



## Multi-Year Budgeting

<b>Date</b>	July 7, 2021
<b>To</b>	Executive Committee
<b>From</b>	Financial Strategy & Sustainability
<b>Service Area</b>	Financial Services
<b>Item No.</b>	EX21-49

### RECOMMENDATION

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The Executive Committee recommends that City Council:

1. Endorse a two-year multi-year budget process with the following features:
  - a. The period of the multi-year budget be set at a static two-year budget with the first budget period being 2023-2024.
  - b. In the first year, City Council approves:
    - i. the first year of the two-year budget along with the mill rate and utility rate for the first year; and
    - ii. in principle, the second year of the budget along with the in-principle mill rate and utility rate for the second year.
    - iii. The first year of the capital budget and the second year of the capital budget in principle within a five-year capital plan.
  - c. In the second year:
    - i. an annual approval process will allow for limited adjustments to the second year of the budget and approval of the mill rate and utility rate for the second year;
    - ii. budget adjustments will be limited to annual adjustments of a more significant nature due to certain circumstances, such as: significant changes to Council's strategic priorities and/or unanticipated external economic, environmental, and political factors.

- d. A budget book will be prepared for the initial release of the two-year budget. In the second year, a supplemental document would be prepared summarizing any changes approved by Council for the second year of the two-year budget.
2. Direct Administration to consult with the City's service partners whose budget requests are included in the City's budget over the next year to determine their scope of inclusion in the multi-year budget.
3. Direct Administration to report back to City Council in 2024, prior to the development of the next two-year budget (2025-26), with a summary of the benefits, implications from the implementation of the first multi-year budget process, and potential improvements on the process.
4. Approve these recommendations at its July 14, 2021 meeting.

## **ISSUE**

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The City of Regina's current planning framework, which includes the Budget, is driven by Council's approved City Vision and the Official Community Plan (OCP). One of the key priorities in the OCP is "Achieving Long-Term Financial Viability". Budgeting beyond one year makes it easier to determine the long-term impacts of decisions made today. It is useful for the City of Regina to examine a multi-year budget approach, as adopted by several cities, as it encourages increased focus on long-term financial viability.

Administration conducted a review of other cities to determine the advantages and disadvantages of multi-year budgeting. Based on this research, Administration recommends the City adopt a multi-year (two-year) operating budget beginning with a 2023-24 budget. The operating budget would show two years with Council approval each year. The current capital budget process would be essentially unchanged with a five-year capital plan being prepared with the first year being approved by Council and the second year approved in principle. Two years is recommended as it is a reasonable trade-off between long-term financial viability and not looking too far into the future for budgeting where it is difficult to predict, especially for the inaugural multi-year budget. This two-year operating budget approach is similar to the approach Saskatoon implemented for the 2020-2021 years.

## **IMPACTS**

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### **Financial Impact**

There are no financial, environmental, risk/legal, or other implications or considerations. All work is expected to be performed by in-house staff. As Administration develops a more detailed implementation plan any one-time implementation costs will be brought forward in the 2022 budget process.

### **Policy/Strategic Impact**

The recommendations support the OCP, and Strategic Plan to enable a longer-term perspective with more transparency to the public, City partners and other entities.

There are no accessibility, environmental, legal/risk or other impacts.

### **OTHER OPTIONS**

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Administration is recommending Option #1 in the Discussion section of this report - a static two-year 2023-2024 Budget.

Option #2 - a static three-year Budget (2023-2025)

City Council could adopt a static three-year budget. This option would have a one-year overlap into the next City Council's term.

Option #3 - a static four-year Budget (2023-2026)

Experience from other cities demonstrates that it is quite common to have a four-year budget which could align with the Council's election cycle or its strategic planning period. City Council could adopt a static four-year budget (2023-2026), but it would have a two-year overlap into the next City Council's term.

### **COMMUNICATIONS**

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A communication strategy will be developed to advise and educate residents of the change to the City's budget, followed by ongoing campaigns to encourage public participation in pre-budget planning.

### **DISCUSSION**

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The City of Regina's current planning framework, which includes the Budget, is driven by Council's approved City Vision and the Official Community Plan (OCP). One of the key priorities in the OCP is "Achieving Long-Term Financial Viability". Budgeting beyond one year makes it easier to determine the long-term impacts of decisions made today. It is useful for the City of Regina to examine a multi-year budget approach, as adopted by several cities, as it encourages increased focus on long-term financial viability

The number of Canadian municipalities adopting multi-year budgets has increased over the past few years. In so doing, many of these cities have improved their financial, budget, and strategic planning practices and processes. Additionally, they have benefited from a reduction in staff time and other

resources allocated to budget development by placing a greater emphasis on achieving long-term goals and objectives and less on the annual budget process and preparation of the budget document, especially after year one of the multi-year budget.

### **1. What is Multi-Year Budgeting?**

Multi-year budgeting is defined by the Government Finance Officers Association (GFOA) as “a document that authorizes a municipality’s planned expenditures and anticipated revenues for two or more consecutive budgetary years”. A multi-year budget refers to the development and adoption of an expenditure and revenue document that spans across two or more years. The budget for each year can be approved one year at a time or several years at once depending on the legislative environment of the municipality. Typically, a defined mechanism is put in place to adjust the budget each year to deal with unexpected changes in revenue or expenditure.

Multi-year budgeting describes an approach to budgeting whereby fiscal budgets are planned for the longer-term instead of just for a period of one year. It increases the likelihood that longer-term consequences of spending decisions can be balanced against the affordability available over a longer budgetary cycle. Multi-year budgeting is considered a best practice by the Government Finance Officers Association (GFOA) and has been embraced by many Canadian municipalities.

### **2. Two Main Types of Multi-Year Budgets**

There are two main types of multi-year budgets: the static multi-year budget and the rolling multi-year budget.

- **Static Multi-Year Budget:** Details the expenses and revenues for a budgeting cycle of two or more years. The budget is approved prior to the multi-year period with only minor adjustments made at the end of each budget year to reflect any significant change in expenses and revenue in the subsequent years. In the adjustment year, an additional year is not added at the end of the period. For example, in year two of a two-year multi-year budget it is only looking ahead one year. One key advantage of the static approach is in the subsequent years of the multi-year budget less time is typically spent on the budget process and document allowing for more time to be spent on other value-added activities, such as advancing the OCP and Strategic Plan. This is Administration’s recommended approach for the City of Regina related to operating budgets.
- **Rolling Multi-Year Budget -** Under this approach, a new budget year is continually added as the current budget year ends. Thus, the rolling budget requires an incremental extension of the existing budget so that at each point in time, the City will be looking ahead the same number of years. This is similar to how the City of Regina’s capital plan is developed. The benefit of this approach is that the City is continually guided by a two-year plan and the rolling approach may better reflect that a municipality’s operating environment is continually

changing. A drawback with this approach is that time will be required annually to create the new year added to the end of the period thus losing some of the efficiencies of a static budget. As well, an incoming Council could be potentially committed to budget decisions made by an outgoing Council if the City enters a contractual obligation based on multi-year budgets approved by an outgoing Council. This is not Administration's recommended approach for its operating budgets, however, the City's current five-year capital planning process would continue to follow this approach.

Therefore, similar to the City of Saskatoon, it is recommended that Regina adopt a static multi-year budgeting approach for operating, which is the most common approach adopted by municipalities in Canada, which, among other benefits, allows for the achievement of efficiencies in the budget process.

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

The following section briefly addresses the main advantages and disadvantages with respect to multi-year budgeting.

#### **Advantages**

Multi-year budgeting is a process that links long-term planning to budgeting for expenses and revenue for more than one year. By moving to a multi-year budgeting process, many local governments have saved time and improved their long-term financial and budget practices. The cities that have adopted a multi-year budget believe this budgeting process helps them keep an eye on the future and see where they are, where they are going, and where they plan to be. Additionally, these governments have benefited from a reduction in staff time and other resources allocated to budget development (especially for years after year one of the multi-year budget) allowing for a greater emphasis on achieving long-term goals and objectives and other more value-added activities.

#### **Promotes Long-Range Thinking and Strategic Planning**

Most programs, services and capital investments that the cities undertake have impacts and need funding over more than a single year. A multi-year budget will help strengthen a longer-term planning focus for the City and improve implementation of the strategic and business plans by ensuring longer-term goals and objectives are supported by longer-term funding plans. Also, positive and negative long-term implications of decisions become more obvious.

#### **Improves Financial Management**

By providing estimates for service needs, commitments, and funding requirements for a longer-term period, multi-year budgets help determine potential funding gaps and stimulate earlier discussions around strategies to address the funding gaps. This will help improve the City's financial sustainability.

### **Strengthens communication, accountability and transparency**

Multi-year budgets can also improve accountability, transparency and decision-making by providing Council and citizens more contextual information about the consequences of current period decisions in future periods. Multi-year budgets help connect discussions regarding the achievement of long-term goals and short-term spending decisions.

### **Improves Efficiency**

The current annual budget process requires substantial time and effort for Administration and Council on an annual basis. Although multi-year budgeting requires significant effort in the first year, it should require much less effort for annual adjustments in subsequent years, provided annual adjustments are limited to external factors such as federal or provincial budgets, Council directed changes to priorities, or unforeseen and significant changes to economic factors. This could potentially save time (but not necessarily a cost or FTE savings) each year and create capacity for other value-added activities, including strategic and business planning, budget monitoring and evaluation, and process improvement.

### **Reduces Uncertainty**

Multi-year budgets provide a more in-depth estimate of service delivery expectations and the City's ability to fund those services over the long-term. Proper alignment of service cost projections with tax and other revenue sources provides a greater degree of certainty for the citizens about what services they will receive and what taxes they will pay for those services.

### **Disadvantages**

#### **Relies on Longer-Term Estimates**

One challenge with multi-year budgeting is the difficulty in accurately projecting revenues and expenses for multiple years. Projections are based on several controllable and uncontrollable elements including, but not limited to, collective agreements, inflation rates, population growth, and general economic conditions. Unanticipated changes in any of these factors could have significant impacts on budget plans. This can be mitigated by including the common practice of an annual review and adjustment step in the budget development process for significant items.

#### **Impacts Council's Ability to Reallocate funding**

A multi-year budget signals Council's intention about the services to be provided and the long-term financial direction of the City. This could be perceived as a constraint on Council's decision-making ability, or a loss of flexibility in making budgetary decisions. However, an annual review and adjustment process would mitigate this risk.

#### **Additional Effort for Implementation**

Transitioning to a multi-year budget can be difficult because it increases the workload of staff across the organization involved in the budget process during the first year of developing a multi-year

budget. The mitigation for this step is to allow sufficient time to implement the first year. For the City of Regina the mitigation for this item is to start multi-year budgeting in 2023 instead of 2022.

#### **Mill Rate Estimation for the Second year**

Politicians may be weary of quoting a mill rate for the second year as it could be perceived as a lack of flexibility. Even if the future mill rate can be adjusted the following year, some residents may hold Council more accountable to it. The mitigation to this would be to have clear communication up front that this is a mill rate estimate for the purposes of better long-term financial planning and there is the opportunity for Council to make changes when the second year arrives.

#### **4. Does the City have Authority to Approve Multi-Year Budgets?**

The City of Regina has the authority to generate multi-year budgets and has developed a five-year Capital plan for many years. Section 128 of *The Cities Act* prescribes that Council must adopt an operating and capital budget for each financial year and does not permit Council to pass a multi-year tax rate bylaw. Therefore, the City has authority to approve multi-year budgets if Council each year approves the mill rate and enacts the tax bylaw in an annual meeting. Unlike the mill rate, Council is able to approve utility rates for multiple years.

#### **5. Capital Budget**

Under the recommended option the City's capital budgets would remain the same as they are currently, which is a rolling five-year capital plan with the first year approved. The one difference from the current method is the second year would be approved in principle. Changing the capital plan to two years, the same as operating, would reduce the long-term nature of capital budgeting and thus it is being maintained as a five-year capital plan. In the future, Administration is considering an option of moving to a ten-year capital plan.

#### **6. Utility Operating Budget**

Similar to the General Operating Budget, the recommended option has the Utility Operating Budget being a two-year budget with the first year approved and the second year budget and utility rate approved in principle. This recommendation aligns both operating budgets and has the approval of the utility rate being the same process as the approval of the mill rate.

#### **7. Jurisdictional Review**

Multi-year budgeting does not have a standard approach in Canadian municipalities, but some municipalities have been successful in its implementation and have acknowledged the benefits of multi-year budgeting. Many cities in Canada have implemented a multi-year budget and the number of local governments in Canada adopting a multi-year budgeting approach has increased over the past years. To illustrate how common this approach has become, Appendix C shows that of the twenty Canadian cities selected, seventeen cities perform multi-year budgeting. Also, Saskatoon recently implemented their first two-year multi-year budget for the 2020-2021 years.

Below are some key observations and insights from the jurisdictional review in Appendix C among twenty cities in Canada:

- Multi-Year Budget Cycle:
  - ✓ Six Cities (30%) use a 4 year budget cycle;
  - ✓ Five Cities (25%) use a 2 year budget cycle;
  - ✓ Three Cities (15%) use a 5 year budget cycle.
  - ✓ Three Cities (15%) use a 1 year budget cycle; and
  - ✓ Three Cities (15%) use a 3 year budget cycle;

The most common budget cycle is a four-year term at 30% among these twenty cities, followed closely by those that use a two year budget cycle.

- Comparing Multi-Year Budget Cycle with Council's Election Term, of the ten cities that use the static method:
  - ✓ Zero of ten cities do not overlap Council's election term; and
  - ✓ Ten of ten cities' multi-year budget cycles have an overlap of Council's election term.

This overlap allows the new Council to make adjustments to the existing budget for their first full year, but does not require the tabling of a new multi-year budget in their first full year which would require an extensive and quick education process for newly elected councillors.

However, for the City of Regina, the Administration is recommending two-year (2023-2024) multi-year budget cycle, which has no overlap with Council's election term (2021-2024), primarily due to two major reasons. First of all, it is the first time the City of Regina has adopted a multi-year budgeting process, therefore adequate preparation time and consultation with stakeholders is necessary which is why the 2023 start date was selected. Secondly, the recommendation ensures the current Council avoids approving a budget period that extends into the term of the next Council.

- Comparing Multi-Year Budget Cycle with Strategic Plan Period:
  - ✓ 47% of cities' budget cycles are the same number of years as the term of the strategic plan period.

Nearly half of the cities' budget cycles have the same number of years as their strategic plan. This alignment can provide direction in setting budgets with future strategic planning initiatives. The primary reason is to allow for greater integration between the strategic decisions and the operational impacts, as well as showing how an operational decision made in any given year has implications in future years. Administration is not recommending this for

the City of Regina as a four-year multi-year would be difficult for its first multi-year budget as it builds its capacity, processes, and knowledge.

- Types of Multi-Year Budget:
  - ✓ 59% of cities adopted a static multi-year budget; and
  - ✓ 41% of cities adopted a rolling multi-year budget;

The most common type is a static budget, which is the type Administration is recommending.

## **8. Multi-Year Budget Options for the City of Regina**

As noted earlier in the report, Administration is recommending a static method for operating instead of rolling primarily to capture efficiencies and to eliminate the risk of Council approving a budget that extends too far into the next Council's term. The current method of a rolling five-year plan for capital will be maintained as it has worked well for the City and continues the practice of a prudent long-term planning. Three multi-year static operating budget options are analyzed below:

### **Option #1 - A Static Two-Year 2023-2024 Budget (Recommended)**

It is recommended that City Council adopt a static two-year multi-year budget with the initial budget being 2023-2024. In the first year of the process (2022), the first year of the budget (2023) will be approved with the second year (2024) approved in principle. Each year of the budget cycle will have an annual approval process which will allow for adjustments.

The initial 2023-24 multi-year budget would have City Council approving a two-year budget in late 2022. Council would be approving year two in principle to comply with legislation so year two is more of a forecast. In late 2023, for the second year (2024), the budget would be reviewed and approved by Council but the intent is for changes to be limited to annual adjustments due to certain circumstances, such as: significant changes of Council's strategic priorities, and/or unanticipated external economic, environmental, and political factors.

Pros:

- A 2023 implementation allows Administration to have sufficient time to prepare a new two-year budget process, multi-year budgeting policy, implementation plan with sufficient communication and consultation.
- The two-year multi-year budget period is a reasonable trade-off between long-term financial viability and not looking too far into the future where it is difficult to predict, especially for the inaugural multi-year budget. Saskatoon consciously made this similar trade-off by initially desiring a four-year multi-year budget but later deciding on two-years.
- Allows the current Council time to determine its priorities before approving a multi-year budget.
- Has the same end year as the current Council's election term.

- Gives the next elected Council (a term of 2025-2028) a chance to effect budgetary change immediately following their election in November 2024 to approve the next two-year budget 2025-2026. This allows the current Council to approve a budget that does not extend into the new Council's term.

Cons:

- The disadvantage with this option is it may be more difficult for a newly elected Council to orient themselves sufficiently to approve and effect budgetary change for the 2025-2026 budget immediately following a new election. This is mitigated by the fact that the 2025-2026 budget could be approved in Q1 of 2025 as is currently done in election year budgets at the City of Regina.

**Option #2 - A Static Three-Year 2023-2025 Budget**

Pros:

- This budget cycle would straddle the current and future Councils' election term (2021-2024), which allows the new council elected in 2024 more opportunity to familiarize themselves to the relevant information before approving a multi-year budget.
- This option aligns with the end year of the four-year term of the upcoming draft Strategic Plan (2022-2025).

Cons:

- A three-year multi-year budget is the least common period found in the twenty cities reviewed.
- Three years increases the uncertainty of assumptions in the future. Therefore, a two-year period is a reasonable trade-off to limit the future year adjustments and the accompanying rework while still looking more long-term.
- This option results in the current Council approving a budget that extends one year into the next Council's term.

**Option #3 - A Static Four-Year 2023-2026 Budget**

Pros:

- A four-year multi-year budget is the most common period found in the twenty cities reviewed.
- Experience from other cities demonstrates that a four-year budget is beneficial by having the same term length of the Council's election term and strategic planning period.

Cons:

- Four years is a significant period length for a budget, especially for a City implementing its first multi-year budget, such as the City of Regina.

- This option results in the current Council approving a budget that extends two years into the next Council's term.

## 9. Recommended Option

Administration recommends Option #1, moving forward with static two-year 2023-2024 multi-year operating budgets for the General and Utility funds, while retaining the current five-year rolling capital budget for both funds. This recommendation gives Council the flexibility to adjust the budget and mill rate on an annual basis and it is consistent with *The Cities Act*. It also does not have the current Council approving a budget that extends into the term of the next Council. In addition, it is a reasonable trade-off between planning for the long-term and using too long of a term that there are many adjustments in future years, especially in its inaugural multi-year budget. Of note, Saskatoon chose a two-year multi-year budget.

## 10. Implementation Plan

Appendix A outlines the high-level implementation plan for the recommended option.

## DECISION HISTORY

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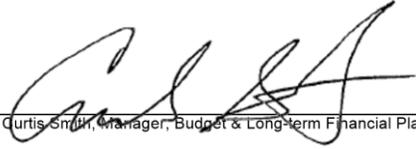
On February 28, 2011, Council submitted a Motion MN11-3 that Administration undertake a review of what might be possible if the City of Regina was to move to a system of budgeting that would involve longer term planning for both the capital and operating budgets.

On November 14, 2011, City Administration provided a report (EX11-50) to the Executive Committee of Council that included analysis of the benefits and risks, as well as other considerations for pursuing a longer-term planning for both the capital and operating budgets. The Executive Committee resolved that item M11-3 be removed from the list of outstanding items for the Executive Committee. It was also resolved that members support, in principle, the idea of multi-year budgeting and request the matter be placed on the agenda for an upcoming strategic planning session.

On February 23, 2015 Council submitted a new motion (MN15-1) directing the Administration to prepare a report no later than the third quarter of 2015 describing the features, benefits and potential work plan associated with producing a multi-year budget for the City of Regina beginning in 2017. A report was presented to Executive Committee on December 2, 2015 (EX15-20) recommending implementation of a multi-year budget. This report was rejected by City Council.

Respectfully Submitted,

Respectfully Submitted,



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6/25/2021



Barry Lacey, Exec. Director, Financial Strategy & Sustainability

6/29/2021

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**ATTACHMENTS**

- Appendix A Implementation Plan & Timeline (2023-2024 Budget)
- Appendix B Jurisdictional Review
- Appendix C Jurisdictional Review Table

**ATTACHMENTS**

- Appendix #A (MYB)
- Appendix #B (MYB)
- Appendix #C (MYB)