

Municipal Budgeting 101

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A Summary of MMAH's Guidelines. With notes
from MAP Unit 3 and MFOA Seminar, Spring 2006

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A Budget Definition

- A statement of a municipality's priorities!
- Sets spending limits on programs and services the municipality will offer!
- A political document representing the collective judgment of Council who is ultimately responsible for the final budget document that is adopted!

Common Budget Pitfalls

- Being focused on the short-term and being reactive.
- Assuming that whatever has been done in the past has continued relevance.
- Approaching adopting a budget as if its primary purpose was to find a way to hold the line on taxes.
- Providing services on an ad hoc basis and not as a part of an overall design.

Tips for Improving the Budget Process

- Begin with an appreciation of purpose.
- Plan ahead and plan strategically.
- Have a schedule relating to the timing of the preparation, adoption, implementation and review of the budget and stick to it.
- Know the real costs of providing required services and build on them.
- Hold departments accountable for delivering to the standard and cost decided.
- Project the costs of providing a service over 5 or 10 years.

What is Important to This Council?

- An important first step is to develop a strategic plan – determine what the priorities of Council are!
- Do we simply want a budget for this year alone?
- Do we want to plan for this term?
- ... for the next ten years?
- ...or for the indefinite future?
- What are our municipal objectives and priorities?

What are we willing to risk?

- With provincial cutbacks continuing, we may have substantially less money from the province in the future **and** increased responsibilities.
- How high is Council willing to raise taxes in any given year?
- What programs or services are Council willing to cut?
- What other sources of revenue are available?

Purposes of Budgeting Process

- Control - Ensuring that managers do not overspend their budgets or undertake expenditures that have not been properly authorized.
- Management - Comparing with other years to determine efficiency and effectiveness.
- Planning - Providing information about the future that can be used in making tradeoffs among policies. What will our demands be in the future? What will our population be like? Will this municipality exist?

Priorities

- Limited financial resources must be used to provide municipal services to ratepayers.
- A process should be established to evaluate the competing needs of services in order to maximize the use of funds in the area of highest priority to the municipality. What are our priorities?
- Staff and Council should be involved in establishing management and financial policies and developing a system for prioritizing the capital works.

Current Expenditures

Those that are incurred:

- for goods that are consumable or that have a short life – office supplies, fuel, electricity;
- for expenditures of a constantly recurring nature that have no lasting value – salaries, wages.

Operating or Current Budget

Under the *Municipal Act* a current budget must estimate all amounts required:

- To pay all debts falling due within the year;
- To provide for sinking funds and retirement funds;
- To provide for any local board, commission or other body.

It Also...

- Reflects municipal priorities.
- Sets forth the revenues expected to be generated from various sources during the year.
- Determines the amount of money to be raised from taxes in any year.
- Is limited in usefulness by the traditional means of it's being prepared.

Capital Expenditures

- Any significant expenditure incurred to acquire or improve land, buildings, engineering structures, machinery, and equipment.
- Normally confers a benefit lasting beyond one year.
- Results in the acquisition or extension of the life of a fixed asset. Includes: vehicles, office furniture, studies undertaken for construction or engineering projects.

Capital Budgets and Plans

- A multi-year financial plan, usually 5 - 10 years, for the planning, construction or acquisition of capital works.
- From this plan should come each year's capital budget – that portion of the long term plan which needs to be considered this year.
- Controls future debt levels allowing the municipality to arrange for funds before they are needed.
- Reduces fluctuations in tax rates in years with high capital expenditures.

Financing Capital Expenditures

Options available:

- Long term borrowing;
- Current revenues;
- Debt Issuance;
- Grants;
- Reserve funds;
- Equipment leasing; or
- Private sector funding.

Internal Financing

- Many municipalities rely heavily on transfers of funds from the current year's operating budget as a way of eliminating or reducing their reliance on debt issuance.
- They provide for a portion of their total annual operating budget to be set aside each year exclusively for capital expenditures – “transfers to capital” or “current contributions to capital.”
- Transfers to reserves for future capital use are not required to be designated for a specific use or have the funds segregated.

Reserve for Capital Purpose

- We currently have reserves for a number of future expenditures.
- Reserves should be supported by evidence indicating the extent of reserves required.
- Should not be reduced without sufficient financial evidence to support it.
- A contingency reserve should be maintained on the basis of sound fiscal management and not as a vague eventuality. How was ours established?
- Need to provide by by-law for interest earned in reserves. What account it accrues to?

Capital Expenditure Requests

For each item we will need to determine:

- Description of project;
- Reason for project and priority ranking;
- Total estimated costs of project;
- Amount spent to date (if any);
- Amount saved to date (if any);
- Balance required (broken down in years);
- Financing possibilities/options;
- Effect on future operating costs of department;
- Relationship to municipality's strategic plan.

Capital Items to be Considered!

Preliminary list of capital items that need to be considered and provided for.

- Disposal Sites - vehicle replacement; site maintenance; closure and post-closure; ultimate site replacement.
- Roads Department – truck replacement; equipment replacement; gravel crushing; culverts; change in grade of Mackey Creek Road.
- Fire – truck replacement; equipment replacement.
- Facility Management – repair and replacement of Township offices, hall and garage.
- Office equipment – photocopier.
- Water and septic systems – hall and garage.

Capital Expenditure Committee Goals

- To determine a list of priority capital projects or acquisitions.
- To develop a long-term capital acquisitions plan.
- To determine policy on financing those purchases.

Links Between Capital and Current Budget

- Pay-as-you-go approach – will result in increased costs in **this year**.
- Need to plan for the costs of the future and how you are to finance them.
- Borrowing means carrying charges, using current funds means increased taxes.
- Council needs to determine a policy to direct this type of spending.
- In the year that a capital project is to occur, increased operating costs in wages, utilities and/or materials may also be a factor.
- Decisions made in both budgets must be coordinated.

Operating vs Capital Budget

- An operating budget is what you have been doing here.
- It consists of the expenses for any given year with little being reserved for the future.
- We currently have **some** reserves which we have increased in 2006, this is forward thinking and is a good start.
- We need to make this a permanent part of every operating budget not simply if we have enough left over.

Preparing a Budget

- Top down approach - outlines priorities of Council and should include more than a request for a “zero tax increase”.
- Bottom up approach is where the department builds on the previous year's budget plus x%.
- It implies that all funds spent last year were necessary and only the determination of how much more is important for this year.
- Which way is best? Perhaps a combination?

Assembling the budget

- Prioritize first. Make a list of the programs/policies and in effect expenditures that are **most** important to Council. Rank them.
- When it comes time to cut – use your list of priorities to direct you to the cuts.
- The item at the lowest end of your scale should be the one with the largest cuts. If it's not a priority – why spend money on it?

Focus on outputs not inputs

- What do we get from services provided – money spent?
- What services are we required to provide - no matter what the cost?
- Instead of simply listing the expenses for each department – list what benefits ratepayers receive from each program, service or facility.

Example - Environmental Concerns

Benefits

- Garbage picked up roadside, weekly. – Tangible benefit available to all permanent ratepayers. Provides convenience, sanitary environment to live in.
- Sites open daily for access by private and commercial operators. – Tangible benefit to all ratepayers.
- Professional engineers - monitoring and submitting reports to MOE ensuring compliance. (Provides education and experience that we don't have.) Protection from potential fines from MOE.
- Contractor to perform maintenance of disposal sites – no need for us to own equipment and hire operators with accompanied expenses. Ensures sites are maintained according to MOE standards.
- Which, if any of these items, are you willing to sacrifice should cuts be necessary? Would cuts to Environmental Concerns not mean reducing some of these benefits?
- Which would the ratepayers be willing to sacrifice? Accept?

Focus on what the budget is providing!

- Instead of simply determining how much increase or decrease is expected each year – focus on what the budget is providing rather than what it is taking away in taxes.
- If the **required** services cost more money this year, do we simply not have to provide for it?
- The budget should have been created based on “necessity” and if a service or program is necessary, how can you rationalize cutting it?

- Create a document that accompanies the budget that itemizes what each department contributes to the community and categorize it as a necessity, a demand or a wish.
- If the item is not a necessity but simply something nice to have, that's where cuts should be made – assuming of course that the ratepayers agree. (Although roadside pickup of garbage may not be a necessity, I think that people have likely become attached to it.)
- What are the political consequences of eliminating that service?

Considerations

- Who benefits from each service? All ratepayers or a select few?
- Is there a legislative requirement for this program or service?
- Will this service/program be relevant or necessary 5 or 10 years from now? Is it sustainable?
- Will this municipality be in a position to provide the service or program or should we begin to look at alternative methods of providing the service?

Summary

- Council must decide whether it wants to plan for the future or not?
- Are we ready to implement change or maintain the status quo?
- A capital budget is part of the annual operation budget and needs to be considered.
- There are a lot of tough questions to answer and I believe that is the work of the Capital Expenditure Committee.

Next Steps

- Up to you to decide.

Suggestions

- Take a look at what our priorities are.
- Determine realistically what programs or services will and will not be viable, necessary or required in 5-10 years time and provide for that.
- Prepare for the unknown by continuing to provide for a contingency fund.
- Put a preliminary list of capital projects together so that they may be considered in 2007's budget;
- Draft a policy to guide the budget process now and in the future – suggested completion - fall 2007.
- Include in each year's budget “transfers to capital” or “current contributions to capital”.