

Memo



TO: Mayor and Council

FROM: Chief Administrative Officer

DATE: March 19, 2021

SUBJECT: Finalization of Financial Bylaws

Background

At the last budget review process on March 11th, 2021, it was approved that a 2 per cent tax increase would be implemented for the 2021 general fund budget. This requires ratification by council before the five-year financial plan and the tax rate bylaws can be prepared for adoption by council.

Staff presented the budget estimates to council and no changes were made or contemplated by council except for a decision to revise the tax rates from a 3% increase to 2% increase. Emphasis was placed on the 2021 estimates.

Instead of eliminating the deficit in the general estimates, an additional \$22,000 was added to the deficit requiring a total transfer from the general surplus of \$91,533 to accommodate a lower tax increase, a not altogether prudent move.

Legal Requirements

Local governments must annually adopt a financial plan in accordance with the Local Government Act and the Community Charter. The planning period for the financial plan must include the current fiscal year and the next four fiscal years (five-year plan). A local government must not budget for a deficit (planned expenditures and transfers to funds cannot exceed planned revenues, transfers from funds, and other cash contributions).

Some Observations on the budgeting process:

- In 2020 with the COVID-19 pandemic raging tax increases were limited to 3 % and yet to balance its general fund budget several capital budget items were eliminated.
- For 2021 council focused on maintaining the general fund budget estimates presented by staff but with nots cuts proposed.

Finalization of 5-year financial estimates

- Unprecedented cost increases to existing services and materials will without doubt adversely impact the Town's fiscal capacity in 2021.
- Annually the amount to be amortized is not reflected in the estimates. Indeed, the infrastructure shortfall cannot be sufficiently sustained by the surplus fund and a reliance on those to meet budget shortfalls is short-sighted. You only need to go no further than the water and sewer funds which will soon see their surplus funds depleted.
- All assets owned by the municipality must now be amortized over their estimated useful lives. Municipalities must also annually record and report the amortization in their financial statements.
- The annual amount that needs to be amortized for all funds is over \$1 million of which about \$690,000 belongs to the general fund.
- The buzzword these days is "sustainable" and it is incumbent on council to ensure that it maintains a sustainable funding strategy.
- There is a request on hand for pre-approval of capital projects because of impending cost increases. The cost increases we are seeing this year may well outpace our fiscal capacity to meet all of the planned capital and operating expenses for 2021.
- A budget exercise is not simply one that involves estimates thrown together and then swiftly ignored because some new idea comes to the fore such as devising a mechanism to control parking in the summer or to add parking spaces. There were no estimates included the 2021 general budget to accommodate this or other additional services that council may want to consider once the budgets are adopted by bylaw.
- Financial budgeting is a planning tool that enhances local government accountability and service delivery and sets out their legal expenditure authority.
- *A local government cannot make an expenditure that is not included in the financial plan. If an unexpected expenditure arises in the year, the financial plan must be amended prior to the expenditure taking place. This amendment requires the local government to undergo public consultation prior to adopting the amendments. (The only exception to this is an expenditure is an emergency expense where the amendment can occur after the event but in any case, the funding source must be identified).*
- Any deviation from its budget plan requires amendments to that plan by bylaw.

Finalization of 5-year financial estimates

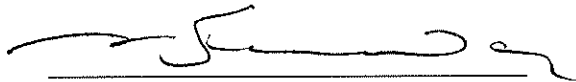
- No new expenditure should be planned for 2021 unless there are sufficient revenues to sustain it or an equivalent dollar number of proposed expenditures are curtailed.

Note: The italicized verbiage above is from the Ministry of Municipal Affairs.

Conclusion

Council may want to pass the following resolution so staff may prepare the relevant bylaws to accommodate that directive from council:

that council limit the general municipal tax increase in 2021 to 2% on the understanding that an appropriate transfer from the surplus funds is made to balance the general fund budget and that any expenditure not included in the financial plan will only occur through financial plan amendments made prior to the expenditure occurring.



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