

MANAGEMENT REPORT

Date: June 18, 2024
To: Finance and Labour Relations Sub-committee
From: Karmen Krueger, CPA, CA, Director of Corporate Services/Treasurer
Report Number: FIN24-019
Attachments: Draft Multi-Year Budget Policy

Title: Proposed 2025 Budget Process, Tentative Schedule and Multi-Year Budgeting Policy

Objective: To provide updates to Council regarding the proposed process and tentative timelines for approval of the 2025 budget, to outline preliminary assumptions being used for the 2025 budget and to consider adopting a multi-year operating budget framework/policy.

Background: Until recent years, historic practice in some municipalities, including the City of Stratford, had been to seek Council direction for a budget target prior to staff putting together a draft budget. The intent was that with a clearly defined budget target, staff could return a budget that meets requested guidelines and simplifies deliberations.

This historic practice does not allow for factors that are outside of Council or staff control, such as provincial downloading, inflation, or supply chain cost considerations. Further, impacts to approved levels of service and new initiatives to support and advance the strategic priorities of this Council cannot effectively be considered or presented in this type of framework. This approach often results in a lesser array of options and forced reductions in services rather than a more fulsome discussion of any changes to levels of service.

The method used in many municipalities in recent years, including Stratford, is for staff to present a responsible draft budget based on the current established levels of service and approved initiatives. It includes the operating costs, as well as capital requirements to ensure those established levels can continue without interruption. The draft budget presented is the cost to deliver these approved services and includes previously provided direction and implications of decisions provided in the previous year(s).

This methodology shift has occurred because line items no longer contain significant contingencies. The costs to deliver the services are analyzed in detail by professional department staff and managers and reviewed by the senior leadership team and accredited finance staff. This approach has been used in the past three budget years.

There is no rule as to when the budget must be approved as long as it is within the year. However, timely budget approval is critical to ensure that planning and procurement for operating activities and capital works occurs early on to ensure competitive pricing and timing can occur within the year where possible.

In past years the budget timeline has been presented at Sub-committee, with a subsequent pre-budget meeting scheduled with Council to further review strategy and direction, however this practice is also evolving.

Staff are proposing a slightly different process and timeline for 2025 that is outlined below.

1) Analysis: Multi-Year Budgeting

The use of multi-year operating budgets is common practice in many municipalities and Stratford has been moving towards this. For 2025, the intent is to present a multi-year operating budget covering 2025, plus three additional years, 2026-2028.

There is no expectation that approving the 2025 budget is an approval of the subsequent years. Instead, as outlined in the Municipal Act, Council approves a one-year operating budget only. The purpose of the subsequent years is intended to illustrate inflationary impacts and known cost pressures that are likely to affect those subsequent years. It is also intended to reflect declining debt levels and increases to reserve fund transfers to fund the 10-year capital program. If legislative changes are known or anticipated, or new funding strategies are approved, this also gives a format to show what those effects might look like.

Attached to this report is a draft policy to simply outline the parameters of multi-year budgeting for the City. This policy is consistent with other municipalities who have such policies.

2) Process and Assumptions for 2025

Department staff consider whether efficiencies can be found without impacting services and present a budget that is 'zero-based' – that is, includes only the costs and revenue assumptions to maintain the status quo level of service that has been established and approved by Council. Considerations are also given to potential efficiencies that can be recognized due to reduced fuel consumption, the switch to more efficient equipment and so on.

Some pricing contingencies and assumptions are included for things where full pricing impacts are not yet known, such as where an agreement for services is due for renegotiation and expected to be renewed at a different cost from current.

Should Council at any time request a review of the established service level that could impact the current or future year budgets, this may also be incorporated into the process.

Inflation is considered, but not blanketly assumed for the year being reviewed. Staff use known market information for inflation and consumption levels are built into things like fuel, hydro, heat, materials, and supplies. For 2025, there seems to be some relief approaching when assessing national pricing indices for both consumer goods and commercial building costs. For the purposes of preparing the 2025 budget, general inflation is assumed to be **2.5%**.

In cases where material costs more accurately mirror non-residential building indices (including capital projects), higher assumptions will be used, sometimes in the range of 4-10%. Note that while inflation estimates in late 2022 and early 2023 were significantly higher than this, actual expenditure results in 2023 and 2024 have remained within expected levels due to the careful analysis and monitoring performed by the operational departments.

Other factors and effects that departments will provide additional detail on and that may impact 2025's draft budget include:

- Ongoing impacts of Bill 23 phasing in/waiving of Development Charges.
- Reconsideration of Community Improvement Plan incentives (Housing, Heritage, other) that were deferred in the 2024 budget process.
- The Community Grants and other Community Supports programs.
- Capital /Infrastructure/Asset Management pressures to replace existing assets that have reached their end of useful life, including those within the 10-year capital program period.
- Rising insurance costs (both premiums and costs of claims management).
- Labour markets/recruiting and retaining and the financial impact of that/wage review.
- Implementation/continuation costs of initiatives that have been approved/are in progress:
 - Cultural Plan
 - Sport Tourism Plan
 - Cooper Site development
 - Other Industrial Land servicing requirements
 - Accessibility (included in the 10-year capital program)

- Climate change initiatives (included in the 10-year capital program)
 - Climate change effects (included in the 10-year capital program) to meet 2030 and 2050 milestones (many of these initiatives are capital intensive in the initial stages and will result in some operational savings through the life of the investment).
 - Investment in affordable housing (deferred 398 Erie impacts, and any others).
 - Any Council or other initiatives not yet identified.

Estimates from any of these considerations inform the 'base budget'.

As has been experienced in the past three budget years, the most significant contributor to any budget increases is expected to be the transfers to reserve funds (for capital purposes). The required investment in our assets still far exceeds our current contributions. Using a combination of reserve funds, long-term debt, and sourcing grant funding where possible continue to be the primary funding sources.

For the 2025 budget, staff will be recommending increasing transfers to reserves to fund the capital program in an effort to meet the 2025 capital expenditure requirements as well as build the transfers to ensure future years of capital replacements are possible.

In 2024, the approach taken regarding funding of new salaries (expansions) and new debt (398 Erie project) – to defer the impact by 50% - will add to the 2025 opening pressures.

Council should consider that legislated services and impacts are not discretionary and consider strategic priorities in that context. These are the difficult concepts that will continue to be part of the budget processes for 2025 and beyond.

3) Overview of Timeline and Internal Process Controls

The 2025 budget process will begin very shortly with Departments first reviewing the Fees and Charges By-law, which will inform many of the fee revenue lines in the 2025 budget.

Departments will use guidelines and budget assumptions for:

- wages (based on collective agreement information).
- employer costs for statutory payroll remittances.
- employee benefit rates (based on an analysis of claim history and estimated changes from collective agreements).

- utilities (based on consumption levels, estimated savings due to climate change investments where possible, hedging agreements and pricing trends).
- corporate administrative costs, such as property taxes, IT costs and inter-functional allocations.

Finance staff will provide information to departments so that budgets are developed with consistent assumptions for items that affect all departments.

The Treasurer will hold a budget training/review session for Managers and Directors very shortly to review general budgeting principles and ensure a smooth process. This session will augment the updated budget instruction manual that is provided to departments each year that outlines required processes to ensure a consistent budget document.

After preparing their departmental draft budgets meeting the deadlines established, each Department Head meets with the Treasurer and/or Chief Administrative Officer (CAO) to discuss, review and assess individual budget proposals. This is to ensure accuracy, completeness, and consistency corporate-wide.

Once these budget component reviews are completed and compiled, the draft budget will be discussed in its entirety by Corporate Leadership Team led by the Treasurer and Chief Administrative Officer, and then compiled into a comprehensive Draft Budget package that is expected to be released to Council and the public mid-October.

It is at this stage the budget survey will be released with commenting open for 3 weeks and some form of Open House or Chat with the Treasurer to seek feedback from residents.

This timeframe allows sufficient time to summarize and compile comments into themes to provide at one of the early budget meetings.

The 2024 budget meetings consisted of two full-day meetings, plus two subsequent evening sessions. Staff would like to suggest a similar format, with two full days scheduled, and if required, an additional evening meeting can be added.

Proposed dates:

Day 1 – Thursday, November 28: A full day for preliminary budget presentations and overview plus Capital Program overview and Operating budget.

Day 2 - Tuesday, December 3: A full day for Expansion Initiatives (if any), deliberations and Council directions.

Day 3 (if required) - Monday, December 9: An evening meeting to finalize all recommendations to bring forward the final budget for Council approval.

Final adoption of the 2025 Budget By-law: at Regular Council on January 13, 2025 (depending on if the third meeting date is required).

If this format is approved, the meetings can be scheduled by the Clerk's Office.

The intent is to keep momentum without rushing and ensure best use of the time. Should the full day option not proceed, the structure would likely require 3-5 evening meetings.

Staff will continue to make adjustments to the budget survey format to seek useful feedback for Council's consideration and welcome any suggestions from Council and members of the public.

The following is a summary of the proposed 2025 budget timeline as noted above:

Timelines	Proposed Dates
Proposed 2025 budget process, tentative schedule and multi-year budgeting policy to Council	to June 18, 2024, Finance and Labour Relations Sub-committee
Fees and Charges By-law update for 2025 rates	to August 12, 2024, Council
Release of 2025 draft budget to Council and the public	October 15, 2024
Public Engagement - release of 2025 budget survey to the public <ul style="list-style-type: none">• Closing date for 2025 budget survey	Open October 15, 2024 Close November 15, 2024 Survey results provided at Day 2 budget meeting
Public Engagement – if directed <ul style="list-style-type: none">• Open House (in-person)• Chat with the Treasurer	dates to be determined if directed by Council
Finance Committee budget meetings	November 28, 2024 December 3, 2024 December 9, 2024
Public notice for passing of the by-law	Notice of Intent to adopt the annual budget to be published once at least 10

	calendar days prior to the scheduled Council meeting (between December 10/24-January 3/25)
Final approval of 2025 budget by Council (Tax Levy By-Law)	Regular Council January 13, 2025

Financial Implications:

Budget assumptions, current service levels, the implementation of strategic priority goals and changes to funding envelopes from the provincial government will be reflected in the 2025 draft budget package. There are no direct financial, legal, insurance or asset implications to this report.

Alignment with Strategic Priorities:

Strengthening our Plans, Strategies and Partnerships

Partnering with the community to make plans for our collective priorities in arts, culture, heritage and more. Communicating clearly with the public around our plans and activities.

Developing our Resources

Optimizing Stratford's physical assets and digital resources. Planning a sustainable future for Stratford's resources and environment.

Alignment with One Planet Principles:

Health and Happiness

Encouraging active, social, meaningful lives to promote good health and wellbeing.

Equity and Local Economy

Creating safe, equitable places to live and work which support local prosperity and international fair trade.

Staff Recommendation: THAT the report titled, "Proposed 2025 Budget Process, Tentative Schedule and Multi-Year Budgeting Policy" (FIN24-019), dated June 18, 2024, be received;

THAT Council approve the Multi-Year Budgeting Policy as presented;

THAT Council provide direction regarding any changes to the budget survey and/or public engagement format preference;

THAT Staff be authorized to proceed to schedule budget meeting dates for Finance Committee as follows:

- **November 28, 2024 – 9:00 a.m. to 4:00 p.m.**
- **December 3, 2024 – 9:00 a.m. to 4:00 p.m.**
- **December 9, 2024 – 4:30 p.m. to 8:00 p.m.**

AND THAT Council provide staff with any specific known initiatives to be considered, changes or additions to capital projects identified in the current 10-year capital forecasts, and changes in service levels or activities to advance the approved strategic priority goals it wishes to be considered for the 2025 fiscal year, if any at this time.

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