

TO:	CHAIR AND MEMBERS STRATEGIC PRIORITIES AND POLICY COMMITTEE MEETING ON MAY 11, 2015
FROM:	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	2016-2019 MULTI-YEAR BUDGET

RECOMMENDATIONS

That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer for the City of London, with the concurrence of the City Manager:

- a. The attached proposed by-law (attached as Appendix A) **BE INTRODUCED** at the Municipal Council meeting on May 12, 2015 to enact a Multi-Year Budget Policy, in order to provide Civic Administration with the necessary direction to proceed with the development of a 2016-2019 multi-year budget;
- b. Civic Administration **BE DIRECTED** to review the Corporation's financial policies and bring forward for Council consideration new or amended policies to ensure alignment with the multi-year budget process;
- c. The timetable (attached as Appendix B) **BE RECEIVED** for information; it being noted that the tabling of the 2016-2019 multi-year budget has been set for January 11, 2016 at the Strategic Priorities and Policy Committee; it being further noted that an additional meeting has been added on January 21, 2016 at the Strategic Priorities and Policy Committee for the purpose of holding a public participation meeting;
- d. The public consultation plan (attached as Appendix C) for the 2016-2019 multi-year budget **BE APPROVED**; it being noted that enhanced public consultation has been incorporated into the 2016-2019 multi-year budget timetable noted above;
- e. A 2016-2019 average annual tax levy increase between 2.2% and 2.9% **BE CONSIDERED**; it being noted that this is intended to address municipal cost pressures and may provide some additional funding for new strategic initiatives over the 2016-2019 period;
- f. The results/impacts from the Civic Administration led service reviews aimed at identifying savings in service delivery, which may include zero-base budgeting, lean six sigma, and organizational redesign **BE CONSIDERED** during each annual update beginning 2016; and
- g. That the City Manager **BE DIRECTED** to canvass Members of Council to compile a draft list of the initiatives that could be used to establish a short-list of the top five to seven initiatives of Council which would be considered at a special meeting of the Strategic Priorities and Policy Committee before the end of June 2015.

BACKGROUND

Council approved a Strategic Plan on March 10, 2015, with the direction to link the Strategic Plan to the approval of a multi-year budget. Council will, through this process, be able to ensure that its priorities are achieved within the financial parameters Council establishes during its term.

What is a Multi-Year Budget?

Council has set a Strategic Plan for the next four years. How much of that plan can be implemented over the next four years? That 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 tax payer. Rather than approving a budget annually, Council will approve budgets for the next four years, with the last year being subject to reconfirmation by the new term of Council, and link those changes to the Strategic Plan. It is important to note that the City of London has always provided a multi-year forecast for the annual operating budget and a 10 year capital budget.

This is not a new funding mechanism. There is no “new money” initially. This process will provide a clear link between the strategy and cost of implementing that strategy. Some hard choices will therefore have 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 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; 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.
 - Impact to the community.

2016-2019 Proposed Tax Levy Increase

Tax levy increases from rates are always a difficult issue although many in the community accept the need for inflationary pressures to be provided for, assuming the organization is efficient and providing effective services desired by the community. To set reasonable expectations, the Civic Administration is recommending an average annual tax levy increase from rates of no more than 2.9% for the 2016-2019 period. This amount could vary by year, but on average would not exceed 2.9% when averaged over the four year period. This increase will address, a) municipal cost pressures, and b) provide additional funding for new strategic initiatives that are aligned with Council’s Strategic Plan over the 2016-2019 period.

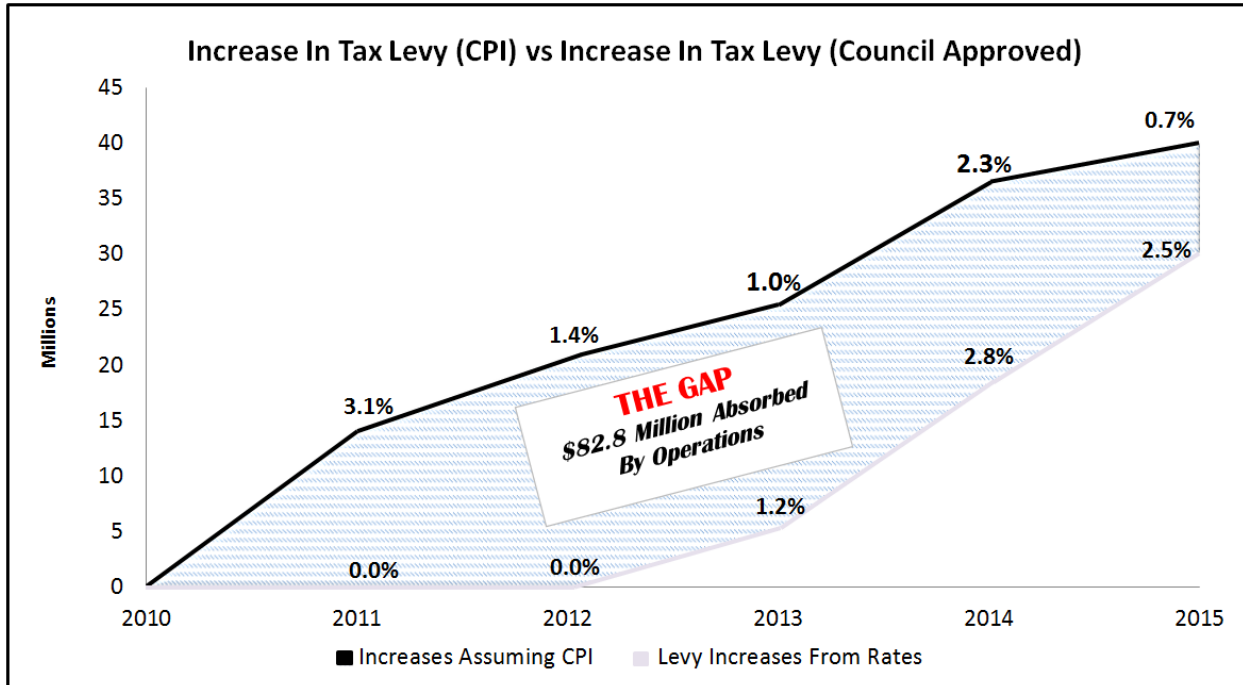
a) Inflation:

Analysis to develop the inflationary component includes:

- the Bank of Canada year-over-year inflationary target of 2.0%;
- the Canadian economic consumer price index forecasts that range from 2.2% to 2.0% (Long-Term Economic Forecast: TD Economics, March 24, 2015); and,
- Pressures related to specific municipal components, including amounts necessary for appropriate financial planning.
- The London Chamber of Commerce in a letter dated December 12, 2014 stated:
 - “The Chamber has long advocated for a tax increase formula that takes into account both population growth and inflation — typically, a 2-3% increase”; and
 - “...the City may now find itself in a position where it may have to play “catch-up” in order to fund the current infrastructure gap.”

Assuming the tax levy from rates increased at the same pace as the consumer price index, an additional \$82.8 million in revenue would have been raised (Exhibit 1).

Exhibit 1 – Increase In Tax Levy (CPI) vs Increase In Tax Levy (Council Approved)



Source:

1. The consumer price index for 2011-2014 is based on the Statistics Canada annual average Ontario CPI for all items not seasonally adjusted.
2. The consumer price index for 2015 is based on the March 2015 Long-Term Economic Forecast: TD Economics (Ontario CPI).

b) Strategic Initiatives:

The difference between the inflationary component and 2.9% will be additional funding that Council can use to implement new strategic initiatives identified as a result of the Strategic Plan.

While the 2.9% is an average over the four years Council may choose to increase the tax levy to accelerate the implementation of the new strategic initiatives, where possible, by increasing above 2.9% in the early years; the latter years of the plan would be reduced accordingly.

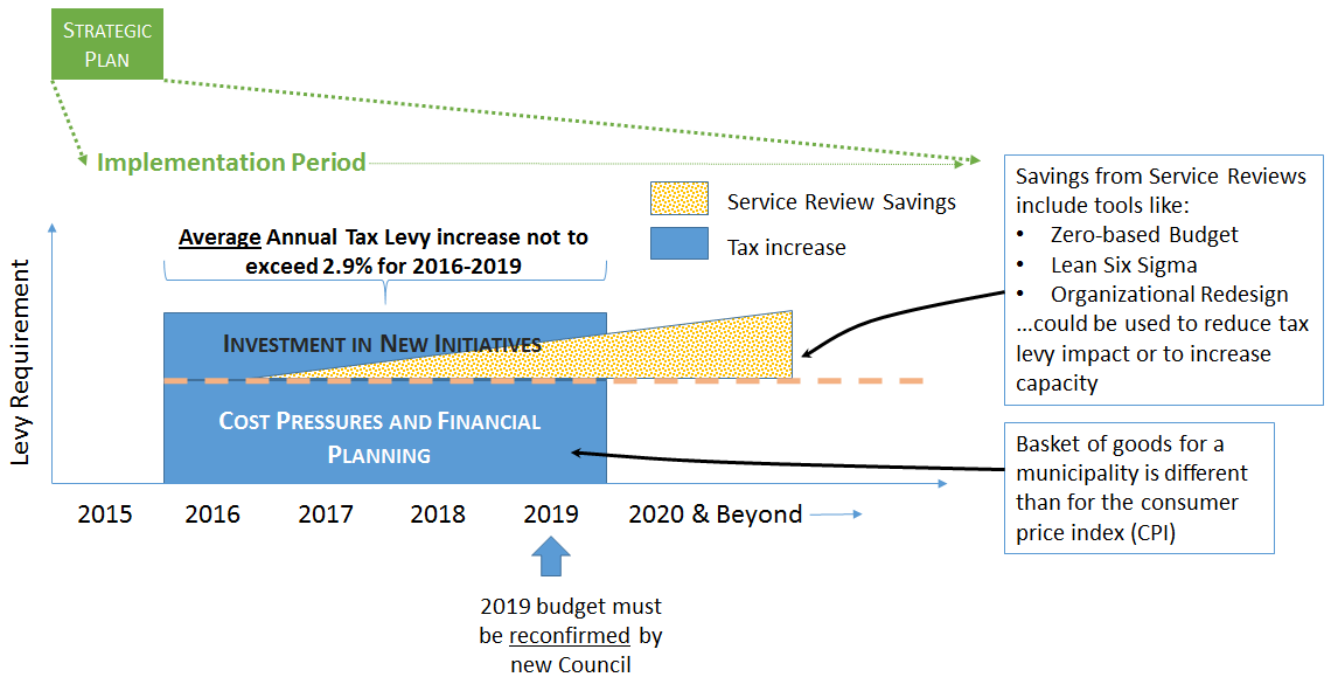
Council may also consider accelerating the implementation and/or scope of the initiatives that support Council's Strategic Plan by increasing the average annual tax levy above 2.9%. Each 0.5% change would equate to approximately \$2.6 million annually or \$10.4 million over 4 years.

In addition, the Civic Administration will be undertaking service reviews that may yield savings that could be used over time to either reduce the pressure on tax increases or expand the scope/accelerate delivery of the initiatives supporting the Strategic Plan. These service reviews will include techniques such as:

- zero-based budget analysis on the service
- lean six sigma
- organizational redesign

Exhibit 2 shows that the implementation period for strategic initiatives that support the Council's Strategic Plan should be viewed over a 10-20 year period. Council can use the multi-year budget approach over the next four years to move the various initiatives forward while using a mix of tax increase and savings from service reviews to fund inflationary pressures and new initiatives.

Exhibit 2 – How it will work?



A number of strategic initiatives have been identified through the strategic planning exercise and other processes; these have all been referred to the multi-year budget.

Many of these initiatives are new and have not been included in budget plans. Council must consider the impact in terms of:

- speed versus cost
- volume versus capacity to deliver
- ability to fund versus community impact/need

Given the restrictions recommended by the Civic Administration with respect to the funding, the delivery of the strategic initiatives will have to:

- be considered over a longer period of time (for example 10 -20 years)
- be prioritized based on criteria

It should also be noted that during the budget Civic Administration will be making recommendations with respect to other sources of funding which may become available over time. These include a \$10 million one-time special dividend from London Hydro and funding availability in the economic development reserve fund as a result of reprioritization of the projects, such as the industrial land development strategy.

Following a Council process to prioritize the top five to seven new initiatives, the Civic Administration will bring forward detailed business cases for those new initiatives. During the budget process, Council will have the opportunity to debate the initiatives and ultimately make decisions on its priorities.

What Flexibility Will Council Have Once A Multi-Year Budget Is Approved In 2016?

In 2016, the Civic Administration will be seeking approval of a multi-year budget for the period of 2016-2019. Commencing in 2017 and in each subsequent year of the multi-year budget, the Council is required by the *Municipal Act, 2001* to review and readopt the budget for that year. As part of the review process, the 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, amounts required for sinking funds or retirement funds and amounts required for boards, commissions or other bodies. As such, Council will have the opportunity 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:

- i. Changes to Council priorities impacting municipal services that require amendments to business plans and budgets;
- ii. 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;
- iii. 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;
- iv. Changes to financing contained in the operating and capital budget as a result of capital project adjustments;
- v. Changes to budgets resulting from the annual service review process; and
- vi. Changes to budgets resulting from the allocation of assessment growth funding.

The Civic Administration is recommending that the multi-year budget policy, (Appendix A), including the process for annual updates, be approved by Council. This policy establishes the general framework for implementing a multi-year budget program at the City of London.

Public Consultation

The City of London will continue to put substantial efforts and resources into public budget consultation activities and has done so throughout the past four budget cycles (2012-2015), including the development and implementation of innovative tools that continue to lead the province.

This has been showcased through the constant communications Civic Administration receives from other jurisdictions as they hear “**London is doing it right**”. Other jurisdictions include (but are not limited to):

- Hamilton, ON
- York Region, ON
- Niagara region, ON
- Saskatoon, SK
- Airdrie, AB
- Cambridge, ON
- Oshawa, ON
- Sioux Lookout, ON
- Kelowna, BC
- Parliamentary Budget Office (PBO)

As the City of London transitions to an improved budgeting methodology, multi-year budget approvals, we must adjust and modify consultation timing and tools accordingly.

We will strive to **accomplish six main principles** during our consultation activities:

1. Participants are representative of the broader community
2. Participation is open to all Londoners
3. Input occurs early in the budget process
4. Participation includes two-way communication between citizens and Council
5. Input reveals sincere preferences of citizens
6. Citizen input is considered by decision makers

Appendix C outlines all proposed City of London Budget consultation vehicles with associated timelines. These are also reflected in the budget timetable.

Budget Timetable

The Civic Administration will be tabling the 2016-2019 multi-year budget on January 11, 2016 with budget deliberations set to begin on February 4, 2016. Civic Administration will be seeking Council approval on March 10, 2016. For the complete budget timetable, including public consultation, refer to Appendix B.

Next Steps

The Civic Administration will be conducting an internal review of current business planning and budgeting processes and procedures to ensure that all service areas have a clear and consistent approach for the development of the 2016-2019 multi-year budget. In addition, the Civic Administration will be reviewing all current policies and amending those policies that are not compatible with a multi-year budgeting approach. Policies that will be reviewed include, but are not limited to:

- Assessment Growth;
- Surplus/Deficit;
- Contingency/Stabilization;
- Reserve/Reserve Fund;
- Debt; and
- Pay-As-You-Go Financing Strategy.

The establishment of a reasonable tax levy target will be essential for the Civic Administration in the development of the 2016-2019 multi-year budget.

Conclusion

The multi-year budget approach will present Council with some difficult choices and decisions. Setting the budget for a four year period will remove the annual discussion and place the focus on the delivery of Council's Strategic Plan. To achieve this, Council is being asked to set the average annual tax increase from rates at 2.9% over the 2016-2019 period. In addition, a number of policies will be changed to ensure alignment with the multi-year budget process.

The Civic Administration will introduce new tools and processes to enhance its review of services for capacity building purposes: these tools will include techniques such as zero-based budgeting for identified services, lean six sigma and organizational redesign. Savings identified through these processes could be used over time to either reduce the pressure on tax increases or expand the scope/accelerate delivery of the initiatives supporting the Strategic Plan.

This report was prepared with support from Alan Dunbar and Jon-Paul McGonigle in the Finance service area.

PREPARED BY:	REVIEWED BY:
JASON SENESE MANAGER OF FINANCIAL PLANNING & POLICY	LARRY PALARCHIO DIRECTOR OF FINANCIAL PLANNING & POLICY
RECOMMENDED BY:	CONCURRED BY:
MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER	ART ZUIDEMA CITY MANAGER

APPENDIX A

Bill No.

By-law No. A.-

A by-law to establish a Multi-Year Budget Policy.

WHEREAS subsection 5(3) of the *Municipal Act, 2001* provides that a municipal power shall be exercised by by-law;

AND WHEREAS the Municipal Council wishes to implement a policy with respect to the Multi-Year Budget;

NOW THEREFORE the Municipal Council of The Corporation of the City of London enacts as follows:

1. The attached Council Policy entitled “Multi-Year Budget Policy”, appended hereto as Schedule “A”, is hereby approved and adopted.
2. This by-law shall come into force and effect on the day it is passed.

PASSED in Open Council on May 12, 2015.

Matt Brown
Mayor

Catharine Saunders
City Clerk

First Reading – May 12, 2015
Second reading – May 12, 2015
Third reading – May 12, 2015

Multi-Year Budget Policy

1.0 BACKGROUND & AUTHORITY

Municipal Act, 2001, Section 291(1) authorizes a municipality to 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. The process for preparing and adopting a multi-year budget and the requirements for a municipality's budget are prescribed in the *Municipal Act, 2001*.

If a municipality chooses to adopt a multi-year budget, establishing an annual review process is mandatory as outlined in section 291(4) of the *Municipal Act, 2001*. The annual review process requires Council to readopt the budget for that year and subsequent years that the budget applies in order to ensure the municipality has sufficient funds to pay all debts, amounts required for sinking funds or retirement funds, and amounts required for boards, commissions or other body. Also, pursuant to section 290(6) of the *Municipal Act, 2001* the passing of a multi-year budget does not limit the power of a municipality to amend or revoke a budget adopted under section 290 nor does it remove the obligation of a municipality to levy taxes in each year.

Integration and alignment with Council's Strategic Plan to the multi-year budget provides links to the delivery of the Strategic Plan with the funding requirements. Benefits of multi-year budgeting include the following:

- Alignment of longer-term goals and objectives with longer-term funding plans;
- Greater certainty is provided to 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; 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.
 - Impact to the community.

2.0 PURPOSE

The purpose of the multi-year budget policy is to define the approach to be used for multi-year budget planning and Council approvals.

3.0 SCOPE

The scope of multi-year budgeting, including both operating and capital, extends to all City of London civic service areas, boards, and commissions.

4.0 APPROACH / PROCEDURE

Approvals / Adjustments To Multi-Year Budget:

- 1) A multi-year budget is developed covering a four year time period beginning in the second year of a new Council term. Annual updates will be brought forward for Council consideration during the remaining Council term. The first year of a new Council term will be to reconfirm the fourth year of the multi-year budget.
- 2) Early in a new Council term, the Council will develop its Strategic Plan.
- 3) Council will approve a four year average annual tax levy adjustment from rates that addresses municipal inflationary pressures and funding for new strategic initiatives that are aligned with Council's Strategic Plan.
- 4) Civic Administration will prepare a business plan that clearly states the current state and future direction of the service. The business plan identifies the strategies and priorities that

are driving the strategic direction of the service. All strategies and priorities must be aligned with the Council's Strategic Plan.

- 5) Civic Administration will present to Council a budget that is in compliance with the *Municipal Act, 2001*. The budget will contain adjustments to reflect inflationary pressures and strategic initiatives that would further adjust the budget requirement. Each strategic initiative submitted for Council consideration shall be supported with a comprehensive business case.
- 6) In the first year, the Civic Administration will be seeking approval of a multi-year budget for a four year period. Commencing in the second year and in each subsequent year of the multi-year budget, the Council is required by the Municipal Act, 2001 to review and readopt the budget for that year. As part of the review process, the 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, amounts required for sinking funds or retirement funds and amounts required for boards, commissions 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:
 - a) Changes to Council priorities impacting municipal services that require amendments to business plans and budgets;
 - b) 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;
 - c) Unanticipated changes to economic forecasts that impacts municipal costs or revenues. For example, significant changes to interest rates may result in higher costs of borrowing;
 - d) Changes to financing contained in the operating and capital budget as a result of capital project adjustments;
 - e) Proposed changes to future year's operating budgets should only be brought forward and approved once per year. Adjustments are limited to once per year, during the annual update period, to ensure that all requests are considered together;
 - f) Capital budget adjustments can be brought forward at any time during the year, with an identified source of financing, and are not limited to the annual update period. Capital budgeting, by its very nature, is more time sensitive to approvals in order to ensure projects are not delayed (ex. limited construction season);
 - g) Changes to budgets resulting from the annual service review process that employs a zero-based budgeting approach; and
 - h) Changes to budgets resulting from the allocation of assessment growth funding.
- 7) The Treasurer or designate is authorized to make adjustments considered "housekeeping" in nature.

APPENDIX B

Budget Timetable

Description	Target Date
Distribution of Guideline Package	May 27, 2015
Public Consultation <ul style="list-style-type: none"> City-wide Survey Launch of on-line Budget Calculator 	June 2015 – August 2015 July 2015 – November 2015
Final Operating Budget Submission To Financial Planning & Policy (Business Plans, Budget Documents, Business Cases, Forms, User Fee Schedule)	September 28, 2015
Public Consultation <ul style="list-style-type: none"> Time with the Treasurer 	September 2015 – February 2016
Strategic Reviews	October 19 – 30, 2015
Senior Leadership Team Review – Operating Review	October 27, 2015
Senior Leadership Team Review – Capital Review	November 3, 2015
Table the General Property Tax Supported Budget	January 11, 2016 (4pm at SPPC)
Public Consultation <ul style="list-style-type: none"> Budget Workshops (Location TBD) 	January 16 & 20, 2016
Public Participation Meeting	January 21, 2016 (4pm at SPPC)
Property Tax Supported “Operating Budget Review”	February 4 & 5, 2016 (9am at SPPC)
Property Tax Supported “Capital Budget Review”	February 18 & 19, 2016 (9am at SPPC)
Property Tax Supported “Budget Review” (If Needed)	February 24 & 25, 2016 (4pm at SPPC)
Property Tax Supported Budget Approval	March 10, 2016 (4pm at Council)

APPENDIX C

Budget Consultation Plan

The below table represents the vehicles the City of London may use to consult the public on our first ever multi-year budget approval process.

The biggest adjustment that should be noted from a consultation perspective, is the shift to front-end consultation as oppose to back-end consultation completed in previous years (proactive vs reactionary).

Consultation Vehicles	Purpose	Comments	Potential Timelines
City-wide Survey (vendor lead)	<ul style="list-style-type: none"> Provides a suitable lens for Budget development Potential areas of focus could include (but are not limited to): quality of life; perceptions about taxation and value for tax dollar. To be completed in partnership with all areas in the corporation 	<ul style="list-style-type: none"> New addition to process Assists administration in tabling budget that already reflects community input Accomplishes mix of formal and informal input opportunities for residents 	June 2015 – August 2015
On-line Budget Calculator	<ul style="list-style-type: none"> To provide an interactive on-line tool that allows Londoners to submit preferences on services (type and level) to be provided. 	<ul style="list-style-type: none"> This has been a very well received tool in our community and will undergo some modifications to reflect new budget methodology. 	July 2015 – November 2015
Time with the Treasurer (Focus Groups)	<ul style="list-style-type: none"> At the request of community groups, the City Treasurer (and designates) will come out to meetings/gatherings, etc. to do a short presentation (MYB, history, context, etc.) as well as Q&A session. 	<ul style="list-style-type: none"> In-person and/or virtual Potential groups, who have previously expressed interest, include, Chamber of Commerce, London Youth Advisory Committee, LEDC, School Boards, and Women in Politics, Emerging Leaders, Pints and Politics, UWO, Fanshawe College. 	Sept 2015 – Feb 2016
Social Media and other contact vehicles	<ul style="list-style-type: none"> Continue to use and enhance our twitter and Facebook accounts to distribute information about meetings, decisions, etc. Administration will add an increased educational component such as a daily or weekly- “Did you know?” or FAQ type of information. 	<ul style="list-style-type: none"> Continue with dedicated phone line and email account for budget purposes Specific hash-tag for Multi-Year Budget social media conversations. 	July 2015 – March 2016
Open Data	<ul style="list-style-type: none"> Continue to post all budget information on www.london.ca in a timely fashion with improvements to 		January 2016 – March 2016

Consultation Vehicles	Purpose	Comments	Potential Timelines
	<p>content and readability</p> <ul style="list-style-type: none"> • Explore opportunities for budget information to become more interactive for individuals or entities to use data as they see fit. 		
Budget Workshops (x2)	<ul style="list-style-type: none"> • To provide an opportunity for residents to come out and speak with administrators and elected officials. This could be to ask questions, provide input and/or clarify outstanding items. 	<ul style="list-style-type: none"> • In-person workshops showcase the City of London's commitment to consultation and public input. 	Jan 16 and Jan 20, 2016