

Budget Policy Considerations

Town of Collingwood

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Prepared by BMA Management Consulting Inc.

Principle: Sustainability	
<p>Meaning</p> <p>Sustainability is the degree to which the City can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy.</p>	
<p>Guiding Principles</p> <ul style="list-style-type: none"> • Sufficient revenues are raised to fund operations • Existing and future liabilities identified with a funding strategy, balancing inter-generational equity • Ongoing financial strategies in place to address financial issues today and in the future • Budgets prepared with consideration to the impact on tax and ratepayer affordability • New initiatives and any recommended increases in service levels identify the impact to tax and ratepayers 	<p>Recommended Policies</p> <ul style="list-style-type: none"> • The Town’s budget shall be in compliance with the Municipal Act and thus must be balanced and shall not plan for a deficit. • The use of one-time revenues shall not be incorporated into the Town’s base budget. • It is recommended that departmental budgets be limited to 2% and that the Town’s overall net levy increase be at or lower than the core rate of inflation. • Continuous delivery of 2015 base levels of services • The salaries and wages will be calculated based on percentage increases as per the collective agreements. • The Town will monitor taxpayer affordability, with an overall objective of maintaining the average in the BMA Study (taxes as a percentage of household income).
<p>Observations</p> <ul style="list-style-type: none"> • Cost of current service levels will be impacted by inflation. According to Stats Canada, Canada’s inflation rate increased by 1% year-on-year in Oct. 2015. The inflation rate remained below the central bank’s target of 2% however, excluding food and energy, the annual core inflation was recorded at 2.1%. Current union collective agreement entered into in 2015 includes negotiated annual wage increases. • Taxes as a percentage of average income was calculated based on the tax burden using average dwelling values (MPAC). Collingwood’s taxes as a percentage of household income are 3.8%; slightly above the average BMA survey of 104 Ontario municipalities at 3.7%. The annual budget should be affordable today and into the future. • This requires constant search for excellence and value with due regard to 	

<p>economy, efficiency and effectiveness.</p>	
<p>Principle: Maintain Assets</p>	
<p>Meaning</p> <ul style="list-style-type: none"> Asset management is a systematic process of maintaining, upgrading, and operating physical assets cost effectively. It combines engineering principles with sound business practices and economic theory, and it provides tools to facilitate a more organized, logical approach to decision making for the replacement/refurbishment of capital assets and infrastructure in a sustainable manner. The purpose of an Asset Management Strategy is to develop a structured set of actions to be undertaken by the Town to enhance its asset management capability and achieve its strategic objectives. 	
<p>Guiding Principles</p> <ul style="list-style-type: none"> Physical assets are maintained/replaced based on lifecycle costing and using models of best economy, considering capital and operating costs The assumption of new assets and infrastructure and the replacement of existing assets will be well planned, and appropriate financing strategies and means will be utilized to minimize the financial impact and ensure that the current and future tax and water/wastewater rates are maintained at manageable levels. 	<p>Policy Considerations</p> <ul style="list-style-type: none"> Gradually increase the Town’s infrastructure levy of \$1,027,000 in accordance with the Asset Management Plan with a minimum increase of the CPI core inflation rate. To increase transparency and accountability and demonstrate fiscal responsibility, the infrastructure levy should be identified separately on the tax bill. Recognizing that the cost of desired capital projects exceed available funds, a framework for prioritizing projects based on a blend of municipal value and risk criteria will be used. Without a transparent unbiased approach, the selection process for projects will be subject to the risk that suboptimal decisions will be made with the Town’s limited resources.
<p>Observations</p> <ul style="list-style-type: none"> As stated in the Town’s CBSP: From the perspective of the Town, strategic investment in and maintenance of the Town’s physical assets (water, sewer, roads, parks) are necessary in order to keep Collingwood competitive and desirable As reported in the Town’s Asset Management Plan, the level of funding to maintain the Town’s existing infrastructure is inadequate. Maintaining Town assets in a state of good repair is a key priority in the CBSP. The annual budget policy will include appropriate investment in the Town's assets to maintain a good overall condition of the assets. 	

Principle: Adequate Reserves	
<p>Meaning</p> <p>Reserves and reserves funds are a critical component of the Town’s long range financial planning. They are used to provide tax rate and user rate stability by smoothing the effect of variable or unanticipated expenditures or revenues, to provide funding for one-time or short-term requirements, to provide for future replacement or acquisition of capital assets and to provide the flexibility to manage debt.</p>	
<p>Guiding Principles</p> <ul style="list-style-type: none"> • Financial decisions will be based on a multi-year forecast • Equity (reserves) provides flexibility to respond to economic cycles and manage financial risk • Reserves will be maintained at sufficient levels to support infrastructure replacement, stabilization reserve targets and fund specific program requirements. • Sufficient financial flexibility is built into budgets, reserve and debt policies to ensure that the City is able to address unforeseen events 	<p>Policy Considerations</p> <ul style="list-style-type: none"> • Minimum balance for contingency reserves will be maintained at 5% of own source revenues • All Reserves and Reserve Funds will be reviewed annually in conjunction with the budget process to ensure future liabilities can be met, capital assets are properly maintained and replaced on a timely basis and that the Town maintain sufficient flexibility to respond to economic cycles. • The use of Stabilization Reserves will be restricted to extraordinary, one-time or unforeseen events and will not be used to balance Operating Budgets.
<p>Observations</p> <ul style="list-style-type: none"> • Stabilization Reserves are used to offset extraordinary and unforeseen expenditure requirements, revenue shortfalls and to manage cash flows. • GFOA recommends that municipalities maintain Financial Sustainability Reserves (Tax Stabilization and Working Funds) within a target range of 5%-15% of own source revenues. This practice provides sufficient liquidity and protection against unforeseen events. • Stabilization reserves are at the low end of the target. 	

Principle: Debt Management

Meaning

Debt includes long-term debt and capital lease obligations. As stipulated in the Municipal Act, long-term debt can only be used to finance capital assets. The term of the debt must be equal to or less than the life of the asset subject to limitations imposed under the Municipal Act. The Province limits the total amount of debt that a municipality can issue to 25 per cent of its own-source revenues (all revenue received less Federal and Provincial Grants).

Adherence to a debt policy helps ensure the Town maintains a sound debt position. A debt management policy improves the quality of decisions, identifies policy goals and demonstrates a commitment to long-term financial planning, including a multi-year plan.

Guiding Principles

- Debt promotes inter-generational equity in that infrastructure is paid for by those who use it.
- Using debt strategically provides capital funding flexibility by allowing certain infrastructure to be built and used before sufficient revenue has accumulated to offset the needed investment.
- Debt used for specified capital programs at levels affordable to taxpayers and user ratepayers.
- Long-term debt will not put an excessive burden on operating expenditures.

Policy Considerations

- Additional debt will be avoided until the recommended debt servicing limits are achieved.
- As debt charges decline due to the retirement of debt, savings will be applied to the capital reserve.
- Long-term debt for replacement and refurbishment of existing capital assets be reduced and ultimately eliminated by increased contributions to the capital reserves.

Observations

- The Town’s policy for debt charges is 7% of own source revenues. Currently debt charges as a percentage of own source revenues are in excess of 11%.
- Debt outstanding has been trending down since 2013.
- In relation to peer municipalities debt in Collingwood is above the average.

Principle: Diversify Revenues

Meaning

Achieving diverse sources of funding includes identifying actions related to alternative and innovative funding sources that will help the Town fund new strategic initiatives and reduce reliance on property taxes which is the primary source of municipal revenues. The Town also raises revenues through user fees. User fees are charged for the use of many municipal services and provide funding of municipal services that benefit defined users by collecting fees and service charges that are at, or approaching full cost recovery. User fees assist a municipality to ensure better use of its resources and evaluate the use of a specific good or service.

Guiding Principles

- “User Pay” is an operating principle considered for all program areas; recovery rates are research-based
- Identify new funding sources/financing methods that maintain or enhance the Town’s financial sustainability
- To the extent possible, the burden of property taxes is to be reduced by diversifying revenue sources such as user fees.

Policy Considerations

- User fees will be reviewed annually to ensure full cost recovery where appropriate.
- The budget will provide innovative funding options such as Public Private Partnerships when appropriate

Observations

- User fees policies are charged for many of the Town’s services that benefit a defined user and account for approximately 10% of the total tax based operating budget and 100% of the Town’s water and wastewater rate budgets.
- Utilizing a cost recovery approach to establish the fee amount ensures that the fees charged bear a relationship to the cost of providing the service.

Principle: Continuous Improvement

Meaning

A cornerstone of a future based-organization is its ability to identify and implement opportunities for continuous improvement, develop innovative program and service delivery strategies and to measure performance against pre-defined goals and objectives. Performance measurement is a process for collecting and reporting information regarding the performance of an organization or more specifically the programs and services offered. Performance measures should be directly incorporated into the budget process to strengthen links between the funds provided and their outcomes and/or outputs.

Guiding Principles

- Business processes are regularly reviewed and evaluated against leading practices to identify opportunities for efficiencies and quality improvements in service delivery and efficiencies in order to provide better value for the existing tax dollars
- The Town will maximize program efficiencies while maintaining program effectiveness. Performance measures will be embedded in departmental budgets.

Policy Considerations

- Performance measures will be embedded within departmental business plans and budgets.
- Program and service reviews will continue to be undertaken to ensure that they are provided in an efficient and cost effective manner and meet the needs and priorities of the community.
- Service levels will be defined and will be included in departmental business plans and budgets.
- The Town will evaluate and monitor new initiatives, budget results, and resource allocation, through the use of a mixture of output, outcome, and efficiency measures.
- Efficiency gains will be directed to fund infrastructure programs.

Observations

- Achieving a tax rate increase target in line with the core inflation rate of 2% will require a continued focus on core services, continuous improvement and finding cost efficiencies.
- The Town undertook an operational review in order to assess the Town’s capability to deliver programs and services to residents efficiently and effectively.
- Performance measures are necessary to monitor the Town’s operational and effectiveness of program services.
- A key to moving forward will be the Town’s ability to identify and implement opportunities for continuous improvement, develop innovative program and service delivery strategies and to measure performance against predefined goals and objectives.