
TO: Mayor Kogon and Members of Council

SUBMITTED BY: Shelley Rector, CPA, CMA – Chief Financial Officer

DATE: June 17, 2019

SUBJECT: Capital and Operating Budget Debrief

ORIGIN: 2019-2020 Budget Process

LEGISLATIVE AUTHORITY: 03450-04 Budget Management Policy, 37000-01 Procurement Policy and the MGA, Section 65.

RECOMMENDATION: That council provide answers to the questions in the operating discussion:

1. Is there a way to get operating budgets and rates approved earlier in the fiscal year?
2. What information would Council absolutely require in order to do an earlier approval?
3. What are Council's main concerns about approving the budget before the end of May (if there are any)?
4. Did Council like the approach used for the budget approval for this fiscal year?

AND approve the following approaches for the 2020-2021 budget process and request staff to make any changes to policy and prepare a timeline for approval for the September Committee of the Whole meeting:

Proposed Option 1 – Capital Budget

1. We are proposing that the timeline for approval of the entire Water and General Capital Budgets be moved up to December of 2019 for this year.
2. We are proposing that Council consider moving towards a two-year capital budget approval cycle.

Proposed Option 1 – Operating Budget

- a) We are proposing that the timeline for approval of the Water and General Capital Budgets be moved up to January 2020 for this year. We would look at approving each of the following items between January 2nd and March 31:
 - A) Mandatory Provincial Contributions Area Rate
 - B) Solid Waste Uniform Charge
 - C) Sewer Operating
 - D) Water Operating
 - E) General Operating base rate
 - F) Community Support Area Rate



BACKGROUND: Now that the Capital and Operating Budgets have been approved and, while the experience is still fresh, we wanted to circle back to Council to discuss planning for next year's budget and get a sense whether Council is willing to explore what we believe will be additional improvements to the process.

We will first discuss the Capital Budget process and then move to the Operating Budget Process.

DISCUSSION:

Discussion – Capital Budget

As Council will recall, we set goals for the capital budget process for this fiscal year, which were:

- a. To ensure infrastructure projects are well planned and completed in a timely manner.
- b. To ensure we obtain the best pricing possible in the procurement process. Because the capital budget has been passed in May rather than earlier in the year, there can be a challenge to get the best pricing for contracts.
- c. To decrease or eliminate the need for carry over projects for fiscal 2020/21.
- d. Ensuring there is appropriate time for advanced planning of current year and future year projects.

The earlier we pass our capital budget, the better opportunity we have for maximizing the best possible pricing for our projects. Right now our budgets get passed in May when many contractors already have most of their work planned. In addition, we are seeing a change in the way vehicles are being delivered. We usually procure vehicles and request a timeline for delivery. A few dealerships are not responding to our RFP's because they cannot ensure delivery in our timeline. Having capital approved earlier, and getting orders in before spring, would likely make a difference in the responses we receive around vehicles. In addition, earlier approval of budgets will allow staff to start their initiatives earlier in the year.

We also note that we are seeing a movement towards having a two-year capital budget approval process (see attached article on Saint John) which again allows for streamlining and pricing stability for projects. We could then procure capital paving for the Town in one document that covers two years. This would free up staff resources and allow more time for better planning.

As we noted during this year's budget process, capital budgets are prepared using a variety of tools (many of which are in your capital budget binder):

For the Water Capital:

1. Current requirements
2. Information prepared for the Water Study
3. General Capital priority projects that require work relating to water

For the General Capital:

1. Current requirements
2. Plans and reports (vehicle replacement for example)
3. Allocated amounts for Gas Tax, Capital Out of Revenue, and Sewer

4. If we have additional priority projects, we could fund these using either Operating or Capital Reserves or through long-term debt. As a reminder, long-term debt is usually reserved for those items that have a significant longer-term life (15 plus years)

These tools and other information required for the Capital Budget process are available early in the fall.

Management have historically provided their capital budget information by November for the next year, but it takes until May for the budget to be approved. While there has been an improvement already in our process by having a short list of projects that get approved before May, we believe having the capital budget approved even earlier would provide many benefits to the Town such as:

1. Ensure we are getting the best pricing;
2. Ensure smoother procurement process;
3. Ensure projects get completed sooner;
4. Decrease the amount of staff time spent on the budget process.

We also note, that Council does have the ability to add a project to the capital budget during the year if required if there are sufficient funds in the reserves, or the Town has the borrowing capacity.

Proposal Option 1 – Capital Budget – Preferred Option

1. We are proposing that the timeline for approval of the entire Water and General Capital Budgets be moved up to December of 2019 for this year.
2. We are proposing that Council consider moving towards a two-year capital budget approval cycle.

Proposal Option 2 – Capital Budget

1. That Council approve the projects listed as gas tax, water, and capital out of revenue in December. (I note that if the capital out of revenue needed to decrease to make the operating budget balance, we could take the funds from reserves for the current year and then adjust the buckets for the next fiscal year.)
2. That the remaining capital budget items get approved no later than the end of April.

Proposal Option 3 – Capital Budget

1. Staff do not start the capital budget process until late January with an expectation that approval will not occur until the end of May making it a four-month process.

Discussion – Operating Budget

We changed the process for approval of the Operating Budget this fiscal year, and it appears this process worked well by having each of the rates presented separately with their associated expenses identified.

Today, we would like to confirm that Council wishes to continue with the process used this fiscal year and to discuss whether Council is open to moving the timeline for the Operating Budget to achieve approval of all rates before the end of March. This would allow staff to begin the new year with approved budgets and the ability to move projects forward in a timely manner. It would also decrease the time being spent on the budget process by staff. Like the Capital budget process, information is provided by Department heads late December or early January and budgets are not approved until the end of May.

One of the items that was mentioned as a concern with early approval of budgets was not having up-to-date information on this year's actuals. We noted during the budget process this year that although that there are some Departments that appear to have status quo budgets, there are always variances from year to year. During the budget process, we look at trends not just in the current fiscal but rather over the last few years for those budget lines where they are similar from year to year. Thus, Departments can estimate their budgets using the last few year's actuals, the third quarter reporting information and the plan developed for the upcoming fiscal year.

This decreases the need for us to have to have final numbers for the current fiscal year before forecasting the upcoming year's budget. Staff are willing to provide Council with a forecast to year end at third quarter for the current fiscal year results as well. We see many governments passing their budgets before April 1st (The Federal Government was March 19 and the Provincial government was March 26), without having the final results of the current year.

Our questions are:

5. Is there a way to get operating budgets and rates approved earlier in the fiscal year?
6. What information would Council absolutely require in order to do an earlier approval?
7. What are Council's main concerns about approving the budget before the end of May (if there are any)?
8. Did Council like the approach used for the budget approval for this fiscal year?

Based on discussions today, staff in Corporate Services will develop a budget plan for the 2020-2021 year and bring it to Council in the fall for discussion.

Depending on the answers to the questions above there are a few potential options:

Proposal Option 1 – Operating Budget – Preferred Option

b) We are proposing that the timeline for approval of the Water and General Capital Budgets be moved up to January 2020 for this year. We would look at approving each of the following items between January 2nd and March 31:

- A) Mandatory Provincial Contributions Area Rate
- B) Solid Waste Uniform Charge
- C) Sewer Operating
- D) Water Operating
- E) General Operating base rate
- F) Community Support Area Rate

Proposal Option 2 – Operating Budget

1. Staff do not start the operating budget process until late January with an expectation that approval will not occur until the end of May making it a four-month process.

FINANCIAL IMPLICATIONS: There are potential savings to the Town by having budgets passed earlier and thus being able to get earlier procurements for projects. The actual amounts are difficult to identify at this time.

COMMUNITY ENGAGEMENT: Information would be made available on social media both for this Committee of the Whole session and for the one in the fall. Budget meetings would be announced publicly.

ENVIRONMENTAL IMPLICATIONS: There are no environmental implications.

SOCIAL JUSTICE IMPLICATIONS: There are no social justice implications.

ALTERNATIVES to the Recommended Course of Action:

Capital Budget – Alternative 1

- a) That Council approve the projects listed as gas tax, water, and capital out of revenue in December. (I note that if the capital out of revenue needed to decrease to make the operating budget balance, we could take the funds from reserves for the current year and then adjust the buckets for the next fiscal year.)
- b) That the remaining capital budget items get approved no later than the end of April.

Capital Budget – Alternative 2

- a) Staff do not start the capital budget process until late January with an expectation that approval will not occur until the end of May making

Operating Budget – Alternative 1

- a) Staff do not start the operating budget process until late January with an expectation that approval will not occur until the end of May making it a four-month process

ATTACHMENTS: Saint John Capital Budget News Article