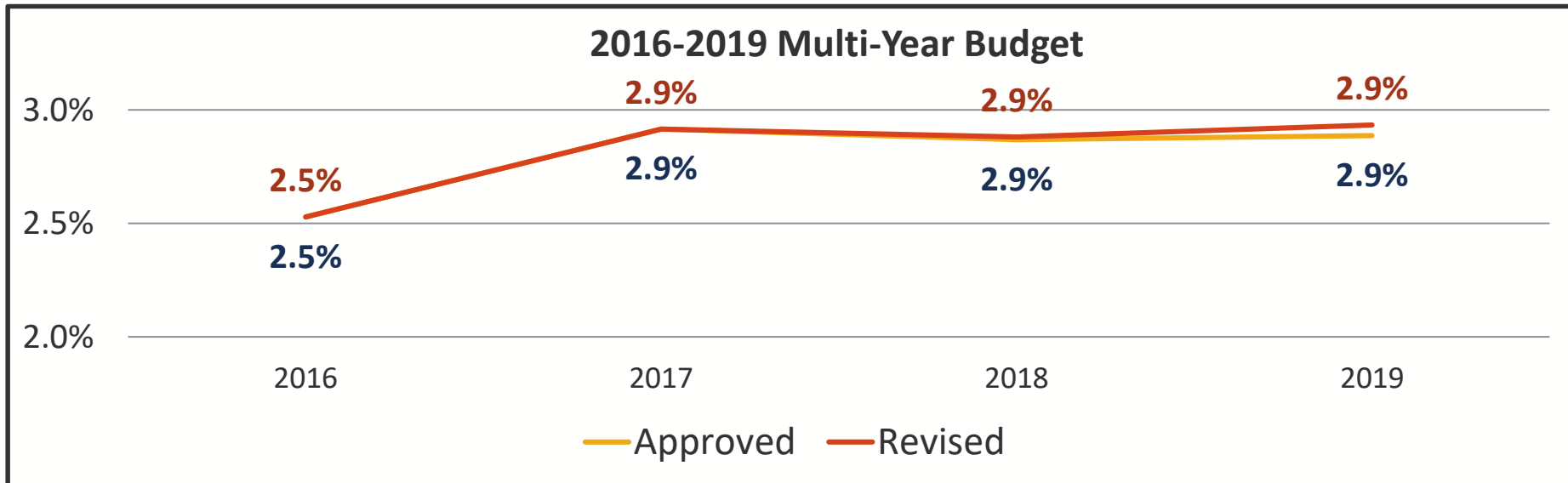
What changed during the 2017 Annual Budget Update?

- 8 Operating Amendments
- 13 Capital Amendments
- Maintained the average annual 2.8% tax levy increase approved in the 2016-2019 Multi-Year Budget
- Amendments funded through various sources:
 - Tax Levy
 - Reserve Funds
 - Reductions within existing corporate budgets
 - Year-end Surplus
 - Assessment Growth

Multi-year Budgeting – 2017 Annual Budget Update

2017 Budget Update Summary Impact on Tax Levy	Net Budget (\$000's)				Average Annual %	Avg. Annual Rate Payer Impact ¹
	2016	2017	2018	2019		
Approved % Increase From Rates	2.5%	2.9%	2.9%	2.9%	2.8%	\$ 76
Approved Net Budget (Tax Levy)	536,434	552,073	567,915	584,314		NO CHANGE
Cumulative Amendment	-	-	65	331		
Revised Net Budget (Tax Levy)	536,434	552,073	567,980	584,645		
Incremental Net Increase / (Decrease)	-	-	65	266		
Revised % Increase From Rates	2.5%	2.9%	2.9%	2.9%	2.8%	\$ 76

1. Average rate payer owning a home with an assessed value of \$221,000 in 2015 (excludes the Education tax portion).



Multi-Year Budgeting

Pros

- Alignment of longer-term goals and objectives with longer-term funding plans;
- Greater certainty for tax payers/residents about the future direction of taxes and the timing of implementation of the Strategic Plan;
- Improved accountability and transparency over spending plan changes
- The integration and alignment with long-term development plans and strategic plans
- Flexible allocation of resources over time to accomplish goals/objectives
- More efficient use of time and resources as the organization is not in “perpetual budget mode”

Cons

- Could be difficult to predict unexpected cost pressures in future years (e.g. minimum wage increases)
- Changes to approved tax levy increases could be difficult to sell to Council
- Priorities could change throughout multi-year period
- Requires total “buy-in” from Council, Administration and Boards and Commissions
- “Budget Creep”



Approaches

- Gross Expenditure/Revenue Based Budgeting
- Net Based Budgeting
- Departmental Based Budgeting
- Service Based Budgeting
- Key Financial Policies
- Multi-Year Budgeting
- **Service Reviews**
- Public Engagement

Service Reviews

Identifying potential budget savings through service reviews

- Build service review savings into the budget – ensures accountability to achieve the savings
- Looking for inefficiencies in areas and identifying savings
- Reviewing financial incentive programs (Community Improvement Plan Incentives)
- Reviewing existing city programs and determining if they could be delivered in a more cost effective manor



Service Reviews

Identifying potential budget savings through service reviews (continued):

- Achieving personnel savings through attrition
- Lean Six Sigma – improving operational performance while consuming the fewest resources
- Tasking service areas to identify savings within budgets
- Cutting costs while ensuring existing service levels are maintained
- Zero based budgeting (select service areas)

Service Reviews



Service Review Initiatives

- **Lean Six Sigma** – A set of concepts, principles and tools used to create and deliver the efficient operational performance while consuming the fewest resources and fully utilizing the skills and knowledge of those who do the work.
- **Internal Audits** – Helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes
- **Program Reviews** – Program Reviews are detailed analyses of existing programs (e.g., grants, loans, revenue streams) provided and/or delivered by the Corporation.



Service Review Initiatives

- **Organizational Reviews** –Help ensure organizational structures are designed to be able to deliver on Council’s Strategic Plan, leverage best practices, enhance collaboration and eliminate duplication to create effective and efficient organizational structures that provide optimum service delivery and flexibility for future growth and increased work demands.
- **Asset Reviews** – A comprehensive review of major City-owned assets to assess the future of the assets and whether any candidates for disposal and sale emerge for Council consideration.
- **“Deep Dive” Reviews** – Examine service delivery and opportunities for associated cost savings. Reviews will be prioritized based on a review of baseline information and community perspectives.



Service Review – Examples

- Computer Purchasing vs. Leasing - Information Technology Service (ITS):
 - ITS changed strategic direction from the leasing of desktop technology assets to purchasing them. By 2025, it is projected there will be an approximate cumulative cost savings of \$2 million.
- Street Lights Maintenance & Energy– Transportation Services:
 - In 2016, Phase 1 was completed by Transportation Services to upgrade the current style street lights to LEDs on major roads throughout the city. Phase 2 (minor roads) started in June 2017. The total annual cost avoidance from Phase 1 and Phase 2 is \$1,590,000.

Zero-based Budgeting

Another strategy to identify potential budget savings is through zero-based budgeting

- A budgeting strategy that starts with a zero base and is built around what is financially required for the organization.
- Refers to the methodology of building a budget “from the ground up” to achieve the level of service planned. Zero-based Reviews are scalable and may be conducted at the service, business unit or object account level.



Zero-based Budgeting Purpose

- Identification of the necessary resources to deliver the service's objectives/outcomes asking the following questions:
 - Is the program/service effective? – Are we doing the right thing? Is the service achieving the objectives desired by Council or the Administration?
 - If effective, is the program/service efficient? – Are we doing things in the right way? Could this program be delivered in a way that is less costly, but achieves the same goals?
- Avoids an “incremental increase” budget approach
- Identify opportunities to reallocate budget to higher priority corporate initiatives (i.e. Service Review Targets)

Zero-based Budgeting Methods

- Reviews done by Finance Business Administrators who would undertake 2-3 reviews each year that would employ a Zero-based Budget approach
- Zero-based Reviews are initiated by reviewing recent financial results to identify areas with consistent budget surpluses or deficits
- Once the targeted area has been identified, Finance works collaboratively with the Service Area to understand, at a detailed level, current and future needs to be funded by those budgetary resources
- Current and future needs are compared to the annual budget for that area to determine whether a surplus (to be contributed to the Corporate Service Review target) or deficit (to be addressed through annual budget updates) exists



Zero-based Budgeting

Pros

- Comprehensive review necessary
- Budgets are not connected to prior year spending
- All expenses must be justified, not just increases
- Every function within an area is analyzed for its continued need

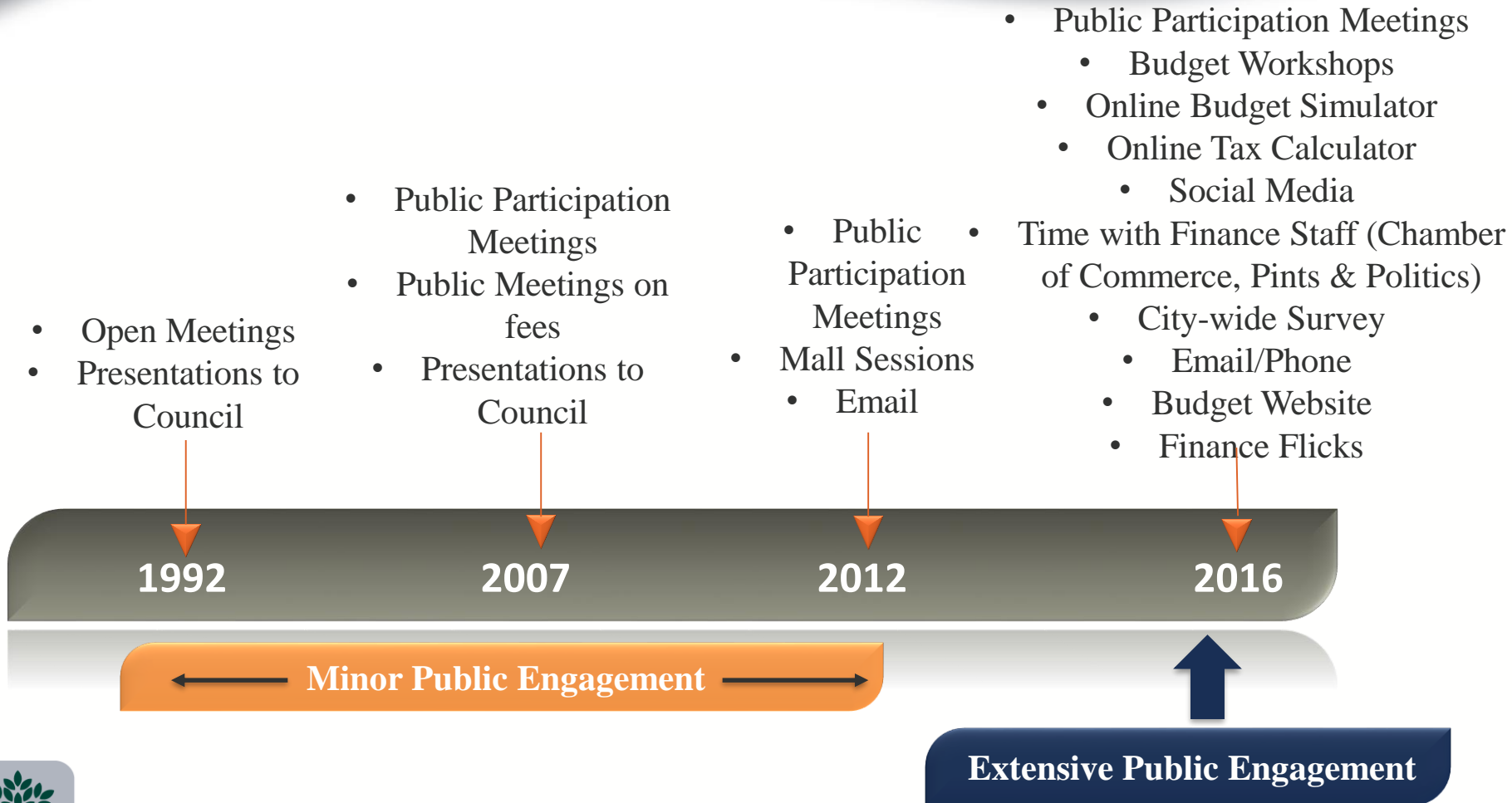
Cons

- Time-consuming process
- Difficult to analyze all areas from zero
- Not all programs/services start at zero (mandated from other levels of government)

Approaches

- Gross Expenditure/Revenue Based Budgeting
- Net Based Budgeting
- Departmental Based Budgeting
- Service Based Budgeting
- Key Financial Policies
- Multi-Year Budgeting
- Service Reviews
- **Public Engagement**

City of London Public Engagement - Timeline



Public Engagement Example – Finance Flicks

Finance Flicks

Public Engagement Framework Criteria

- Participants are representative of broader community
- Participation is open to large numbers of participants
- Input occurs early in the budget process
- Participation includes two-way communication between citizens and officials
- Citizen input is considered by decision makers
- Input reveals sincere preferences of citizens
- “Closing the Loop”

2016-2019 Multi-Year Budget Public Engagement: Outcomes/Highlights

- Hosted 2 Build a Budget Workshops (evening and weekend)
- 600 individuals visited the build a budget website with 200 submitting responses
- Approximately 100 e-mails sent to budget@london.ca
- 10 hours of additional “Open House” time in separate quadrants of the City (5 x 2 Hours)
- 721 Tweets using the hashtag #ldnBudget that generated 2,326,739 impressions
- Budget “Meeting in a Box” provided to each member of Council for community/ward meetings
- “Time with the Treasurer” opportunities provided to Community Groups

2016-2019 Multi-Year Budget Public Engagement: Key Lessons

- Hire staff that have engagement experience and expertise – this does not have to be an accountant
- Provide a multi-faceted approach that includes face-to-face opportunities with senior leaders and elected officials, as well as interactive digital components
- Have your social media schedule and tweets approved long in advance and coordinated with the spikes in budget coverage – meetings, press releases, etc.
- Balance formal and informal input opportunities
- Go to where citizens are comfortable
- Eliminate engagement barriers – central location, parking provided, child minding
- Provide feedback received from public to council in the format you received it and no cherry picking (work with your Communications and Clerks departments on finalizing report)



Public Engagement Streams



E-mail budget@london.ca



Tweet us @[@CityofLdnOnt](https://twitter.com/CityofLdnOnt) or #[#LdnBudget](https://twitter.com/LdnBudget)



Find us on www.Facebook.com/LondonCanada



Call Financial Planning & Policy at **519-661-4638**



www.buildabudget.ca



Watch budget meetings streaming live at
www.london.ca/livestreaming



Conclusion

Key Takeaway

Municipal budget approaches are continually evolving and changing. Forming a strong financial foundation consisting of effective financial policies and long-range financial plans will help a municipality adapt to **changing landscapes**.

Questions?

Thank You!



London
CANADA



MUNICIPAL FINANCE
OFFICERS' ASSOCIATION
OF ONTARIO