



City of Richmond

Report to Committee

To: Finance Committee
From: Jerry Chong, CPA, CA
Director, Finance
Re: 2017-2021 Budget Process

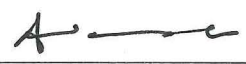

Date: June 13, 2016
File: 03-0970-25-2016-
01/2016-Vol 01

Staff Recommendation

1. That the staff report titled "2017-2021 Budget Process" dated June 13, 2016 from the Director, Finance be received for information, and
2. That the services as presented in Attachment 2 of the staff report be approved as the base for the 2017 budget.


Jerry Chong, CPA, CA
Director, Finance
(604-276-4064)

Att. 3

REPORT CONCURRENCE	
CONCURRENCE OF GENERAL MANAGER 	
REVIEWED BY STAFF REPORT / AGENDA REVIEW SUBCOMMITTEE	INITIALS: DW
APPROVED BY GAO 	

Staff Report

Origin

The purpose of this report is to provide Council with the framework that will be utilized for the preparation of the City's 5 Year Financial Plan (2017-2021) (5YFP).

This report also responds to the Council referral from the March 14, 2016 Council meeting:

That the public consultation process for the 5 Year Financial Plan be referred to staff with the objective of increasing engagement with the public including consideration of town halls as a means of consultation.

The 2017-2021 budgets will be prepared in accordance with Council's policies and procedures relating to budgets.

Council Policies

Policy 3016 requires that a same service level budget, with only non-discretionary increases that can be clearly identified and supported, be put forward to Council. Non-discretionary costs mainly include incremental increases specified in contracts and salary increases associated with collective agreements. Therefore, the 2016 service levels form the basis of the 2017 base budget. Any enhanced or new levels of service are identified as an additional expenditure request by the respective departments and the operating budget impact (OBI) from capital projects will be separately identified for Council's consideration.

Policy 3707 requires that tax increases will be at or below the estimated Vancouver's Consumer Price Index (CPI) rate (to maintain current programs and maintain existing infrastructure at the same level of service) plus 1.0% towards infrastructure replacement needs.

This report supports Council's 2014-2018 Term Goal #7 Strong Financial Stewardship:

Maintain the City's strong financial position through effective budget processes, the efficient and effective use of financial resources, and the prudent leveraging of economic and financial opportunities to increase current and long-term financial sustainability.

- 7.1. *Relevant and effective budget processes and policies.*
- 7.2. *Well-informed and sustainable financial decision making.*
- 7.3. *Transparent financial decisions that are appropriately communicated to the public.*
- 7.4. *Strategic financial opportunities are optimized.*

This report supports Council's 2014-2018 Term Goal #9 A Well-Informed Citizenry:

Continue to develop and provide programs and services that ensure the Richmond community is well-informed and engaged on City business and decision making.

9.1. *Understandable, timely, easily accessible public communication.*

9.2. *Effective engagement strategies and tools.*

Analysis

Budget Cycle Process

The budget cycle is summarized in Attachment 1. Table 1 outlines the process and the key dates for the preparation of the 2017-2021 Financial Plan.

Table 1 – Five Year Financial Plan (5YFP) Schedule

	Month	Responsibility	Task
1	June	Staff	Research financial indicators for 2017-2021 budget assumptions
2	June	Council	Establish Service Levels for 2017-2021 Budget Preparation
3	June	Staff	Public Consultation Planning
4	July-August	Staff	Prepare Department's 2017-2021 budget submissions
5	September	Staff	Gather Public Input
6	September	Staff	Review Division's 2017-2021 budget submissions
7	October	SMT/CAO	Review City 2017-2021 budget submissions
8	October-November	Staff	Prepare 2017-2021 budget package for Finance Committee review
9	November	SMT/CAO	Review and finalize all 2017-2021 budget recommendations to Finance Committee
10	November	Council	Review and approve 2017 Utility Budget and Rates
11	December	Council	Review and approve 2017-2021 capital budget submissions with associated Operating Budget Impacts
12	December	Council	Review and approve 2017 same level of service Operating Budgets
13	December	Council	Review and approve 2017 ongoing additional levels of service requests
14	December	Council	Review and approve 2017 one-time expenditure requests
15	December	Council	Review Draft 5YFP (2017-2021)

	Month	Responsibility	Task
16	December-January	Staff	Revise budget and 5YFP (2017-2021) based on Council direction
17	February	Council	Review 5YFP (2017-2021)
18	February-March	Staff	Public Consultation on 5YFP (2017-2021)
19	February-March	Council	Adoption of 5YFP (2017-2021)

This report will further discuss some of the keys steps in this process.

Item #1 – Preliminary 2017-2021 Operating Budget Assumptions

Table 2 summarizes the budget assumptions based on current information contained in contracts, agreements and external economic publications.

Financial Planning & Analysis (FP&A) will continue to monitor these financial indicators and will provide updated indicators at the time the budget is presented, if there are significant changes to the forecasts.

Table 2 - Preliminary 2017-2021 Operating Budget Assumptions

Key Financial Drivers / Indicators	2017	2018	2019	2020	2021
Vancouver Consumer Price Index (CPI) ¹	2.1%	2.1%	2.5%	2.1%	2.1%
Richmond Municipal Price Index (MPI) ²	2.7%	2.7%	2.8%	2.6%	2.6%
User Fees	2.1%	2.1%	2.5%	2.1%	2.1%
Salaries ³	TBD	TBD	TBD	TBD	TBD
Electricity ⁴	3.7%	3.2%	3.8%	4.0%	4.0%
Natural Gas ⁴	2.6%	1.0%	1.0%	1.0%	1.0%
RCMP Contract Increase ⁵	2.9%	3.2%	2.6%	2.5%	2.4%
Growth (Tax Base) ⁶	1.8%	1.25%	1.0%	0.8%	0.8%

Sources: ¹ The Conference Board of Canada Metropolitan Outlook 1 Spring 2016; 2021 is projected based on 2020 forecasts; ² Finance Department, City of Richmond; ³ Salaries are based on collective agreements, which are to be negotiated; ⁴ Energy Manager, City of Richmond; ⁵ RCMP E Division; ⁶ BC Assessment Authority/Revenue Manager, City of Richmond

Municipal Price Index (MPI)

Council policy 3707 requires that tax increases will be at or below the estimated Vancouver's CPI rate (to maintain current programs and maintain existing infrastructure at the same level of service) plus 1.0% towards infrastructure replacement needs.

CPI is a widely accepted measure of consumer goods inflation. Inflation is generally thought of as a rise in the prices of consumer goods and services over a period of time. This is based on an individual consumer basket of goods including food, shelter, transportation, clothing, recreation and household operations.

Municipal governments do not incur the same costs as consumers. Rather, they incur costs such as: salaries and benefits (covered by a collective agreement), policing services, materials and supplies to build and maintain City infrastructure, energy for community centres and recreation facilities and transferring funds to reserves to maintain ageing infrastructure.

Municipal Price Index (MPI) is calculated based on a combination of known contract increases as well as estimates for expected increases, including the settlement of collective agreements. As shown in Table 1 above, MPI is forecasted to be consistently higher than CPI and is presented merely as a benchmark.

The inflation of the above key financial drivers provides an estimate of the amount operating expenses will need to increase in order to maintain the same level of service and efficiencies and reductions will be necessary to ensure Council policy of CPI is adhered to.

Collective Agreements

IAFF 1286 agreement has been ratified with increases of 2.5% each year from 2014-2019. CUPE 394, 718 and 3966 are to be negotiated.

Item #2 – Establish Service Levels

Policy 3016 requires that a same service level budget be prepared. The types of services delivered by each division have been categorized as Core, Traditional or Discretionary as presented in Attachment 2.

In keeping with the policy, staff recommends that a same level of service budget be prepared for 2017, as the existing levels provide the ability to deliver on Council's Term Goals and are a reasonable basis for preparation of the budget. Consequently, staff is seeking Council's approval to continue providing the 2016 services as presented in Attachment 2 as the base for preparing the 2017-2021 budget.

The service levels for the new City Centre Community Centre entered its first full year of operations in 2016. Council previously approved, with the 2014 Budget, an Operating Budget Impact (OBI) for the City Centre Community Centre as well as expanded operations for the Minoru Complex. This is gradually being phased into the budget with a tax impact of

approximately 0.34% each year until it is completely tax funded in 2020. The City Centre Community Centre OBI will be fully tax funded in the 2017 budget.

The new service levels for the Minoru Complex are being phased in starting with the 2017 budget. This coincides with the expected Fall 2017 occupancy. The remaining funding required for the expanded programming will be phased in over the years 2018, 2019 and 2020. As the new Minoru Complex will enter its first full year of operations in 2018, this means that the funds required for annual operations will be included in the budget for 2018; however the taxes collected in 2018 under the phase-in plan will not fully fund the operations. The difference will be bridged with the use of funding from the rate stabilization account. This tax impact has already been included in the current financial plan, and therefore is incorporated into the projected 2.97% increase for 2017.

Environmental Scan

As service levels are established, it is prudent to review the economic environment and key City statistics (Table 3).

Table 3 – City of Richmond Statistics

Description	2012	2013	2014	2015	2016
Population	201,471	205,133	209,338	213,891	218,401
# Residential Dwellings	64,751	65,585	67,186	68,192	69,998
# Businesses	13,336	13,371	13,322	13,118	13,400
# Farm	696	680	679	678	682

Source: BC Stats, Ministry of Labour and Citizens Services, BC Assessment

* Estimates for population and number of businesses.

The population and demand for services continues to rise in Richmond as indicated in Table 4. The population in Richmond is expected to continue to climb to almost 236,000 in 2020.

Table 4 – Demand for City of Richmond Services

Demand for City Services	2012	2013	2014	2015	2016*
Population Growth (per annum)	1.17%	1.82%	2.05%	2.17%	2.11%
Budgeted Capital Construction Costs (\$mil) ¹	80.3	76.7	193.2	159.6	92.4
Registration in Recreation Programs ²	129,526	129,526	141,175	134,786	135,000
Fire Rescue Responses ³	9,164	9,710	9,643	10,326	11,152
Public Works Calls for Services ⁴	13,800	11,342	12,225	13,501	14,700

Source: 1 Capital model, 2 Registration Summary Report 3 Fire Rescue, 4 Hansen

* Estimates for population growth, registration, fire rescue responses and public works calls for service.

Item #3 – Gather Public Input

Staff are looking at options to engage citizens in the budget process, and are working with the Communications department to consider tools and methods to gather input during the planning process such as:

- Utilizing public consultation tools within Let's Talk Richmond
- Townhall meetings to discuss the budget process and gather input on specific budget items, such as where to direct surplus funding (prioritization of one-time expenditure requests) and general capital funding where limited funding requires projects to be prioritized
- Public surveys on specific programs

The preliminary timeline for gathering this public input is expected to be in September 2016.

Items #4-13 – Budget Preparation

During July and August, staff will be working on preparing budget submissions (capital and additional levels) and reviewing operating budgets to ensure the most efficient allocation of resources. In September, the budget will be revised based on input gathered. Details of the key budget processes are summarized in Attachment 3.

The final proposed budget that has been presented to Finance Committee, typically in the month of December, goes through a rigorous review process by SMT and the CAO to ensure City wide priorities are met and that projects competing for the same funding sources are prioritized with recommendations made accordingly. Important budget recommendations are finalized in the month of November to determine which projects to recommend for funding and what to do with the projects that are not recommended for funding. This is particularly an issue where financial resources are limited, such as projects seeking funding from the Revolving Fund and one-time expenditures funded by Rate Stabilization Account.

Options for projects not recommended for funding include:

- Reducing the scope of the project to an amount that can be funded
- Deferring the submission to a future year
- Pursuing alternate funding sources, such as the Rate Stabilization Account
- Withdrawing the submission
- Confirming the project cannot proceed due to limited funding resources

For the 2017 budget, all budget recommendations will be presented to the Finance Committee by December for approval. This will include a complete draft five-year plan.

Items #14-15 – Public Consultation and Bylaw Adoption

Once the 2017-2021 5YFP receives preliminary approval from Council, the public consultation process will be initiated as required under the Community Charter, prior to adoption of the financial plan.

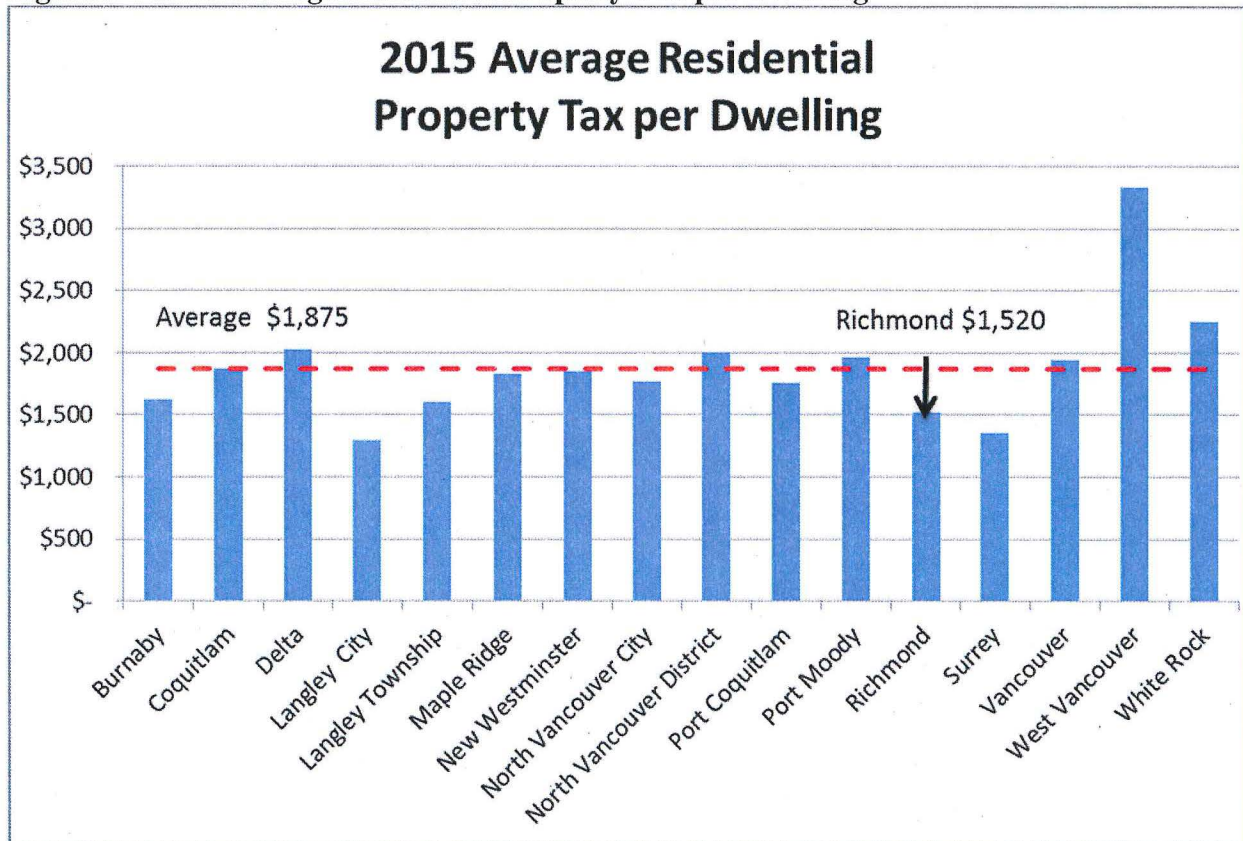
Staff are planning ways to further engage the public when the complete financial plan is drafted, which may include:

- A news release
- Newspaper advertisements
- Let's Talk Richmond
- Town hall meetings to present the financial plan
- Improved budget documents
- Longer period for public consultation

Tax Rates

Once the financial plan bylaw is adopted, the tax rates will be set accordingly. In 2015, the average property tax per dwelling in Richmond was \$1,520 which is below the average of \$1,875. 2016 averages for all Cities are not yet available, but will be provided with the 2017 Budget report.

Figure 5 – 2015 Average Residential Property Tax per Dwelling



Financial Impact

None.

Conclusion

The 2017-2021 budget process responds to Council's referral to increase public engagement in the budget process with additional opportunities to provide input into the 5 Year Financial Plan. The service levels from 2016 will establish the base for the 2017-2021 budget.

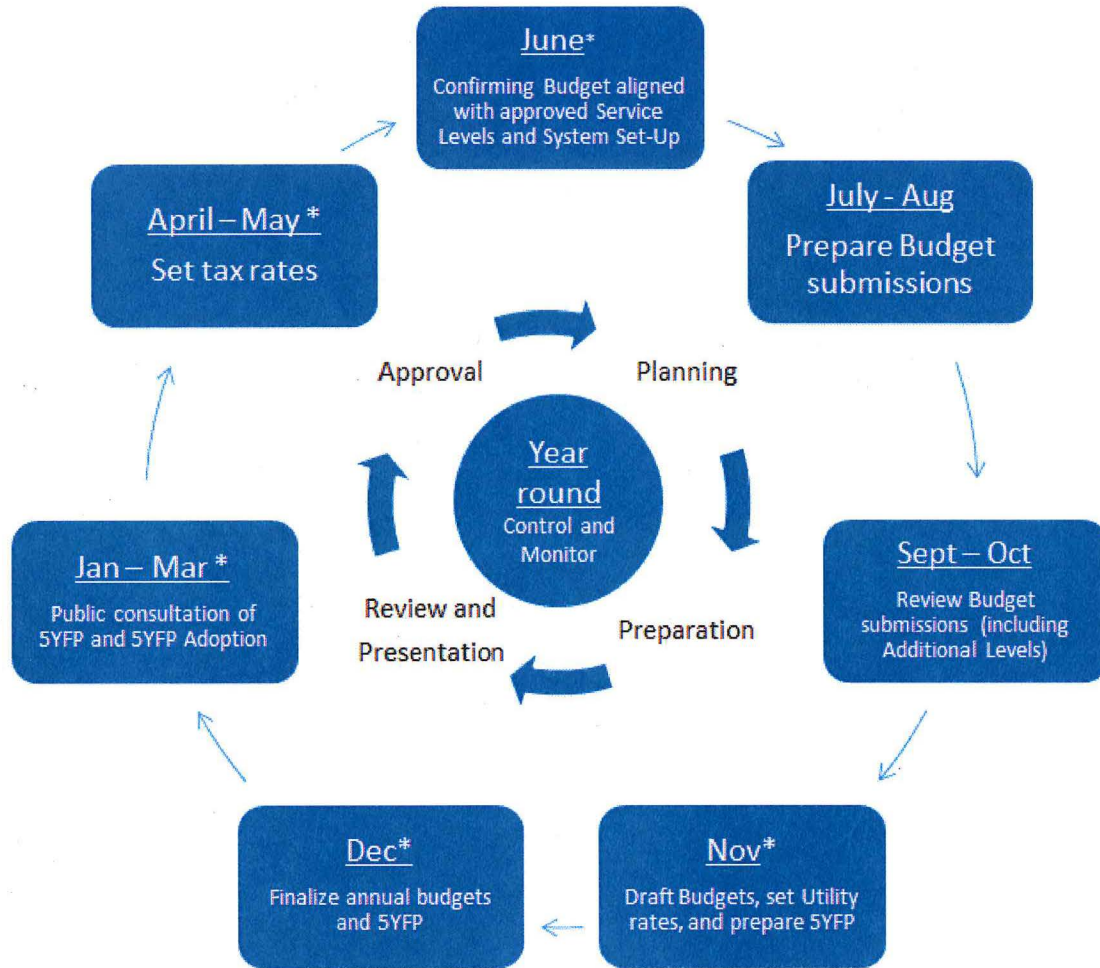


Melissa Shiao, CPA, CA
Manager, Financial Planning and Analysis
(604-276-4231)

MS:ms

- Att. 1: 2017 Budget Cycle
- 2: Types of Services
- 3: Budget Process Summary

2017 Budget Cycle



* Council involvement

City of Richmond
Types of Service - Departments/Sections/Work Units by Division

Core: *Services required by legislation from the federal or provincial governments.*

Traditional: *Time-honoured services that are commonly considered essential or foundational.*

Discretionary: *Services that may have value but if the fiscal situation requires it, these services could be reduced, eliminated, or contracted out.*

Division	Department/Sections/Work Units	Types of Service		
		Core	Traditional	Discretionary
CAO's Office (7)	CAO's Office			
	• Corporate Administration	√	√	
	• Administrative Support Services (including the Mayor's Office & Councillors' Office)		√	√
	• Intergovernmental Relations & Protocol Unit			√
	• Corporate Programs Management Group			√
	• Corporate Communications		√	
	• Production Centre			√
	• Corporate Planning		√	
Deputy CAO (4)	Human Resources			
	• Training & Development		√	
	• Employee & Labour Relations	√	√	
	• Compensation, Job Evaluation & Recognition	√	√	
	• Workplace Health, Safety & Wellness	√	√	

Division	Department/Sections/Work Units	Types of Service		
		Core	Traditional	Discretionary
Community Services (20)	Parks			
	<ul style="list-style-type: none"> Parks Operations (includes Asset Management, Construction & Maintenance, Turf Management, Horticulture, Urban Forestry) 		√	√
	<ul style="list-style-type: none"> Parks Programs (includes Nature Park) 		√	
	<ul style="list-style-type: none"> Britannia 			√
	<ul style="list-style-type: none"> Parks Planning & Design 		√	√
	Recreation & Sport			
	<ul style="list-style-type: none"> Community Services Admin. 		√	√
	<ul style="list-style-type: none"> Community Recreation Services (includes community centres) 		√	√
	<ul style="list-style-type: none"> Aquatic, Arena & Fitness Services 		√	√
	<ul style="list-style-type: none"> Sport & Event Services (includes volunteer management) 			√
	<ul style="list-style-type: none"> Planning & Project Services 			√
	Arts, Culture & Heritage Services			
	<ul style="list-style-type: none"> Arts Services (includes Art Gallery, Art Centre, Cultural Centre) 			√
	<ul style="list-style-type: none"> Heritage Services 			√
	<ul style="list-style-type: none"> Richmond Museum 			√
	<ul style="list-style-type: none"> Gateway Theatre (liaison) 			√
	<ul style="list-style-type: none"> Richmond Public Library (liaison) 		√	√
	Community Social Development			
	<ul style="list-style-type: none"> Social Planning 			√
	<ul style="list-style-type: none"> Affordable Housing 			√

Division	Department/Sections/Work Units	Types of Service		
		Core	Traditional	Discretionary
	<ul style="list-style-type: none"> Diversity & Cultural Service 			√
	<ul style="list-style-type: none"> Child Care Services 			√
	<ul style="list-style-type: none"> Youth Services 			√
	<ul style="list-style-type: none"> Senior Services 			√
Engineering & Public Works (10)	Engineering			
	<ul style="list-style-type: none"> Engineering – Planning 	√	√	
	<ul style="list-style-type: none"> Engineering – Design & Construction 	√	√	
	<ul style="list-style-type: none"> Facility Services 		√	
	<ul style="list-style-type: none"> Capital Building Project Development 			√
	<ul style="list-style-type: none"> Sustainability (includes district energy, corporate energy, environmental sustainability) 			√
	Public Works			
	<ul style="list-style-type: none"> Public Works Administration 		√	√
	<ul style="list-style-type: none"> Fleet Operations & Environmental Programs 		√	√
	<ul style="list-style-type: none"> Roads & Construction Services 	√	√	
	<ul style="list-style-type: none"> Sewerage & Drainage 	√	√	
	<ul style="list-style-type: none"> Water Services 	√	√	

Division	Department/Sections/Work Units	Types of Service		
		Core	Traditional	Discretionary
Finance & Corporate Services (26)	Finance			
	• Finance Administration		√	√
	• Finance Systems		√	√
	• Financial Reporting	√	√	√
	• Financial Planning & Analysis	√	√	√
	• Revenue/Taxation	√	√	√
	• Purchasing and Stores		√	√
	• Treasury & Financial Services	√	√	√
	• Payroll		√	√
	Information Technology			
	• IT Administration		√	√
	• Business & Enterprise Systems		√	√
	• Innovation			√
	• Infrastructure Services		√	√
	• GIS & Database Services		√	√
	• Customer Service Delivery		√	√
	City Clerk's Office			
	• Operations/Legislative Services	√	√	
	• Records & Information	√	√	
	• Richmond Archives		√	√

Division	Department/Sections/Work Units	Types of Service		
		Core	Traditional	Discretionary
	Administration & Compliance			
	• Business Advisory Services		√	√
	• Business Licenses		√	√
	• Risk Management			√
	• Economic Development			√
	• Corporate Partnerships			√
	• Customer Service		√	√
	• Corporate Compliance			√
	• Performance			√
	Real Estate Services			√
Law & Community Safety (9)	RCMP			
	• Administration (includes Telecommunications, Records, Crime Prevention, Information Technology, Victim Assistance, Finance, Risk Management, Court Liaison)	√	√	√
	Fire-Rescue			
	• Administration	√	√	√
	• Operations	√	√	√
	• Fire Prevention	√	√	√
	• Training & Education	√	√	√
	Community Bylaws		√	√
	Emergency Programs	√	√	√

Division	Department/Sections/Work Units	Types of Service		
		Core	Traditional	Discretionary
	Legal Services		√	√
	Law & Community Safety Administration		√	√
Planning & Development (10)				
	Planning and Development – Admin	√	√	
	Transportation			
	• Transportation Planning	√	√	
	• Traffic Operations		√	
	• Traffic Signal Systems		√	
	Building Approvals			
	• Plan Review	√	√	
	• Building, Plumbing & Gas Inspections	√	√	
	• Tree Preservation		√	√
	Development Applications			
	• Developments	√	√	√
	• Major Projects			√
	Policy Planning	√	√	
Total = 86		27	60	63

Budget Process Summary:

The key budget processes are summarized below.

i. Capital Project Ranking and Review

- Each capital submission includes a business case, unless an exception has been granted. An exception can be granted by Council or the CAO at the Capital Budget submission stage. The provision of a mechanism for an exception is important because the nature of some projects is such that the community benefit far outweighs the business case factors.
- Each submission is first self-ranked using a common ranking criteria across all projects and the final ranking is decided upon by a Review Committee comprised of staff from each respective division to provide an objective review of all capital projects and the associated OBI.
- After the capital projects are reviewed and ranked by the Review Committee, the list of capital projects and OBI will be forwarded to SMT for further review and CAO approval prior to submission of the recommended projects for Council decision.

ii. Operating Budget Impact (OBI)

- Capital projects will require a business case, with exceptions; therefore any OBI, operating or utility, should be analyzed and substantiated in the business case.
- OBI can only be included on current capital projects. Any other OBI requests will be included as additional level requests.
- OBI information will be broken down between labour and other expenditures and standard costs will be provided, which includes a 25% estimate for indirect costs.
- FP&A will provide the initial review of the OBI submissions; however, comprehensive review will be conducted by the Review Committee in conjunction with the capital review, with final review by SMT and CAO prior to forwarding recommendations for Council decision.

iii. Operating Budget Process

- In order to ensure consistent application of budget assumptions, FP&A will input the budgets into the systems and departments will review and sign-off.
- Departments will highlight any non-discretionary increases and provide supporting documentation to FP&A.
- Salary and fringe benefits will be input by FP&A with instructions from Payroll and Human Resources Department (HR).
- Only non-discretionary increases with sufficient documentation to support the increases will be allowed.
- Each department's budget submission will be compiled and reviewed in conjunction with any Service Level Review Reports produced as a result of operational and service level reviews conducted in that area of the organization.
- Each department's budget is to be signed-off by the respective GM in accordance with Council Policy 3016.

iv. Capital Budget Submissions and Close-outs

- The list of outstanding active projects will be reviewed by each GM, and all projects that should be closed are to be identified in a memo. All 2013 and prior projects should be closed by the end of the 2016 year and if required to be kept open, rationale should be provided to the GM, Finance and Corporate Services and copied to FP&A.

- All capital project submissions are required to clearly identify timing of cash flow requirements, in order for the Treasury and Financial Services section to plan investment strategies to maximize the City's portfolio investments, while ensuring cash flow requirements are met.
- Capital submissions, including any associated Operating Budget Impact (OBI), are to be approved by each respective GM prior to submission.

v. **Additional Levels of Service (ALOS) Requests**

- Additional levels of service requests are not to be included in the current year operating budget and the proposed 5YFP, in accordance with Policy 3016, rather they are identified separately.
- There are two types of ALOS: (a) Ongoing, to be included in the tax base and funded by a tax increase and (b) One-time, to be funded by sources other than taxation.
 - a) Ongoing ALOS requests are proposals to add new services, programs, program enhancements, or to increase expenditures as a result of growth. Ongoing ALOS are proposed to recur each year and form the new base level of service. Examples include: increasing maintenance from once to twice per year, increasing hours of operation and additions to the staff complement.
 - b) One-time ALOS expenditure requests apply to the current budget year only and could be funded by the City's rate stabilization account and/or other non-tax sources, subject to Council approval. Examples include: funding for consultants, purchase of minor capital equipment, and one-time services or programs, which may include temporary staff requirements for a specific period of time.
- All ALOS requests are to be signed off by the GM of the respective department, ranked by the Review Committee, reviewed by SMT and approved by the CAO prior to presentation to Committee/Council for a decision.