

# Demystifying the Municipal Budget and Long Term Financial Plan

Thunder Bay District Municipal League  
February 27, 2015

# Why do We Budget?

- Fiscal Accountability
- Allocation of Financial Resources
- Financial Management
- Internal Control
- Management Information

... ultimately to improve desired results, and for the benefit of our citizens and businesses

# Fiscal Accountability

- Ability to effectively manage and optimize human, financial and physical resources, qualitative and quantitative measurement, and planning and control of resources to maximize results.
- ... responsible for the way resources are used and managed.

# Who are We Accountable to?

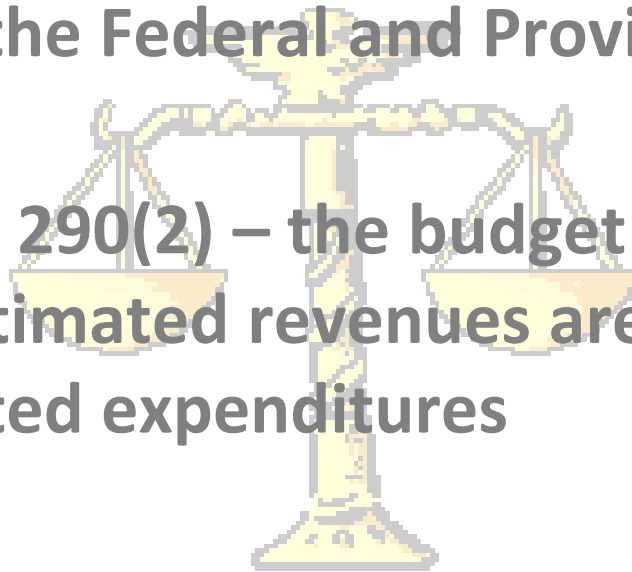
- Citizens who are current, former and future taxpayers
- Investors and businesses
- Our creditors

# Legislated Under the Municipal Act

- Legal requirement – section 290(1) *Municipal Act, 2001* – Council must adopt estimates of all sums required during the coming year for the purposes of the municipality;
- Budget shall be prepared during the year or in the immediately preceding year;
- Exception: in a year following an election year only in the current year.

# Legislated Under the Municipal Act

- Municipal Budgets must be balanced ... unlike the Federal and Provincial Budgets.
- Section 290(2) – the budget shall provide that estimated revenues are equal to the estimated expenditures



# What is a Budget ?

- Financial Plan

- sets out planned expenditures and the means of financing
- Statement of priorities
- Establishes spending limits on programs/services
- Reflects funding policies
- Basis of financial decision making

# What is a Budget ?

- Political document
- Management document

But is so much more ... link to operational plans, communication tool, long term financial plan.



# The Budget is NOT Just a “Budget”

(Links to Operational Plan)

The Budget provides the financial resources to:

- implement the Business Plan and achieve Strategic Plan goals
- deliver mandated services
- implement the recommendations from Master Plans, studies, changes in existing service levels
- Provide an operational work plan to implement various higher level plans

# The Budget is Not Just a “Budget”

(Communication Tool)

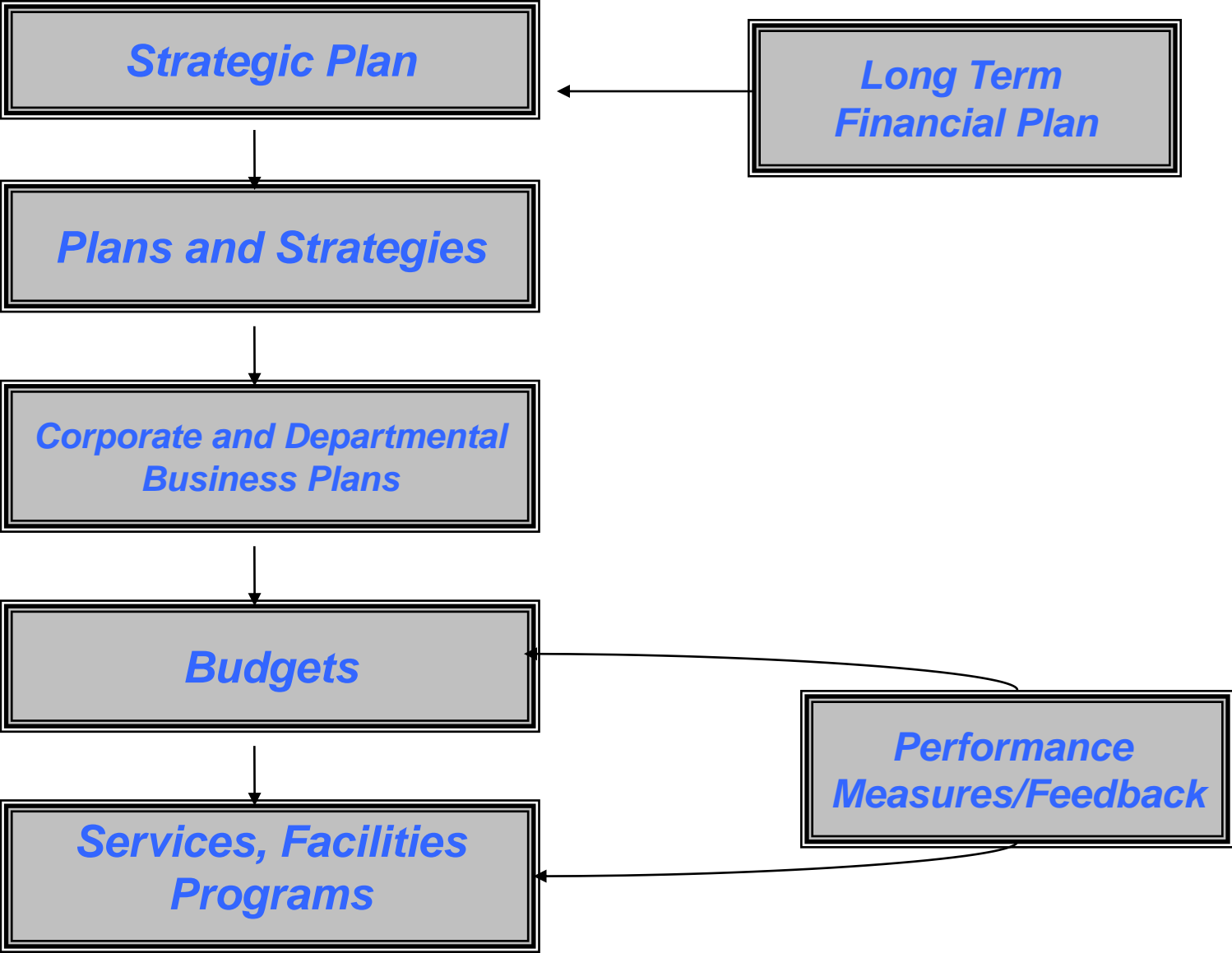
Strategically engage the public in local government affairs through citizen education.

## Inform

- educate citizens and community stakeholders about Budget issues and pressures

## Engage

- solicit community priorities
- opportunity to provide input on services/service levels



**Therefore the Budget is a key planning document in achieving a municipality's Strategic Priorities**

# Components of Annual Budget

1. Operating Budget (Current)
2. Capital Budget

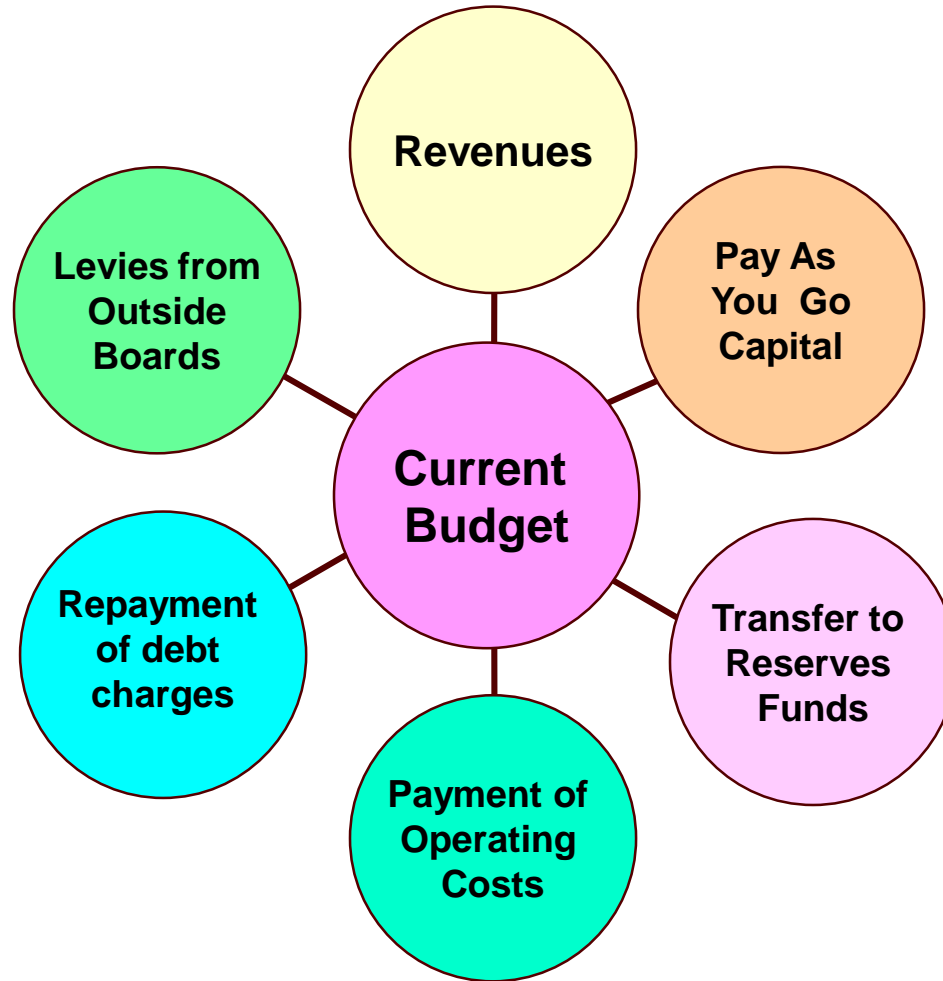
# Operating Budget

Normal operating expenditures and revenues associated with the day to day provision of services.

## Permitted Exclusion:

- Amortization expenses
- Post-employment benefit expenses
- Solid waste landfill closure and post-closure expenses

# Operating Budget



# Capital Budget

Significant expenditures to acquire, construct or improve land, buildings, engineering structures or machinery and equipment used to provide municipal services with a benefit lasting beyond one year.

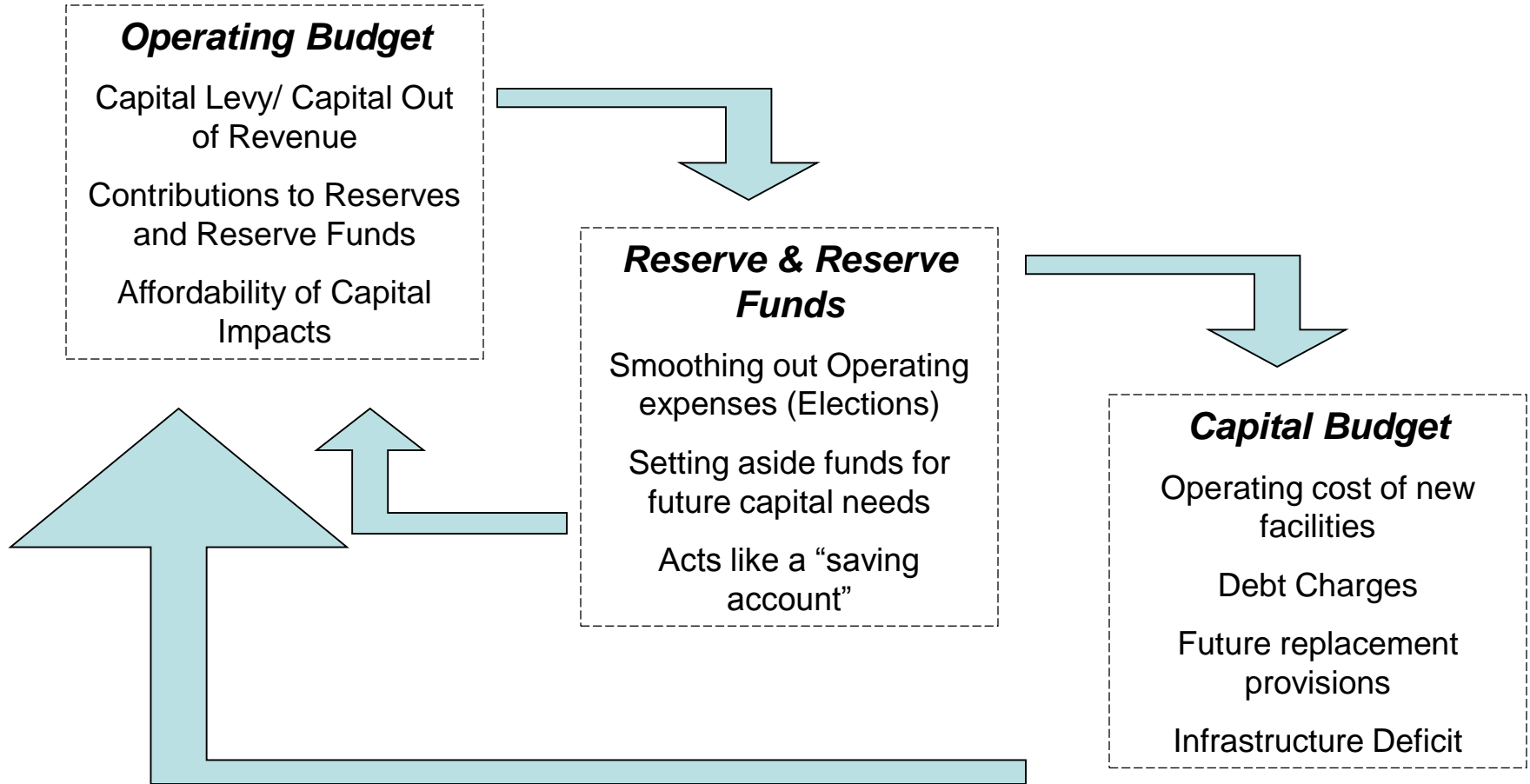
- Dollar Threshold can be established
- Sources of Financing



# Operating vs. Capital Budgets

- Both provide for the services/programs delivered
- Types of expenditures and sources of financing differ
- Operating Budget provides for the annual cost to deliver services and maintain infrastructure
- Capital budget provides for investments in infrastructure (assets) that provide long term benefit
  - Projects can span a number of years
  - New infrastructure and renewal

# Separate yet Interdependent



# Cost Drivers



# City of Thunder Bay Budget Process

Budget Timelines Approved by Council  
June 23, 2014

Departmental  
Budget Packages  
submitted to  
Finance  
October 6, 2014

Administrative  
Review

Outside Boards  
Submit Budgets  
To Finance  
October 6, 2014

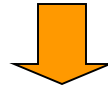
Budget Package to City Council January 23, 2015

Community Workbook available January 27, 2015

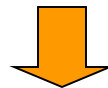
Long Term Financial Plan Overview January 27, 2015



Public Pre-Budget Consultation February 3, 2015



Committee of the Whole Review of Budget Package February 4, 10, 11, 2015



Final Public Post-Budget Consultation February 18, 2015



Council Final Approval - March 2, 2015

# Departmental Business Plans

Standard format business plan document for each department:

- Focus on what departments do
- Major customers/clients
- Previous year's achievements
- Trends and challenges
- Council work plan/priorities for the term of Council
- Departmental priorities
- Financial information/summaries

# Typical Development of the Budget

## Base Budget “Business As Usual”

Base Changes

Capital Impacts/Growth

### Business Planning

New Services  
and  
Increased  
Service Levels

New  
Revenues

Program  
Reductions

Reserve and  
Reserve Fund  
Transfers

Efficiencies

# Base Budget

Provides for:

- Maintenance of existing services
- Annualized impact of previous Council decisions
- Capital driven operating costs
- Growth pressures on existing services

Focuses on delivering exactly same service and service levels that currently exist.



# Business Planning Service Level Change Decisions

- One time items
- Expansions
  - complement increases (workload volume)
  - Identifies resources required for increased service level demands and new service initiatives
- Reductions
- Revenues – new, user fee increases
- Reserves/Reserve Fund transfers
- Identify Efficiencies

# Corporate Services & Long Term Care Department Summary

## City of Thunder Bay BUDGET RECAP (\$'000'S)

### Corporate Services & Long Term Care

### 2015 BUDGET

| FINANCIAL RESOURCES                 | 2014<br>FT<br>FTE | 2014<br>PT<br>FTE | 2015<br>FT<br>FTE | 2015<br>PT<br>FTE | 2014<br>Approved<br>Budget | 2014<br>Estimated<br>Actuals | 2015<br>Base | 2015 Base<br>vs 2014<br>% | One<br>Time | User Fee<br>Increase | Reduction | Expansion | 2015<br>Requested<br>Budget | 2015 vs<br>2014<br>\$ Change | 2015 vs<br>2014<br>% |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|----------------------------|------------------------------|--------------|---------------------------|-------------|----------------------|-----------|-----------|-----------------------------|------------------------------|----------------------|
| Corporate Services & Long Term Care |                   |                   |                   |                   |                            |                              |              |                           |             |                      |           |           |                             |                              |                      |
| Personnel Services                  | 404.9             | 211.5             | 407.9             | 208.9             | 44,600.9                   | 43,350.9                     | 45,304.9     | 1.6%                      | 213.9       |                      | (64.6)    | 39.9      | 45,494.1                    | 893.2                        | 2.0%                 |
| Purchased Services                  |                   |                   |                   |                   | 1,897.2                    | 1,774.9                      | 1,986.5      | 4.7%                      | 211.4       |                      |           | (37.4)    | 2,160.5                     | 263.3                        | 13.9%                |
| Rents & Financial Expense           |                   |                   |                   |                   | 1,483.6                    | 1,402.3                      | 1,496.4      | 0.9%                      |             |                      |           | 25        | 1,498.9                     | 15.3                         | 1.0%                 |
| Materials                           |                   |                   |                   |                   | 5,515.6                    | 5,402.9                      | 5,562.4      | 0.8%                      | 7.5         |                      |           | 17.0      | 5,586.9                     | 71.3                         | 1.3%                 |
| Gross Expenditures                  | 404.9             | 211.5             | 407.9             | 208.9             | 53,497.3                   | 51,931.0                     | 54,350.2     | 1.6%                      | 432.8       |                      | (64.6)    | 22.0      | 54,740.4                    | 1,243.1                      | 2.3%                 |
| Revenues                            |                   |                   |                   |                   | (42,381.4)                 | (41,231.6)                   | (42,813.7)   | 1.0%                      | (204.3)     | (60.1)               |           |           | (43,078.1)                  | (696.7)                      | 1.6%                 |
| Subtotal                            | 404.9             | 211.5             | 407.9             | 208.9             | 11,115.9                   | 10,699.4                     | 11,536.5     | 3.8%                      | 228.5       | (60.1)               | (64.6)    | 22.0      | 11,662.3                    | 546.4                        | 4.9%                 |
| Interfunctional Transfers           |                   |                   |                   |                   | 2,000.3                    | 1,724.7                      | 2,109.8      | 5.5%                      |             |                      |           | 8.3       | 2,118.1                     | 117.8                        | 5.9%                 |
| Transfers to Own Funds              |                   |                   |                   |                   | (208.4)                    | (107.6)                      | (70.0)       | (66.4%)                   | (23.5)      |                      |           |           | (298.5)                     | (90.1)                       | 43.2%                |
| Net Cost (Income)                   | 404.9             | 211.5             | 407.9             | 208.9             | 12,907.8                   | 12,316.5                     | 13,576.3     | 5.2%                      | 0.0         | (60.1)               | (64.6)    | 30.3      | 13,481.9                    | 574.1                        | 4.4%                 |

## Parks

### USER FEE

Parks Fees - Increase of 3% on a number of Parks Division Programs and services, including campgrounds, rink use and cemetery fees. Budget reflects additional revenue of \$39,500. Services have been reviewed to ensure that fees are in line with those of similar providers locally or in other jurisdictions and changes also consider how competition and public demand may be affected.

### EXPANSION

Parks Support (0.3 FTEs) - included three months of support staff time to better manage the workload increase in Urban Forestry. Budget impact is \$20,800.

Campground and Park Security (0.0 FTEs) - Proposed increase in budget to recognize increased costs for security to address liability and safety issues at Chippewa Park during times when city staff are not present. Budget impact is \$20,600.

|                    | Net Change<br>FT FTE | Net Change<br>PT FTE | One Time<br>Gross | One Time<br>Net | Reduction<br>Gross | Reduction<br>Net | User Fees<br>Gross | User Fees<br>Net | Expansions<br>Gross | Expansions<br>Net |
|--------------------|----------------------|----------------------|-------------------|-----------------|--------------------|------------------|--------------------|------------------|---------------------|-------------------|
| <b>Total Parks</b> | (1.0)                | 0.3                  |                   |                 |                    |                  |                    | (39.5)           | 41.4                | 41.4              |

# Capital Budget

Sets out the municipality's anticipated capital expenditures and how they are to be financed



# Overview of Capital

Project/Needs

Funds Available

Balancing Act

- Legislated
- Health & Safety
- Cyclical Replacement
- Asset Renewal
- Infrastructure Deficit
- New/Growth

# Sources of Capital Financing

- **Project or Program Specific**
  - **Funding sources tied directly to project**
    - **Contributions from senior levels of government eg. Federal Gas Tax/Provincial Gas Tax**
    - **Subsidies and Recoveries eg. Community group contribution for tennis court rehabilitation**

# Sources of Capital Financing

- Reserves/Reserve Funds
- Debt Financing
- From Operating Fund (Capital out of Revenue)
- Infrastructure Levy (EIRP)

# Standard Submission - Capital

- Description of the project
- Reason for the project
- Priority attached (legislative, health & safety, asset management, cyclical asset replacement, new project)
- Total estimated cost
- Consequence of not funding
- Impact on future operating costs
- Possible financing sources
- Dependency or relation to other capital projects



# Sample – Capital Project Details

## THE CITY OF THUNDER BAY 2015 CAPITAL PROJECT DETAILS

### Corporate Services & Long Term Care

### Corporate Information Technology

|                        |                                |                 |                 |  |
|------------------------|--------------------------------|-----------------|-----------------|--|
| Project Name           | Mobile Application Development |                 |                 |  |
| Year Requested         | 2015                           | Completion Date | 2015            |  |
| Project Classification | New Projects                   |                 | Resolution Date |  |

#### Project Description and Justification

Continued advances and improvements in technology are providing our internal and external customers the opportunity to conduct business in new ways. In today's evolving mobile environment we continue to see growth in the use of online services and applications accessible from smartphones are now an integral part of daily business. This initiative will allow us to engage a service provider to assist with the development of applications for mobile platforms.

#### Consequences of Not Funding

It is essential that the Corporation continues to look at methods of providing data and services through mobile platforms to leverage improvements in customer service, staff productivity and employee satisfaction. Foregoing advances and enhancements to mobile platforms would lead to missed opportunities for increasing staff productivity and efficiencies in the delivery of services to our internal and external customers.

| Estimated Costs (\$000's) |      |            |
|---------------------------|------|------------|
| Gross Cost                |      | 30.0       |
| Less: Subsidy             | 0.0  |            |
| Reserve                   | 30.0 |            |
| Fees                      | 0.0  |            |
| Other                     | 0.0  |            |
| EIRP                      | 0.0  |            |
| Renew TBay                | 0.0  |            |
| <b>Net Cost</b>           |      | <b>0.0</b> |

| Impact On Operating Budget (\$000's) |            |                    |     |
|--------------------------------------|------------|--------------------|-----|
| Wages & Benefits                     | 0.0        | Impact on Staffing |     |
| Other Operating                      | 0.0        |                    |     |
| Revenue                              | 0.0        | Full Time          | 0.0 |
|                                      |            | Temp F.T.E.        | 0.0 |
| <b>Net Impact</b>                    | <b>0.0</b> |                    |     |

# Sample Capital Forecast

## THE CITY OF THUNDER BAY CAPITAL FORECAST DIVISIONAL SUMMARY

Gross (\$000'S)

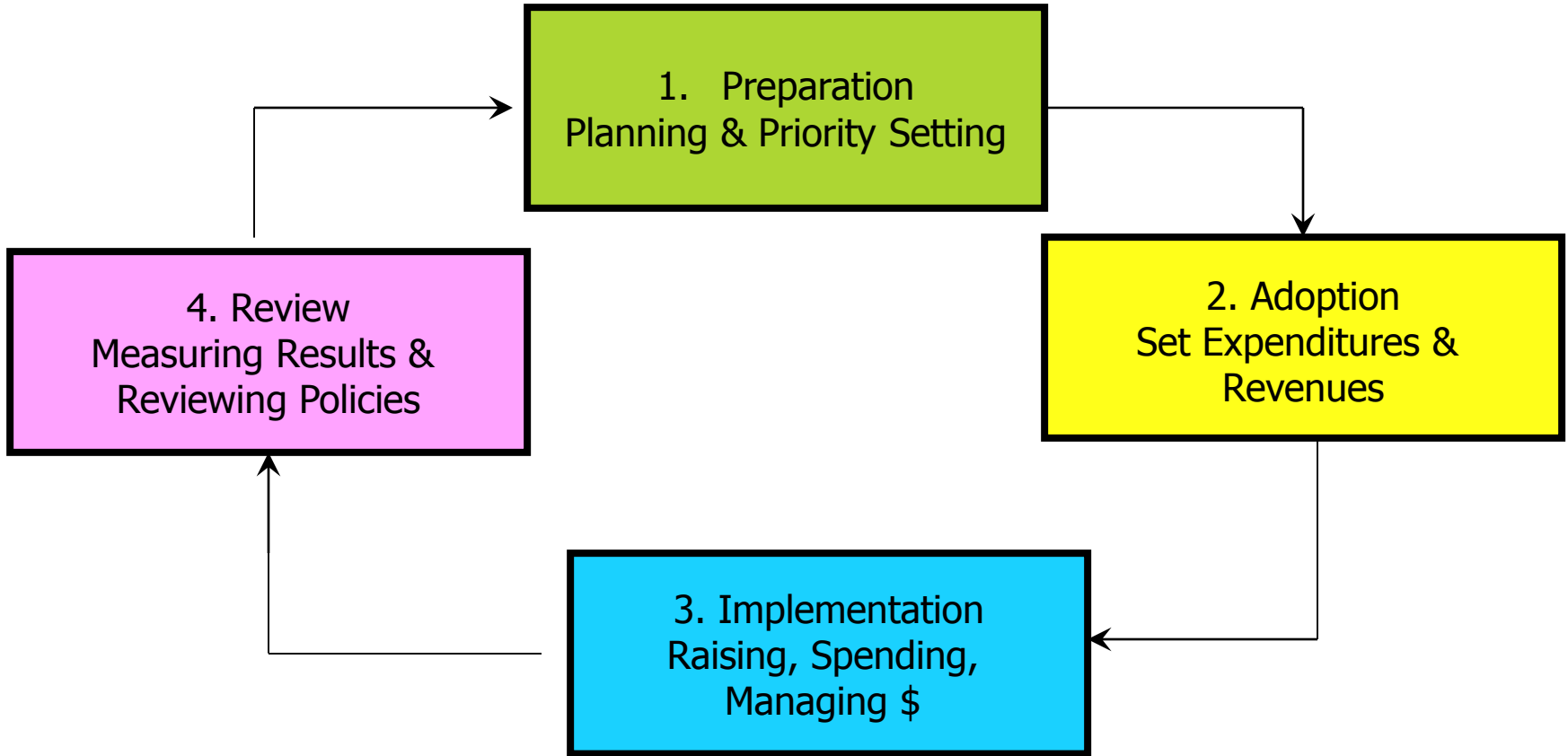
### Corporate Services & Long Term Care

| Item #                                 | Proj. Class | Capital Project/Project Name   | 2018    | 2019  | 2020  | 2021  | 2022  | 2023    | 2024  | 2025  | 2026  | 2027  |
|--|-------------|--|---------|-------|-------|-------|-------|---------|-------|-------|-------|-------|
| Corporate Information Technology       |             |  |         |       |       |       |       |         |       |       |       |       |
| 1                                      | REP         | Lifecycle Maintenance of City's Computer Network and Software Infrastructure | 340.0   | 340.0 | 515.0 | 340.0 | 315.0 | 340.0   | 340.0 | 540.0 | 340.0 | 340.0 |
| 2                                      | REP         | Lifecycle Maintenance of City's Personal Computers and Peripherals           | 1,100.0 |       |       |       |       | 1,200.0 |       |       |       |       |
| 3                                      | MNT         | ERP Upgrade/Ongoing Enhancements   | 500.0   |       | 250.0 |       | 250.0 |         |       |       |       |       |
| Total Corporate Information Technology |             |  | 1,940.0 | 340.0 | 765.0 | 340.0 | 565.0 | 1,540.0 | 340.0 | 540.0 | 340.0 | 340.0 |

# Traditional Budget Process

- ✓ Annually
- ✓ Adopt budget
- ✓ Establish tax rates

# Four Stage Budget Process



# Capital Variance Monitoring

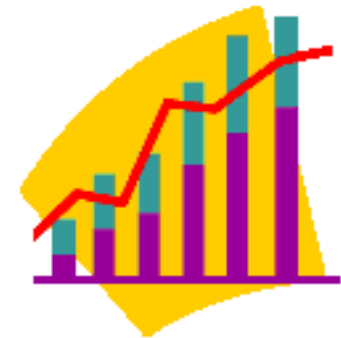
- Provide an update as to the status of capital projects
- Estimates completion date – impact on operating budget, timing of expenditures, etc.
- Identifies additional funding required or to be returned

# In Year Forecasting/Reporting

- Regular monitoring
- Quarterly variance reporting to COW
- Action plans if expected negative variances

# What Happens if There is a Deficit/Surplus at Year End?

- Deficit
  - First charge on next years budget
  - Can fund from reserves or reserve fund
- Surplus
  - Can use to reduce next years budget
  - Have policies in place to transfer to reserves for future requirements



# Role of Treasurer/CFO

- Ensure that statutory financial responsibilities are met
- Maintain compliance with generally accepted accounting principles (GAAP) set by the Public Sector Accounting Board (PSAB)
- Enforcement of established internal controls, policies, procedures and standards for all functions
- Custodian of the municipality's financial resources
- Managing debt/capital financing



- Provide Council with info required or requested and regular financial reporting – take initiative to provide info to assist Council in being pro-active and strategic in making decisions
- Financial and Strategic Advisor to ensure sustainability of assets/services – Long Term Financial planning VS single year or term of office approach
- Subject expert for area which CFO has responsibility

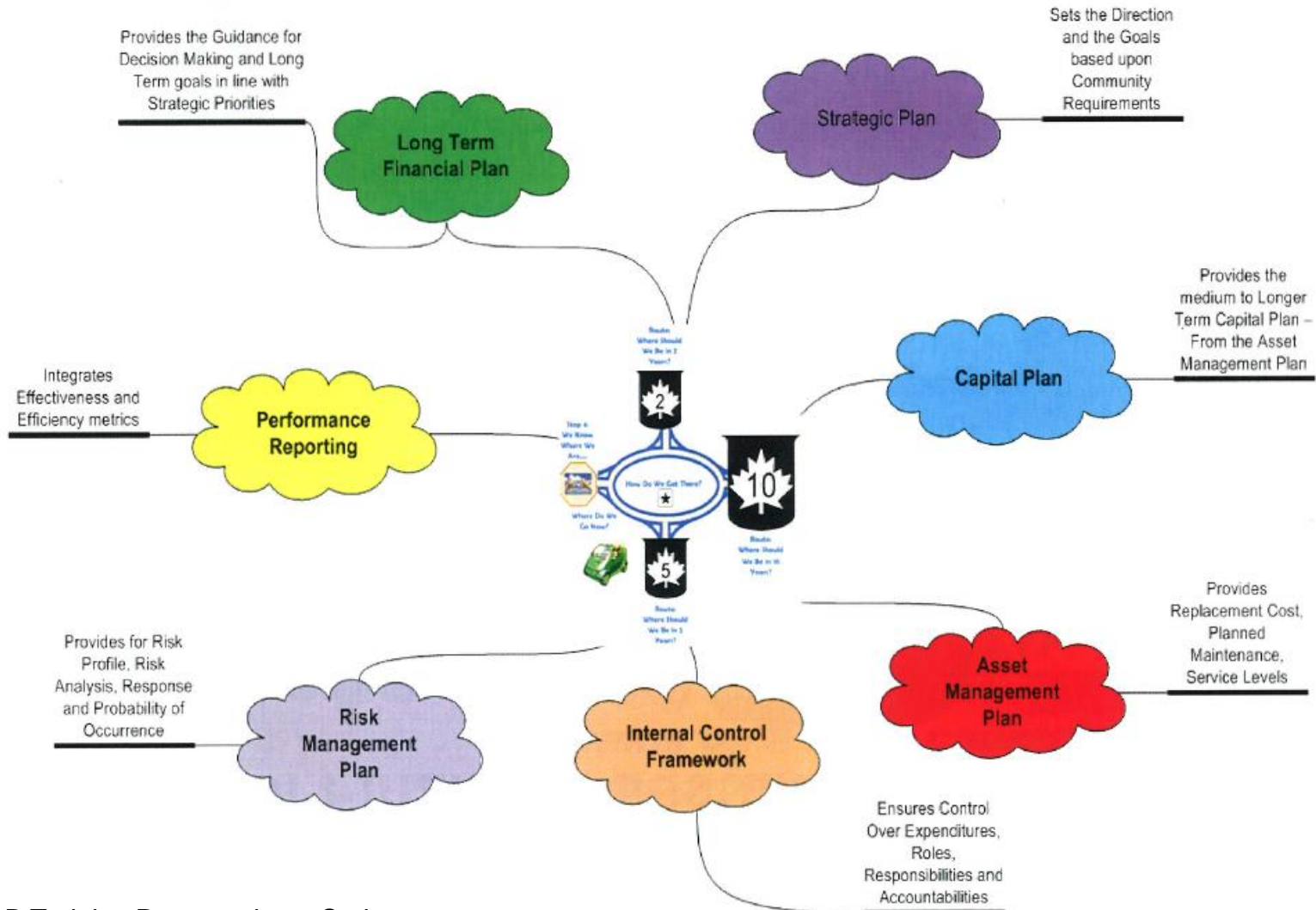
**It is beyond budgeting**

**It is about Financial Sustainability ...**

# Financial Sustainability – what is it ?

- **Balancing today's services and tomorrow's needs**
- **Program sustainability through quality services and sound financial management**
- **Rate Stability**
- **Intergenerational Equity**
- **Financial Health or Financial Condition**

# What are the Elements of Financial Sustainability?



# Why Does Financial Sustainability Matter ?

- Limited Resources should be allocated based upon strategic priorities
- Changes in Funding Formulas
- Growth or compression
- Pressure on tax base
- Decision making tends to be short term at expense of future generations
- Growing infrastructure deficit while faced with new requirements

# What is Long Term Financial Planning ?

- A strategic process that provides governments with the insight and information they need to establish multi-year budgeting and financial policies and pursue actions that maintain good fiscal health.

# What is a Long Term Financial Plan and How Does It Promote Financial Sustainability?

- Decision making tool that provides focus and allows data-based priority setting for limited resources
- Evaluates the implications of current and projected programs
- Develops strategies to achieve a government's strategic goals and address identified challenges
- Manages risks and sensitivities to changes in economy and assumptions

# Benefits of LTFP

Helps to answer the following questions:

- Will revenues be adequate to maintain services at current levels?
- Will financial resources be sufficient to address future operating and capital needs?
- Will it be possible to expand existing programs or initiate new ones?
- Is it prudent to issue additional debt to fund new capital projects?



# Benefits of LTFP

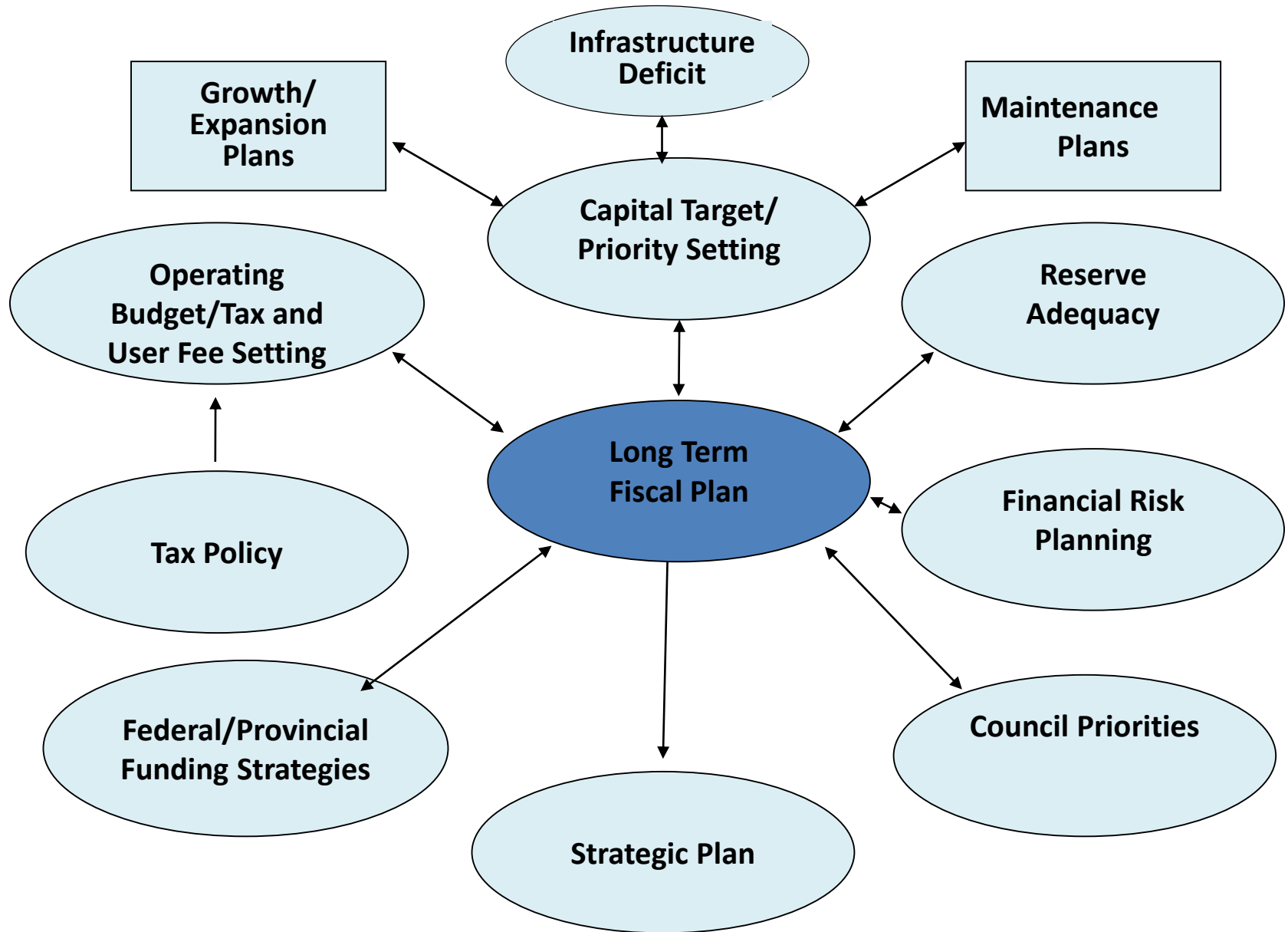
- Stimulates “Big Picture” long term thinking
- Imposes discipline
- Integrated plans transcend Council and Leadership changes
- More stability in budget and tax rates
- Addresses short-term issues with long-term solutions
- Minimizes impact of changing economic times on plans

# Benefits of LTFP

Helps financial managers and elected officials to:

- More effectively prioritize budgetary issues
- Produce a financial program that effectively links budget priorities to the resources available

# Long Term Link to Strategy



# Outcomes of the Long-Term Financial Plan

- Demonstrates continued vigilance on cost control
- Sets the framework and identifies gaps in funding from other levels of government
- Provides the basis for ongoing financial support for infrastructure and reserve funding
- Provides basis for credit rating agencies to give a positive review

# What We do in Thunder Bay:

- 10 year operating projection
- 20 year capital projection
- Financial Guiding Principles/Associated Policies
- LTFP updated annually
- ReNew Thunder Bay
- EIRP
- Performance Measurement

# QUESTIONS ?