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2006 BUDGET PROCESS

The Finance and Administration Committee recommends the adoption of the recommendation contained in the following report, May 16, 2005, from the Commissioner of Finance and Treasurer:

1. RECOMMENDATIONS

It is recommended that this report be received for information.

2. PURPOSE

The purpose of this report is to respond to the March 3, 2005 F&A Committee request, which states:

> "*Committee requested that the Commissioner of Finance report to the June 2005 meeting of the Committee on the process involved in preparing the 2005 Capital & Operating Business Plan & Budget for the purpose of examining whether the process can be streamlined in future years.*"

3. BACKGROUND

As a routine component of the budget process, an administrative debriefing is conducted following Council's approval of the budget. Ideally, this exercise should identify successes achieved in the recently concluded budget process and opportunities for improvements in subsequent years. In addition, the Finance & Administration Committee has requested that a report be prepared addressing process streamlining in future years.

4. ANALYSIS AND OPTIONS

Following approval of the 2005 budgets, debriefing sessions were conducted with staff and the Senior Management Team to identify opportunities for process improvements, streamlining, best use of resources, effective timelines and other initiatives which could contribute toward a more efficient and effective process for 2006.

In addition, concerns and suggestions raised by members of Council were considered as part of the process review. The results are reflected in the procedures outlined for the 2006 budget development, review and approval process.

The 2005 budget process had departments preparing full business plans, budgets and KPI’s for expenditures and revenues in the classifications of:

- Base, Mandatory & Annualization
- Growth
- Enhancements.

While this process provided necessary information required for decision making purposes regarding the budget, an extensive time investment was made by departments in the development stage, numerous budget documents were generated, and significant reading time was required by Council and Standing Committee members.

As part of continuous process improvement, a number of streamlining initiatives will be introduced for the 2006 budget process, which should address some of the above noted issues. Specifically, the revised 2006 budget process is intended to:

- Reduce time in developing budget schedules
- Reduce budget documents to review
- Promote greater focus on outcomes, highlights, impacts & proposed changes
- Initiate a more streamlined budget review process.

Further details on the changes to the 2006 budget process are outlined below.

OPERATING BUDGET

The Region’s current budget framework identifying base, mandatory, annualization, growth and enhancement pressures will continue to be utilized for 2006 budget development. The budget development framework is outlined in Figure 1 below.

Figure 1 Budget Development Framework

Step 5 - ENHANCEMENTS
New services or enhanced service levels

Step 4 - GROWTH
Costs required to maintain existing levels of service for the Region’s increased population

Step 3 - ANNUALIZATION
Additional costs of prior year commitments

Step 2 - MANDATORY / LEGISLATIVE
Non-discretionary costs imposed by others

Step 1 - BASE
Costs required to maintain existing service level (salaries & benefits, inflation, utilities and contracted services)
Less: Efficiencies and other cost reductions

For 2006, however, a two-stage process will be used in conjunction with the budget framework. The first stage will focus on the base budget including analysis of inflationary pressures such as wage adjustments, contract price increases, materials price increases. Also included in this first step will be a review of mandatory pressures as well as annualization pressures from previous decisions and commitments.

The second stage will then address preliminary growth and enhancement submissions. Contingent on the amount of 'capacity' available, considerations will be given to department proposed growth and enhancement initiatives for 2006. Detailed costing of these growth and enhancement items will commence only after the item has received approval in principle for inclusion in the draft budget.

Further details on the operating budget process are as follows:

Base Impact Analysis

- Preliminary projections to identify inflationary pressures on base budgets to maintain current services/programs at existing standards and service levels
- Base budget is comprised of the following components:
    - Base + Mandatory + Annualization

Growth & Enhancement Submissions

- Growth items are directly related to growth in population or in key service drivers
- Enhancement items identify top projects which will increase service levels or provide long-term cost avoidance
- Inclusion in the proposed budget of growth & enhancement items will be based on available capacity and tax rate tolerance
- Departments will develop a separate, short list of growth & enhancement items including:
    - Total cost
    - Justification [1-2 paragraphs]
    - Benefits
    - Outcomes
    - Priority

Proposed Budget Submission

- The initial budget submission will consist of the following components:
    - Program maps
    - Financial summary
    - Base budget analysis
    - Incremental financial explanations
    - KPI's

Business Plans

- Complete business plans will be prepared to reflect the approved budget

CAPITAL BUDGET

Capital

- Base on update of 10-year capital plan
- Summary of proposed spending & funding sources
- Impacts on operating budget – debt repayment & maintenance costs
- Impact on Region's financial position [short/long term]
- Submit proposed capital budget at same time as operating budget

RATE BUDGET

Water & Wastewater

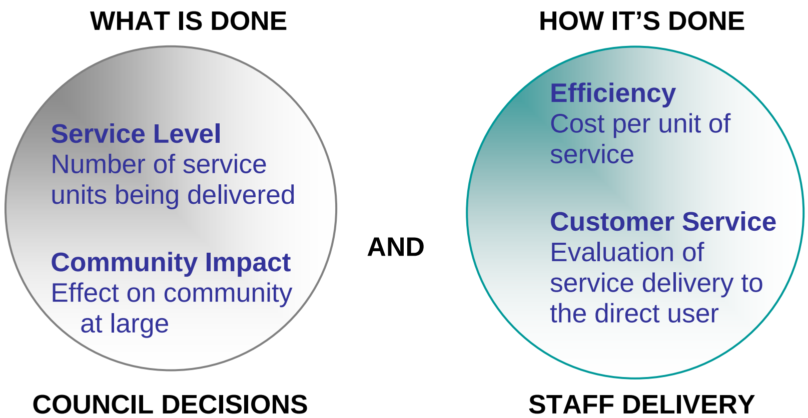
- Develop based on base, growth & enhancement criteria and 10-year capital plan
- Reference to recommendations in Rate Review Report
- Summary of proposed spending
    - Operating
    - Capital
    - Contributions to Reserves
- Submit proposed Rate budget at same time as operating & capital budget

REVIEW PROCESS

Following the administrative review by the Budget Review Committee, Chair, Chief Administrative Officer and the Commissioner of Finance & Treasurer, a proposed budget will be submitted to Regional Council, to be tabled and referred to Standing Committees for their review and recommendations.

An effective review process is essential to a successful budget review exercise and the respective Standing Committee's development of recommendations for consideration by Regional Council. The budget review process reflects the distinct roles of Council and regional staff in budgeting and business planning. As noted in Figure 2 below, Regional Council provides direction on desired service levels and outcomes for the community. Once this level of service has been established, staff are accountable for ensuring that cost efficiency and customer service goals are achieved in the appropriate balance.

Figure 2 - Accountability Framework



The proposed streamlining of the budget process should generate the following outcomes:

- Reduced amount of documentation for reading
- Preparation time can focus on key issues or areas of proposed change
- Provides a more focused set of budget documents:
    - highlighting significant changes over the prior year's budget
    - any new initiatives being proposed
    - associated outcomes
    - performance measures
    - financial summary
    - impacts on tax levy
- Opportunity to direct queries to program/service delivery
- Allow for more strategic consideration and deliberation for Regional services
- Generate dialogue on policy issues relating to business plans and budgets
- Provide an environment conducive to effective & timely review and consideration of proposed business plans and budgets
- Recognize the significance and inter-relationships of the capital, operating and water/wastewater rate budgets
- Identify key issues for advocacy to other orders of government
- Deliberate on program and service delivery, levels of service & associated costs
- Establish a budget framework for effective & efficient programs & services at an affordable tax rate for York Region

PROPOSED TIMELINES

Launch 2006 Budget Process	May 16
F&A Committee Process Update	June 2
Budget Development & Review	May - September
F&A Briefing	September 8
Submit to Council (Table - operating, capital & rate)	October 27
Standing Committee Review	November
Council Approval	December 15

4.1 Relationship to Vision 2026

Continuous improvement and providing cost-effective service directly address ‘Being Fiscally Responsible’ and ‘Accountable’ as reflected in the Vision.

5. FINANCIAL IMPLICATIONS

Approval of the operating, rate and capital budgets will form the basis of service and program delivery in 2006. Effective resource allocation can focus on preparation and delivery of programs and services as reflected in the business plans and budgets. Direct impacts would be on efficiency improvements and optimal time considerations for Council, Committees and staff.

6. LOCAL MUNICIPAL IMPACT

While some issues may vary among municipalities, issues of common interest will be reflected in the budgets of each local municipality as well as the Region. An early approval of the Region’s budgets may provide a point of reference to local municipalities as they complete their respective budget process.

7. CONCLUSION

A streamlined approach is planned for the 2006 budget, in terms of the documentation provided for Council and Committee review. It will be a more consolidated set of budget documents with a focus on base impacts, an abbreviated list of proposed growth and enhancements, financial summaries to support the proposed budgets, a summary of proposed capital spending, a summary of water & wastewater rate impacts, reflecting both operating and capital budgets and highlights of key initiatives and the projected outcomes in the respective budgets.

The process improvements referenced in this report will be implemented for the 2006 budget process. The timelines developed will accommodate consideration of the recommendations of the Finance & Administration Committee for the 2006 budget by Regional Council at their scheduled meeting on December 15, 2005.

The Senior Management Group has reviewed this report.