

## **Municipality of Chatham-Kent**

### **Finance, Budget, Information Technology & Transformation**

#### **Budget & Performance Services**

**To:** Mayor and Members of Council

**From:** Steven Brown, CPA, CMA  
Director Budget and Performance Services

**Date:** March 20, 2023

**Subject:** Development of the 2024-2027 Multi-Year Budget & Schedule of Budget Committee Meetings

---

#### **Recommendations**

It is recommended that:

1. Administration develop recommendations for the draft 2024-2027 multi-year operating budget that give Council a starting position of a net tax impact at or below the estimated rate of annual inflation, in addition to a 1.5% increase for the capital asset management plan and a 0.5% increase for an allocation to the rate stabilization reserve.
2. The Budget Committee meeting schedule be approved.

#### **Background**

The preparation and approval of a municipal budget formalizes the operational requirements for the upcoming year based on the best information available at the time. As with any business or organization, issues will arise, controllable or uncontrollable, that may require a change from the initial plan.

A few items that Chatham-Kent is monitoring as we approach the 2024-2027 budget development are:

- significant changes in the consumer price index (CPI)
- developing sustainable financial strategies for reserves, debt and infrastructure requirements
- senior government legislative changes
- municipal cost of inflation pressures that are different from the consumer price index
- the magnitude of services delivered by municipalities and those that are controllable locally vs. mandated by senior governments e.g. Public Health
- competitive tax policies

The budget process used by Chatham-Kent continues to evolve, and this evolution will continue in 2023 with the implementation of Chatham-Kent's first multi-year budget, which will span 2024-2027, as approved by Council in August 2020. The report is attached as Appendix A.

### **Comments**

The recommendations in this report remain consistent with the budget direction provided during the 2023 budget.

Inflation is a concern for operations and has severely eroded the purchasing power of the Asset Management Plan funding. Administration will continue to evaluate both the short-term implications and long-term inflation targets of the Bank of Canada and will make sound financial recommendations.

The most recent Bank of Canada Monetary Policy Report has projected the Consumer Price Index (CPI) to continue to decline in 2023, nearing the Bank of Canada target of 2 to 2.5% in 2024-2025. As a result, the four-year average CPI over the 2024-2027 multi-year budget term is currently projected to range from 2.5% to 3%. The CPI rates that will be included in the 2024-2027 multi-year budget will be updated with release of the Bank of Canada's April Monetary Policy Report and finalized before the budget is delivered to Council with the July Monetary Policy report.

The 2022 Asset Management Plan Update was presented and approved by Council in June 2022. The report included a recommendation for an additional 1.5% Capital levy in addition to the operating budget increase. Council will be heavily involved in further iterations of the AMP as the 2024 and 2025 legislated requirements are met.

In preparation for multi-year budgeting, Council approved the creation of the Rate Stabilization Reserve to offset potential future unplanned situations. A 0.5% annual allocation to this reserve is prudent financial planning to offset unknown items such as vendor contract and insurance increases along with any potential Provincial or Federal funding changes beyond year one of the multi-year budget.

Prior to the pandemic, the Provincial government began work on changes to funding formulas for provincially-funded programs in childcare, employment and social services, and public health. Permanent changes to these funding formulas will result in a larger share of the cost being borne by property taxpayers. It is also anticipated that Chatham-Kent may see another decrease in OMPF funding for the 2024 budget year. As the case last year, this expected reduction is the result of very good assessment growth and positive employment and household income indicators in Chatham-Kent.

At the time of drafting this report, Council has not yet completed its 2023-2027 Council strategic directions. While issues such as more affordable housing are anticipated, there may be new issues where Council directs new funding. An allocation to the Rate Stabilization Reserve will assist in keeping the approved budget in place without

needing to include potential increases during the year two through four annual update process.

The target included in this report is based on the current knowledge of administration. If Council through the development of Council’s strategic directions brought additional items forward to be considered in the 2024-2027 multi-year budget, these items may be considered under the For Council Consideration section of the budget in addition to the target provided by this report.

The change to a multi-year budget from an annual budget process is a significant change which generates many questions from the public. Attached to this report as Appendix B is a list of Frequently Asked Questions (FAQ’s) which will be posted on the municipal website.

The following table summarizes the dates and steps for the 2024-2027 multi-year budget process. The online format of community consultations has resulted in increased public participation, and as a result, these consultations will continue with an online format.

<u>Steps in Process</u>	<u>Dates 2023</u>	<u>Time</u>	<u>Location</u>
<p>Opening Night: Information meeting to review issues facing Council and administration’s recommendations</p> <p>*Public deputations for funding will be scheduled for this evening as well</p>	Wed, Nov 15	6:00 pm	<p>Council Chambers Chatham-Kent Civic Centre</p> <p>Broadcast by YourTV and YourTV YouTube Channel</p>
<p>Budget presentation and community consultations:</p> <p>A brief presentation followed by a question and answer period</p>	<p>Wed Nov 22</p> <p>Thurs Nov 23</p>	<p>12:00 p.m.</p> <p>7:00 p.m.</p>	Online

<u>Steps in Process</u>	<u>Dates 2023</u>	<u>Time</u>	<u>Location</u>
Budget Committee deliberation meetings	Tues Nov 28 Wed Nov 29 Thurs Nov 30	6:00 to 10:00 p.m. (public participation scheduled for 8pm)	Council Chambers Chatham-Kent Civic Centre  Broadcast by YourTV and YourTV YouTube Channel
Contingency Budget Committee deliberation meetings  *if required	Tues Dec 5 Wed Dec 6	6:00 to 10:00 pm	Council Chambers Chatham-Kent Civic Centre  Broadcast by YourTV and YourTV YouTube Channel

### Areas of Strategic Focus

The recommendations in this report support the following areas of strategic focus:

			
<b>Economic Prosperity</b>	<b>Healthy &amp; Safe Community</b>	<b>People &amp; Culture</b>	<b>Environmental Sustainability</b>
1.1, 1.2	2.2, 2.3		

### Consultation

The Chief Administrative Officer was consulted on Consumer Price Index estimates and schedule of Budget Committee meetings and agrees with the recommendations contained within this report.

### Communication

Communication is proposed to be through the inclusion of this report on the Council agenda and related communications. The community will be engaged with a budget survey on Let's Talk CK and will have various methods available to provide feedback to staff and Council.

**Diversity, Equity, Inclusion and Justice (DEIJ)**

This report does not have implications related to diversity, equity, inclusion or justice. Municipal budgets fund many municipal services that affect DEIJ in our community.

**Financial Implications**

There are no financial implications as part of the recommendations of this report.

Prepared by: Steve Brown, CPA, CMA, Director, Budget & Performance Services

Reviewed by: Gord Quinton, MBA, CPA, CGA, Chief Financial Officer, Treasurer

Consulted and confirmed the content of the consultation section of the report by:  
Michael Duben, Chief Administrative Officer

Attachments: Appendix A - August 10, 2020 Multi-Year Budget Report to Council  
Appendix B – Multi-Year Budgeting Frequently Asked Questions

**Municipality of Chatham-Kent**

**Finance, Budget, Information Technology & Transformation**

**Budget & Performance Services**

**To:** Mayor and Members of Council  
**From:** Steven Brown, CPA, CMA  
Director, Budget & Performance Services  
**Date:** July 15, 2020  
**Subject:** Multi-Year Budgeting

---

**Recommendations**

It is recommended that:

1. A Multi-Year Budget beginning with the four-year period of 2024 through 2027 be adopted for Chatham-Kent.
2. Administration develop, for Council's consideration, a Multi-Year Budget Policy and related bylaw in order to provide administration with the necessary direction to proceed with the development of the multi-year budget.
3. Administration be directed to review the Municipality's existing financial policies and bring forward, for Council's consideration, new or amended policies to ensure alignment with the multi-year budget process.

**Background**

Councillor Carmen McGregor introduced the following notice of motion on March 23, 2020 and received approval from Council on April 6, 2020:

*"Whereas there are significant staff resources required to develop the annual budget;*

*And whereas there may be economic advantages for multi-year infrastructure and operational purchases;*

*I therefore move that administration investigate the pros and cons of multi-year budgeting, including investigating municipalities that have moved to this practice, including a recommended implementation strategy, and report back with a recommendation to Council on or before the August 10, 2020 Council meeting."*

## **What is a Multi-Year Budget?**

Council sets a Strategic Plan for the four year Council term. How much of that plan can be implemented over the four year Council term will in part depend on the cost, which will ultimately impact tax changes over that same period. Linking the strategy to the budget provides accountability between what is achieved and the cost to the taxpayers.

Rather than approving a budget annually, Council would approve budgets for a four year period, with the last year being subject to reconfirmation by the new term of Council, and link those changes to the Strategic Plan. The strategic plan for a new Council is completed by the summer following the October election. Once the strategic plan has been completed, Administration would start developing the multi-year budget tying the budget back to Council's strategic plan. The strategic plan would be developed mid-way through Council's first year and the multi-year budget being tied to Council's new strategic plan would be completed in November and December with approval in January of Council's second year of their four-year term.

It is important to note that the Municipality of Chatham-Kent has always provided a multi-year forecast for the annual operating budget and a multi-year capital budget.

This will not be a new funding mechanism. There is no "new money" initially. This process will provide a clear link between the Council approved Strategic Plan and the cost of implementing that strategy. Some hard choices will therefore need to be made, both in terms of budget changes and setting expectations. The benefits of multi-year budgeting include:

- Alignment of longer-term goals and objectives with longer-term funding plans;
- Greater certainty is provided to taxpayers/residents about the future direction of taxes and the timing of implementation of the Council approved Strategic Plan;
- Improved accountability and transparency over spending plan changes; and
- Prioritization principles aligned with service delivery principles that include:
  - Risk profile,
  - Degree and speed of implementation,
  - Balancing competing needs across various strategic areas of focus, and
  - Impact to the community.

## **Comments**

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

There are several advantages and disadvantages with respect to multi-year budgeting. In providing a list of both advantages and disadvantages, it is also required to examine some mitigation strategies to address the disadvantages.

A major issue that emerges in the multi-year budgeting process that needs to be addressed concerns years where there would be an election. If done correctly, a multi-year budget will straddle election years.

For example, municipal Council is elected to a four-year term. With the next term starting in December of 2022, and running to December 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 a newly-elected Council the opportunity to educate itself, develop its strategic plan and priorities, and direct administration to implement various initiatives. Similarly, because the budget cycle will overlap with the next election, a new Council will not be thrown immediately into making major budgetary decisions just weeks after an election.

The advantages of this process are as follows:

- Majority of new Council members are provided the opportunity to learn the business and set strategic plans before approving a budget.
- New Council has the opportunity to set direction for its term.
- Council is not “thrown into” budget immediately after being elected.

However, the perceived disadvantage with this approach is that it may be more difficult for a new Council to effect budgetary change immediately following an election. This assumes that the new Council has a strong understanding of the budgetary challenges and opportunities of the municipality.

Municipalities that have adopted multi-year budgets, including London, Ontario, ensure that they straddle election years for the reasons listed above. Below addresses some general advantages, disadvantages, and mitigation strategies with respect to multi-year budgeting.

### **Advantages**

According to research conducted by the Government Finance Officers Association (GFOA), the advantages of multi-year budgeting far outweigh the disadvantages. These include:

- Significant savings in Council and administration time, as they are not spending several months of the year on the annual budget.
- Potential to redeploy staff to other functions such as completing departmental service reviews.
- Enables Council to implement multi-year vision which flows through business plans to be incorporated into the operating budget.
- Encourages a focus on achieving longer-term plans, goals, and objectives.
- Improves financial management and long-range strategic planning.
- Better alignment with (infrastructure) funding from other levels of government and planning projects.



- Provides a better link between capital and operating investments and activities.
- The longer-term view is said to produce better, more thoughtful budgets.

### **Disadvantages**

The GFOA lists the following as the primary disadvantages with multi-year budgeting:

- Discomfort with forecasting longer-term revenues and expenditures.
- Publishing of potential property tax increases.
- Additional effort required for implementation.
- Perceived loss of flexibility in making budgetary decisions.

### **Mitigation Strategies**

Many of the disadvantages identified above may be addressed through various mitigation strategies such as:

- Amending existing financial and budget policies and procedures.
- Producing, monitoring, and updating socio-economic outlooks/forecasts.
- Adopting an extensive public engagement process to obtain public input.
- Establishing a budget review process for ensuring compliance with budget policies, processes, and targets.

### **What Flexibility Will Council Have Once a Multi-Year Budget is Approved?**

Following the approval of a multi-year budget, in each subsequent year of the multi-year budget, Council is required by the Municipal Act, 2001 to review and re-adopt the budget for that year. As part of the review process, Council is required to make changes that are required for the purpose of making the budget compliant with the provisions of the Act which include ensuring that the municipality has sufficient funds to pay all debts and amounts required for boards, requisitioning or other bodies. As such, Council will have the opportunity to make other amendments or fine-tune the budget annually. In addition to the matters required to be addressed by the Municipal Act, 2001, the scope of annual budget changes may include, but are not limited to, the following:

1. Changes to Council priorities impacting municipal services that require amendments to business plans and budgets;
2. External factors such as changes to Federal/Provincial policies that impact municipal costs, unanticipated changes in purchased services such as insurance premiums, or changes imposed on pension plan contributions;
3. Unanticipated changes to economic forecasts that impact municipal costs or revenues; for example, significant changes to interest rates may result in higher/lower costs of borrowing; and
4. Changes to budgets resulting from the annual service review process.

## How Would an Economic Downturn be Handled?

The current economic downturn caused by COVID-19 is not one that could have been predicted during the last two budget cycles. In the event such an occurrence were to happen in any of years two (2) through four (4) of a multi-year budget, Council would have the ability to open the budget and make modifications through the annual review process. For example, as noted under “What Flexibility Will Council Have Once a Multi-Year Budget is Approved?” unanticipated changes to economic forecasts that affect municipal costs or revenues allowing for the reopening of the budget. With COVID-19 affecting municipal operations substantially in both revenues and expenses, Council would be within the principals of the multi-year budget to request administration to re-examine the full budget.

## Service Reviews

In addition to multi-year budgets, administration will be undertaking service reviews during year’s two (2) to four (4) of the budget that may yield savings that could be used over time to either reduce the pressure on the taxpayer or to expand the scope and/or accelerate delivery of Council’s Strategic Plan initiatives. These service reviews will include techniques such as:

- Zero-based budget analysis on the service or department
- Lean Six Sigma
- Organizational redesign

## Next Steps

With the approval of the recommendations, administration will come back with a Multi-year Budget Policy and review existing financial policies to align them with heading to a multi-year budget.

## Areas of Strategic Focus and Critical Success Factors

The recommendations in this report support the following areas of strategic focus:

- Economic Prosperity:  
Chatham-Kent is an innovative and thriving community with a diversified economy
- A Healthy and Safe Community:  
Chatham-Kent is a healthy and safe community with sustainable population growth
- People and Culture:  
Chatham-Kent is recognized as a culturally vibrant, dynamic, and creative community
- Environmental Sustainability:  
Chatham-Kent is a community that is environmentally sustainable and promotes stewardship of our natural resources

The recommendations in this report support the following critical success factors:

- Financial Sustainability:  
The Corporation of the Municipality of Chatham-Kent is financially sustainable
- Open, Transparent and Effective Governance:  
The Corporation of the Municipality of Chatham-Kent is open, transparent and effectively governed with efficient and bold, visionary leadership
- Has the potential to support all areas of strategic focus & critical success factors
- Neutral issues (does not support negatively or positively)

**Consultation**

The Executive Management Team was consulted on the recommendations contained within this report.

**Financial Implications**

There are no financial implications resulting from the recommendations contained within this report.

Prepared by:

Reviewed by:

\_\_\_\_\_  
Steven Brown, CPA, CMA  
Director, Budget & Performance Services

\_\_\_\_\_  
Gord Quinton, MBA, CPA, CGA  
Chief Financial Officer, Treasurer

Attachments: None

P:\RTC\F&PS\Budget & PM\2020\RTC004 - Multi-Year Budgeting.docx

# Frequently Asked Questions

## What is a multi-year budget?

The *Municipal Act, 2001* authorizes a municipality to prepare and adopt a budget covering a period of two to five years. The Municipality of Chatham-Kent has chosen to utilize a four-year period.

Rather than approving a budget annually, Council approves budgets for the next four years, subject to annual re-adoption, to establish funding in support of achieving Council's Strategic Plan.

## What is the benefit of a multi-year budget versus a single year budget?

- Provides clarity to short-term decisions and the impact they have on the organization long-term;
- Alignment of longer-term goals and objectives with longer-term funding plans;
- Greater certainty is provided to taxpayers/residents about the future direction of taxes and the timing of implementation of the Council approved Strategic Plan;
- Improved accountability and transparency over spending plan changes; and
- Prioritization principles aligned with service delivery principles that include:
  - Risk profile,
  - Degree and speed of implementation,
  - Balancing competing needs across various strategic areas of focus, and
  - Impact to the community.

## Can Council or administration add or remove budget requests in each year of the multi-year budget?

Yes, in years 2 to 4, changes can be made to the budget, however a new budget item(s) should meet one of the 3 criteria outlined below in order to be added.

- a) New or Changed Regulation – A new or changed legislation or regulation with a financial impact to the municipality.
- b) New Council Direction – A new Council direction that has transpired after the approval of the multi-year budget.
- c) Cost or Revenue Driver – A corporate or service area budget adjustment as a result of changes in economic conditions.

## If a budget item is added in an update year, how will it be accounted for/funded? How are we accounting for contingencies?

In the event a change in the subsequent budget years is necessary, efforts will be made to identify other available funding sources first. If there are no available funding sources, there is the potential to use the Tax Rate Stabilization Reserve. A percentage of the budget sets aside funds that go into a Tax Rate Stabilization reserve, with the intent that if unpredicted budget items are needed in years 2 to 4 of the budget, it can be utilized to help offset a tax impact. If sufficient funding isn't available, it would be presented as a budget amendment that would require tax funding and an increase to the approved budget. Likewise, if unexpected funding is received, it can be used to offset budget amendments or decrease the approved budget.

## How will the budget process accommodate the unknown of provincial and/or federal funds year over year?

When unexpected changes in provincial and federal funding and regulations impact the budget, efforts will be made to identify other available funding sources and potential use of the Tax Rate Stabilization Reserve before increasing the approved tax funded budget.

## How will labour costs be forecasted?

Based on collective agreements and industry trends we will be able to predict future labour costs.

## How will CPI be forecasted?

Initial implementation of a multi-year budget will require forecasting and assumptions to be made based on the information available. There are a number of economic models that predict the direction of the economy and Chatham-Kent will rely on these as a starting point, such as the Bank of Canada Monetary Policy Reports.

## How will large projects be captured? For example, a new City Hall or funding to the hospital.

Large projects are currently being forecasted over multiple years, as the funding for these projects are substantial and require long-term financial planning. Multi-year budgeting can improve this process as it will be easier to see a large project's budget impact over a Council term. Capital projects such as a new City Hall or arena upgrades are captured within the Asset Management Plan (AMP).

## How will the public be able to provide input into the draft budget?

The public will be able to provide input through budget surveys, Let's Talk, interactive community consultations, and deputations to the Budget Committee.

## How will a multi-year budget benefit operational projects?

Budgeting for operational projects in years 2, 3 or 4 of the multi-year budget will allow for more efficient planning of resources. Multi-year budgets allow for the implementation of long-term projects in alignment of Council's strategic priorities.

## How will the multi-year budget positively impact the community?

Greater certainty is provided to taxpayers and residents about the future direction of taxes and the timing of implementation of the Council-approved Strategic Plan. The multi-year budget will allow for preparation and forecasting of potential community requests. It allows for the prioritization of tasks and resources needed to efficiently deliver services to the community that align with Council's strategic direction.