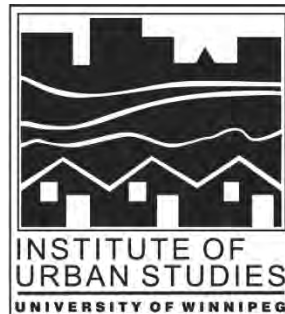


The Expenditure Budget Process in Canadian Municipalities: A Comparison

Research and Working Paper No. 18

**by David P. Amborski
1986**

The Institute of Urban Studies





THE UNIVERSITY OF
WINNIPEG

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The Institute of Urban Studies is an independent research arm of the University of Winnipeg. Since 1969, the IUS has been both an academic and an applied research centre, committed to examining urban development issues in a broad, non-partisan manner. The Institute examines inner city, environmental, Aboriginal and community development issues. In addition to its ongoing involvement in research, IUS brings in visiting scholars, hosts workshops, seminars and conferences, and acts in partnership with other organizations in the community to effect positive change.

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PREFACE

The University of Winnipeg was the location of a major national urban studies conference, hosted by the Institute of Urban Studies in August 1985. The "Canadian Urban Studies Conference" addressed the general theme of "The Canadian Urban Experience - Past and Present." More than ninety specialists spoke during forty separate sessions on such topics as housing and the built environment, economic and community development, planning and urban form, women and the urban environment, and urban government and politics.

This publication is a result of the Canadian Studies Conference. The Institute of Urban Studies is publishing many of the papers presented at the conference in the Institute's publication series. Some of the papers will also appear in the scholarly journal, the Urban History Review/Revue d'histoire urbaine and in book form.

This conference represented a major effort on the part of the Institute of Urban Studies in terms of fulfilling its role as a national centre of excellence in the urban studies and housing fields.

Alan F.J. Artibise
Director.



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1.0 INTRODUCTION

Budgeting is a central activity of all Canadian municipal governments. It is an essential function which often requires the attention of municipal employees for more than half of each year. Not only does it have a long time frame, but it also relates to each of the many services provided by local governments, it embraces the political arena in approvals as well as preparation, and it is subject to provincial regulation.

Expenditure budgeting refers to that part of the budgeting process in which decisions are made regarding both capital and operating expenditure. Although this side of the budget equation cannot be dealt with in isolation from the revenue component, this paper will focus on the expenditure side. The expenditure side may be viewed as more complex since the revenue component consists of basically three sources, grants, property tax and other own source revenue; while the expenditure side may consist of many departments competing for funds for a broad range of activities. In some respects the revenue side may be considered to be somewhat fixed since grants are decided upon by the provinces, only small property tax increases may be politically acceptable and the potential for other own source revenue is very limited for local governments.

There has been a lack of research regarding municipal budgeting in Canada. In fact, comprehensive literature in the field of Canadian municipal finance has only been published in recent years by Kitchen, and Bird and Slack.¹ Neither of these works had a significant component devoted to municipal budgeting. There have been some relatively comprehensive studies of municipal budgeting in both the United States and in England. Both of these works by Friedman in the United States and Danziger in England tend to focus on the expenditure budget or more broadly public resource allocation.² In the Canadian context the broadest studies or reports have been carried out at the provincial level and tend to focus on

budgeting techniques rather than the dynamics of the various actors in the process.³

There are three reasons why more attention should be devoted to municipal budgeting and more specifically expenditure budgeting at this time. First, local governments are generally subject to fiscal stress, which in part results from their responsibility for the provision for an ever broadening (and increased quality) range of services. Second, in recent years there has been a tendency for provincial grants not to increase as rapidly as the growth in municipal expenditures. This has led to an increasing dependence on own source revenues to finance their expenditures.⁴ Third, concern has been raised recently regarding the deteriorating municipal infrastructure in Canada. In order to remedy the problem it will be necessary for municipalities to devote financial resources to the areas in greatest need.⁵

The research that is being undertaken by Douglas Hartle and the author is examining expenditure budgeting at the federal, provincial and municipal levels of government in Canada. This research, funded by the Social Sciences and Humanities Research Council of Canada (SSHRC), is intended to draw comparisons regarding the expenditure budgeting process at the various levels of government. In order to accomplish this, detailed investigations are being undertaken regarding the process for each government level. At the municipal level, which is the subject of the paper, interviews are being undertaken in at least seven cities across Canada with the actors involved in the expenditure budget process. Those actors interviewed include both politicians and municipal employees. The municipal employees include department heads and those administrators who are responsible for preparing or consolidating budget information.

In addition to making comparisons among the various levels of government, comparisons will be made among a number of major municipalities

across Canada. To date, detailed information has been obtained and interviews have been undertaken in the City of Toronto, Halifax, Winnipeg and Edmonton. The processes and comparisons of these cities will be discussed in this paper. At least three other cities will be included in the detailed interview process and written information will be obtained from a number of other cities. In addition, a detailed questionnaire will be sent to the participants in the budgeting process in fifteen major cities across Canada. This survey instrument is currently being tested.

In addition to this introduction, this paper is comprised of four additional components. The following section will provide a brief introduction to the municipal budgeting process and techniques. This segment will be particularly useful for people with limited exposure to municipal budgeting. The third section of the paper will identify a number of key issues and questions regarding municipal expenditure budgeting in Canada today. It is in the fourth section that these issues will be addressed by comparing the information and results obtained from the interviews undertaken in the four previously identified cities. Finally, the last section will draw some general conclusions regarding the work which has been completed.

2.0 BACKGROUND ON MUNICIPAL EXPENDITURE BUDGETING

To some degree the role of expenditure budgeting for municipal governments may appear almost intuitive. People's experience with their personal budgets demonstrates that it is necessary to allocate their income to various expenditure categories or, in some way, to control spending. This simplistic approach may be satisfactory for individual budgeting behaviour but it is not adequate for more complex organizations such as municipalities. These governments must provide a broad range of services and make expenditure decisions in a complex organization that is subject to political pressures and responsible to citizen taxpayers.

Due to the nature and demands placed on municipalities today, it has been suggested that the role of local budgets should be to achieve three objectives:

- 1) to provide for the maintenance of financial control;
- 2) to provide information essential for useful and efficient management decisions;
- 3) to improve program and financial planning.⁶

Historically, financial control has been the sole concern of local governments in their budgeting process. The emphasis of this objective is on the input side in that it examines only the expenditure (inputs) of various services and does not take into account, in any meaningful way, the outcomes of these expenditures. Due to the lack of focus on outputs, there is a tendency for there to be little concern for, or measure of, efficiency. When this is the sole objective of the budget process, there is the tendency for the budget makers to take an incrementalist approach which manifests itself in line-item budgeting (to be explained later).

The second objective, budgeting for managerial purposes has not traditionally been a concern of the municipal budgeting process in Canada. In order for this to be carried out, budget makers or analysts must be willing to collect data and develop relevant output measures related to expenditure. The fact that this has not been a concern of budget makers can be explained in part by the format budgets have taken. They simply did not lend themselves to the data required. This, however, has been changing, particularly in a number of larger Canadian municipalities.

Financial planning has not been given much consideration in any comprehensive or formal sense in Canadian municipalities. However, this objective, as well as the second, is becoming more important to municipalities with more fiscal pressure being placed upon them due to demand for services and decreasing provincial grants. Fiscal or financial planning

requires the process begin with a statement of goals and objectives and then proceed through a rational planning process. It also will require impact studies and other forms of analysis.⁷

When speaking of these objectives, as related to municipal budgeting, it is necessary to point out that municipalities typically prepare both current or operating budgets, and capital budgets. Current budgets, which are prepared annually by virtually all local governments in Canada, focus on decisions regarding expenditures related to the day to day operations of government. Expenditures for salaries, wages, operation and maintenance typically appear in these budgets. Also debt charges appear as an expense in current budgets and create a significant and sometimes overlooked link between the current and capital budgets.⁸ Capital budgets, which may or may not be prepared annually by all local governments, typically include large expenditures for physical assets that require one time lump sum expenditures. Sewer and water treatment plants, parks, buildings, roads and transit systems would be typical capital budget items. Not all municipalities will include exactly the same items in their capital budgets; some degree of variation occurs. It is also important to note that many items in the capital budget may require issuing debt financing through debentures. However, they may also be paid for, in part, through grants, out of current budget expenditures, or through reserve funds.

Local governments must adhere to the rules and regulations set out in their province regarding the preparation and control of their budgets, and although there is some variation, several of the key regulations will be highlighted. One of the most significant regulations is that local governments may not budget for a deficit; they must prepare a balanced budget. However, not all provinces require that local governments submit their budgets to the provincial authorities. For example, this is not required in Alberta, Saskatchewan, Quebec, and Prince Edward Island. Nova Scotia, on the other hand, requires budgets submitted but not approved, while in

Manitoba and British Columbia, the budget must be not only submitted but also approved by the province.

The other significant area of provincial regulation is in the issuance of debt through debenture financing. A number of provinces require some form of provincial approval or authorization from an agency prior to incurring debt. Examples of this include the Ontario Municipal Board, the Manitoba Municipal Board, the Local Government Authorities Boards in Alberta, the Local Government Board in Saskatchewan, and the Municipal Capital Borrowing Board in New Brunswick. Some provinces may act as lenders of last resort (Newfoundland Municipal Finance Corporation) or tend to pool local borrowing for local governments (Municipal Finance Authority of British Columbia and the Municipal Finance Corporation of Nova Scotia).

Having briefly described the objectives and major regulations for budgeting, a general process for municipal budgeting will be described. This process may pertain to both the current and capital budgets. The two budget processes may run concurrently or in different time-frames.

The generalized steps in the local government budget process are as follows:

- 1) guidelines sent to department heads;
- 2) department heads prepare forms and preliminary budgets, and submit them to budget office;
- 3) budget officer consolidates figures, analyzes individual departments, assesses impacts of the budget, and submits it to whomever is responsible for budget preparation or review;
- 4) the group or individual responsible for budget preparation will receive presentations from department heads regarding their proposed budgets and ask them questions regarding it;

- 5) the department heads may be asked to submit revised budgets or the group (or individual) responsible may make changes;
- 6) once these changes are made, the revised budget will be sent to council for approval;
- 7) council may request to speak to department heads or seek the advice of the budget office before they alter and ultimately approve the final budget.

The time frame for the general process will vary from local government to local government depending on the complexity of the government and the budget process. In some cases, budgets may not be approved prior to the beginning of the fiscal year. In terms of the above stated process, there are four major groups of actors that may have various roles in the budget process. These actors and how they may assume their role are:

- 1) politicians: council, budget committee, executive committee.
- 2) municipal employees: budget administrators - budget officers, city manager, commissioners.
- 3) municipal employees: department heads - individual department heads, management groups.
- 4) citizens: individual citizens, citizen organizations.

Within the above stated process that is undertaken by these actors, there are a number of different techniques that may be utilized in the budget process. These techniques vary in terms of complexity, resources required to use them, and outputs. Each of the five techniques listed will be briefly explained. The techniques include:

- 1) line-item budgeting;
- 2) performance budgeting;
- 3) program budgeting;
- 4) planning-programming budgeting system (PPBS);
- 5) zero-based budgeting (ZBB).

2.1 Line-Item Budgeting

This form of budgeting is the oldest and simplest. It leads to the examination of budget items on a line by line basis in a manner consistent with the government's accounting system. As mentioned previously, it focuses on the flow of inputs (expenditures) with little attention given to outputs. It has been accepted and favoured by some politicians and administrators because it is relatively straight forward and simple to prepare. However, it does not provide a great deal of useful information and is based on the assumption that all programs will continue. The major question is the rate of expenditure increase that should be allocated to each item.

2.2 Performance Budgeting

Performance budgeting is more complex than line-item budgeting as it focuses on not only inputs but also outputs. It focuses on output at the activity level and usually begins with a broad statement of objectives and priorities against which outputs can be measured. It is necessary to develop unit cost data that is related to the budget activity and compare the data to the previously developed output performance measures. This will aid the political decision makers in the decision regarding budget expenditures. Performance budgeting does provide information that can help the objective of financial or management control and it can actually become part of the management cycle.

2.3 Program Budgeting

The approach of program budgeting attempts to measure the total cost of a function or activity that is part of a program which may require the involvement of a number of departments or agencies. In this form of budgeting, broad programs are the level of analysis, such as transportation

services or protective services. After the various programs have been defined, objectives must be established for the program level, as well as functional objectives and objectives at the activity level. It is intended that this approach will make it easier for those making budgeting decisions to make comparisons among various programs.

2.4 Planning-Programming Budgeting System (PPBS)

This approach encompasses a number of the elements of both performance and program budgeting. Therefore, it does address the financial or management control objective, but through its planning component it also addresses the financial planning objective. The planning component refers to assessing the needs of the community, choosing the means of reaching the objectives from the available alternatives, and viewing this all in a multi-year (three to five year) perspective. It is desirable to have the budget linked to a corporate plan providing overall direction and focus to the programs and their objectives. There are more analytical requirements with this system than the previous forms of budgeting because the system is more complex in terms of process and implementation. Presumably the process provides the political decision makers with better information. This will occur provided that the information is not presented in too complex a form.

2.5 Zero-Based Budgeting (ZBB)

The newest of the budget techniques is zero-based budgeting which originated in the private sector in the late 1960s (Texas Instruments). This approach utilizes a goal setting priority approach which requires a specific set of evaluative techniques. It has been credited with the ability to make substantial improvements in both decision making and planning, and it addresses all of the three budgetary objectives previously specified. There are essentially four steps in zero-based budgeting.

First, it is necessary to identify decision units, each of which has a measurable output. Second, decision packages must be developed in which the packages demonstrate how a particular activity (decision unit) can be undertaken. A number of decision packages may be developed for a given decision unit, each of which will represent alternative levels of expenditure and service. Third, it is necessary for the municipal administrators, department heads or budget officials, to rank all decision packages. These may then be reranked by the politicians. After the completion of this process, council must decide where the cut off lies in terms of packages that will be included in the budget. The cutoff will be dependent upon the revenue level that council finds acceptable. It is necessary to stress that zero-based budgeting is output oriented and it is somewhat similar to planning-programming budgeting system since it also relies on performance measures and cost-benefit analysis.

3.0 WHAT ARE THE ISSUES THAT IMPACT ON THE EXPENDITURE BUDGET PROCESS

In attempting to identify the various issues that impact on the municipal expenditure budgeting process, it becomes immediately obvious that a number of the issues are interrelated. Cause and effect in some cases may be difficult if not impossible to determine. For example, does the government structure dictate the role of the actors in the process or is it the budget technique which in turn is determined by the political actors? Also, does the time frame and the relationship of the budgets to other documents reflect the complexity of the government unit, the budget technique, the government structure, or the role of the actors? In some cases it could also reflect provincial legislation or regulations. These interrelationships are difficult to generalize across provinces. The purpose of this section is to identify a number of these issues and the next section will respond to these issues in selected municipalities.

One of the most important determinants on the municipal budgeting process

is the province within which a local government is located. Not only does each province have its own legislation and regulations with respect to local government budgeting, but each province has a distinct system of grants or transfers which they provide to local governments. These grants contribute a significant amount, from 33.2% in British Columbia to 85.3% in Prince Edward Island, of local government revenues, and therefore form a significant component of a municipal councils revenue constraint.⁹ However, as long as the grant structure remains relatively stable, despite some downward trends in rates of increase, local governments will treat these grants as part of the constraint within which their expenditure budgeting process will occur. For this reason and the desire to focus on other issues, the provincial grant structure is not examined in any detail in this paper. Provincial legislation and regulations will be commented on where they affect the process in terms of reporting, structure or time frame.

The form or structure of local government may be a very important issue in terms of the expenditure budgeting process. This may be the case since each of the three major forms of local government the council-committee form, the council-city manager and the council-commissioner form of government, all place the responsibility for the preparation of the budget on different actors in the process. These forms of government may be applied differently in various local government settings which may lead to somewhat different roles for the same actor in the process in two different government units. For example, politicians may form a budget committee in one jurisdiction but may not form a budget committee in another jurisdiction that has the same form of government. Council may be elected on a ward basis in one jurisdiction while they may be elected at-large in another. Also the roles of the city managers, commissioners or budget officers may vary.

The outcomes in terms of actual increase in property taxes may not be expected to be dependent on the form of government in a particular

municipality. There may be some acceptable political range of increase that will be maintained regardless of the government form. However, the structure or form of government will alter to some degree the role of the actors and it is the role of the actors that determine the budget process including the budgeting technique that is used in the process. The role of the actors and the techniques will determine such simple things as budget guidelines, who determines what they will be and how specific they will be.

The main point here is that there may not be a dramatic change in property tax increases but rather depending upon the roles and the technique; the mix of expenditures both in terms of the types and quality of services may be altered. This can be related to the quality of budget information used for managerial decisions which is generated by a specific budget technique and what use the actors in various roles make of the information.

The issue of what budget technique, from among those described in the previous section, that a municipality uses, is also an important variable in expenditure budgeting. Ultimately, council decides which budget technique will be used. However, council may be influenced by recommendations from the budget office, city manager or commissioners regarding the need for various techniques. The influence these people can exert on council will be dependent upon the role that they have in the government structure, the budget process and their individual interpersonal skills. Complexity of the municipal unit and the size of the budget may be important elements in the decision of whether or not a municipal council decides to adopt a more sophisticated budget technique. It should be noted that a more sophisticated technique will require greater resources in terms of time and analysis from the various department heads, budget office and other administrators, and could lead to increased staff requirements in the budget office. A crucial question for some members of council may

be whether a more sophisticated budget technique will require significantly greater time commitments on their part in addition to the provision of better information upon which to make budgetary decisions.

It might appear that the decision regarding budget technique is related to the time frame over which budgets are prepared. There has already been the suggestion that more sophisticated techniques require greater resources. However, this does not necessarily suggest the budget process be extended over a longer time frame. The time frame may be related more to the structure of the process in terms of the number and detail of reviews undertaken by the various actors in the process. A separate but related issue is whether the operating and capital budget processes are undertaken over the same time frame concurrently, or whether the capital budget process precedes the operating budget process.

Another significant issue is the relationship of budgets to other municipal documents. The relationship to some documents such as a five year capital forecast may be obvious. However, the relationship to other documents such as an official plan, general plan, transportation plan or parks and recreation master plan may not be as obvious. Here the question is whether or not these types of plans, which have previously been approved by council, are used as input into budgetary expenditure decisions.

The last significant issue that is interrelated to most of those previously stated is who really holds the "power" in the budgetary process? Which actor or group of actors has the greatest influence over the outcome? This includes the intermediary step of guidelines as well as choosing the technique and process. It is this issue that reflects government structure, roles and process which may prove to be extremely important to budget outcomes.

4.0 PRELIMINARY RESULTS

In this section some general findings are reported regarding the expenditure budgeting process in the four cities in which interviews have been undertaken. These four cities represent a variety of forms of local government. Three of these cities have approximately the same population. The only city that has a significantly smaller population is Halifax. Halifax has a council-manager form of government in which there is not an executive committee of council as there is in the council-manager system in Edmonton.

Table 1 summarizes a number of the aspects of the four cities. Included in the table is information regarding the nature of the city as well as information regarding the expenditure budgeting activities. This table will provide a comparative backdrop as the cities are discussed, moving across Canada from east to west. Each discussion will begin with a brief overview of the expenditure budgetary process in each city. It will then focus on the role of the actors in terms of guidelines and major inputs, the relationship to other documents, the time frame and any special aspects of the capital budget process.

4.1 Halifax

The City of Halifax has a council-manager form of government. In their system of government it is the city manager's role to prepare a budget and present it to council for approval. The process in Halifax is not subject to substantial review by various committees. There is no committee of council that reviews the proposed budget prior to it going to Council. Essentially the budget office reviews expenditure estimates, analyzes the implications and submits them to the City Manager who in turn reviews them, possibly with the department heads, and prepares the proposed budget for council.

TABLE 1

Municipal and Budget Characteristics

	Government Form	1981 Population	1977% of Revenue from Transfers	Budget Technique	Operating Budget (mill)	Capital Budget (mill)	Time Frame	
							Operating	Capital
Edmonton	Council-Manager	532,246	45.6%	PPBS ZBB	\$467.7	\$152	8½ mo.	8½ mo.
Halifax	Council-Manager	114,594	n.a.	Program	\$179	--	8 mo.	6 mo.
Toronto	Council-Committee	599,217	34.9	No single Approach	\$475.6	\$ 34.5	7½ mo.	4½ mo.
Winnipeg	Council-City Commissioner	564,473	32.3	Line-item Program Format	\$453.8	\$131.9	7 mo.	6 mo.

Essentially Halifax uses program budgeting with the exception of the Recreation Department which attempts to use the more comprehensive PPBS Approach.¹⁰ A local government review completed in 1982 made two recommendations specifically aimed at improving the budgeting process. Only one of which was formally approved by council.¹¹ The approved recommendation, to adopt a planning, evaluation and budgeting time table with three phases, was never fully implemented and ultimately dropped in practice.

Last budget year council reversed the traditional budget approval procedures by setting the municipal tax rate prior to approving the expenditure budget. Presumably this was undertaken in order to use the desired tax rate increase as an absolute constraint for expenditures.

4.1.1 Roles of the Actors

The actors roles generally begin with the preparation of budget guidelines. In Halifax the guidelines are sent out by the City Manager and are set by him in consultation with Council. It appears that the City Manager continues to play a dominant role throughout both the operating and capital budgeting process. The City Manager makes cuts to the operating budget and changes the priority of capital items with advice from his informal senior management group.

Council, as a whole or by committee does not take a very active role in the preparation of the budget. Essentially they are involved at the guideline stage and at final approval. This does not give them a great deal of input or opportunity to understand the process. There does not appear to be coalitions or political parties on council that vote together on budgetary matters. Citizen input in the process is minimal and the politicians main response to them appears to be in the area of sidewalk renewals.

4.1.2 Time Frame

The time frame of the operating budget is approximately eight months, while that of the capital budget is approximately six months. Capital budgeting begins in June, two months prior to the operating budget, and is approved prior to November 15th. The operating budget on the other hand is approved prior to March 31st of the year for which the budget is effective. It is particularly important in the Halifax setting that the capital budget is approved prior to the operating budget since it is an integral part of it (to be explained below).

4.1.3 Relationship to Other Documents

There tends not to be any strong relationship between the operating and capital budgets and other municipal documents other than the fact that the capital budget has a three year time horizon with the first year being approved for the next fiscal (calendar) year.

4.1.4 Capital Budgeting

The most interesting feature regarding the capital budgeting process in Halifax is that since 1982 they have been on complete "pay as you go financing" which means that all capital items are fully paid for in the operating budget in the year they are undertaken. This policy was introduced due to the soaring borrowing rates in the early 1980s and it simply has been maintained. There is a constraint, however, that capital items cannot exceed 9½% of the operating budget.

4.2 City of Toronto

The City of Toronto is part of a two tiered local government structure within which it shares service responsibility and revenue with the upper

tier Municipality of Metropolitan Toronto. In the City of Toronto, there is a council-committee form of government. This suggests that in addition to the mayor who is the chief executive officer there are three standing committees to which the departments and boards report. In addition to the three standing committees there is an executive committee of council and a budget review group which is comprised of three aldermen and four senior finance or budget staff administrators.

The budget process of the City of Toronto does not follow any of the previously described budget techniques such as PPBS or ZBB. However, some elements of these techniques have been included in the process. In Toronto's process all aldermen are involved in the process at the minimum of three points, standing committee review (all aldermen sit on a standing committee) council meeting on preliminary budgets and at final council approval. In addition, aldermen may be involved at the guideline stage, as a member of the budget group or as a member of the executive committee. This budget process has substantial involvement by the alderman and numerous review steps. The review stages that lead to council approval are as follows:

- 1) standing committee review,
- 2) administrative review,
- 3) budget group review,
- 4) council meeting on preliminary budget,
- 5) budget group reconsideration,
- 6) executive committee approval,
- 7) council approval.

4.2.1 Roles of the Actors

In Toronto the budget guidelines are normally approved by Council after they have been accepted by the Executive Committee. It is the Budget Review Group that provides the context within which the guidelines are determined. The crucial link between the Budget Review Group and the

Executive Committee is the budget chief who is selected from among the Executive Committee to chair the Budget Review Group. It is this alderman that plays the dominant role in the budgetary process. If there is any one review stage where the greatest amount of work is undertaken, it is at the two points where the Budget Review Group meet. This is significant because it includes both aldermen and senior administration working jointly.

In Standing Committee Review, aldermen may tend to act as advocates for the departments or boards that report to their committee. At the Executive Committee level, it would be expected that the budget chief would generally have the confidence of the other committee members and therefore this would tend not to be a significant review stage.

4.2.2 Time Frame

The time frame of the operating budget is seven and one half months, while that of the capital budget is four and one half months. Capital budget preparation begins in September, one month prior to the beginning of the operating budget process. Both budgets are approved in the new budget year with capital approval coming in January and operating approval in May. These approvals cannot take place prior to the budget year because of Provincial regulations. In election years, new aldermen take office on January 1st and existing councils are not permitted to approve budgets for future councils.

4.2.3 Relationship to Other Documents

As was the case with Halifax, the City of Toronto's budgets do not appear to have any strong relationship to other municipal documents or plans.

4.2.4 Capital Budgeting

In the capital budget process, departments must prepare their capital budgets for a five year time horizon. As with Halifax, each department must rank their capital requirements with others that the department is requesting.

It should be pointed out for debt financing, the City of Toronto does not issue debentures but rather requests Metropolitan Toronto to obtain the debt financing that it requires.

4.3 Winnipeg

As it is widely known, Winnipeg has gone through a number of changes from a fragmented number of government units, to a two-tiered structure, and what is currently known as Unicity. Also, the number of aldermen has been reduced from fifty to twenty-nine. The form of government that currently exists in Winnipeg is the council-city commissioner form of government in which there is a chief commissioner and three other commissioners. Each of these commissioners have responsibility for specified departments.

The budgeting process in Winnipeg does not use any special technique but it is basically line-item budgeting in program format. In a fashion that is somewhat similar to Toronto's, there are a number of reviews that take place by various committees of council and by the Board of Commissioners. The recommendations of the various review groups are forwarded to the Executive Policy Committee. After the Budget submissions are consolidated by the budget office, the following are required review stages:

- 1) Board of Commissioners review,
- 2) Community Committees' review,
- 3) Standing Committees review,
- 4) Board of Commissioners review previous committee's recommendations,

- 5) Executive Policy Committee review,
- 6) Adoption by Council.

4.3.1 Roles of the Actors

The Budget Bureau plays an active role at the start of the budget process by recommending guidelines to the Board of Commissioners. It is the Board who adopts the guidelines and sends them to department heads. The Board of Commissioners play a key role in the budget process through obtaining budget analyses from the Budget Bureau and reviewing the preliminary budget as well as the recommendations made by the various committees regarding the budget. They make recommendations to the Executive Policy Committee which is the most influential political committee in dealing with budget process. It is this committee which makes the first recommendation to Council.

There is some citizen input into the budgeting process through the Community Committees review of the budget components that effect their respective wards. However, most of the input is for capital expenditures related to recreation and street improvements.

4.3.2 Time Frame

Both the current and capital budgeting processes begin at approximately the same time in August. However, the capital budget has a shorter time frame, six months, and is approved one month prior to the current budget. It should be pointed out, however, that the one year capital budget flows directly from the five year capital program which is prepared during the first six months of the year.

4.3.3 Relationship to Other Documents

It has been pointed out previously that the capital budget flows from

the five year capital program. Plan Winnipeg, although it has not been fully approved, is used as a guiding document for the 5 Year Capital Program, the annual capital budget and the current budget. The importance of this document is that it focuses attention on the older sections of the city which some feel have been neglected for a number of years.

4.3.4 Capital Budgeting

In addition to the above noted aspects of capital budgeting, Council has established a voluntary borrowing ceiling of \$66 million. This has been in place since 1983. From 1976 to 1983 the ceiling was \$50 million. The intent of this policy is to maintain a good credit rating. Currently the City has an 'AA' rating.

4.4 Edmonton

The City of Edmonton had a council-commissioner form of government from its incorporation until 1983 when it changed to a council-manager form of government. It should be noted, however, that the operation of council-manager in Edmonton appears to be somewhat different than Halifax due to the existence of both an Executive Committee and a Budget Committee of Council.

Edmonton began using PPBS as their budgeting format in 1974 and then also introduced some elements of ZBB in 1978. However, with the great period of growth coming to an end in 1982, some changes were required from the formerly growth oriented budgets. It was decided that more input should be obtained from the politicians regarding service level objectives and priorities. Therefore the budget process was revised still using the relevant components of PPBS and ZBB. The result was a process that won an award for excellence in 1985 from the Government Finance Officers Association.¹² The intent of the process is to link plans and budgets,

obtain more political input throughout the process, and to shorten the budget time frame.

The process takes internal departmental plans and uses them to generate three year operating and five year capital forecasts. These forecasts are reviewed by the Administrative Priority Committee and the Budget Committee of Council to develop budget guidelines which in some cases are department specific. These guidelines are used to prepare budgets which are reviewed by the Budget Committee, the Executive Committee and then approved by Council.

4.4.1 Roles of the Actors

Although formally the City Manager receives the budget material from the Budget Office and submits it to Executive Committee who in turn refer it to the Budget Committee, his role is relatively low profile in comparison to the city manager in Halifax. The city manager chairs the Administrative Priorities Committee (APC) but his role is very minor beyond this stage.

In terms of the guidelines, the guidelines for the forecasts tend to be developed by the budget office while the actual budget guidelines, based on recommendations from the APC and the Budget Committee, go to Executive Committee and then go to council for approval. It is the Budget Committee who does the most work in the political decision setting while the Budget Office undertakes the consolidation and analysis functions. The Budget Committee has been using the services of an analyst from the City's Auditor General's office to help them answer questions regarding the proposed budget. It is interesting to note that the Auditor General's office reports directly to Council and does not report through the city manager.

4.4.2 Time Frame

Edmonton is the only city analyzed in which operating and capital budget processes are concurrent. Both budgets are approved by council in mid-December prior to the start of the budget year. The guidelines for the 3/5 year forecasts are given to departments April 1st. If that is counted as part of the process it lasts eight and one half months. If the time frame is measured from when the Council approved budget guidelines are issued, the process takes five months.

4.4.3 Relationship to Other Documents

A central feature of this process is its relationship to other municipal documents or plans. These may be in the form of plans formally adopted by Council such as the Planning Departments General Plan or the City's Transportation Plan, or they may be in the form of departments operation plans such as those for water and sanitation. For those departments that do not have any plans, the process encourages them to develop them and become more forward thinking. An example is the Fire Department which is about to prepare a master plan.

4.4.4 Capital Budgeting

With respect to capital budgeting, the City of Edmonton has had a Council approved Debt Management Policy since 1978. In addition, other policies have been added to help improve capital budgeting. For example, the 5 year capital forecasts are being developed into departmental capital development plans and consolidated into a corporate capital development plan.

Two other items are noteworthy regarding capital budgeting. First, all new debt is issued with five year debentures which goes along with attempts to use more pay as you go financing. Second, there is a limit to the amount of tax supported debt that the city will incur, currently \$40 million. This

\$40 million is in turn allocated among the various departments.

5.0 CONCLUSION

It is difficult to draw a great many conclusions regarding the preliminary analysis that has been undertaken. However, some brief comments can be made regarding various topics.

In terms of budget techniques, it appears that most participants in the process feel that the techniques being used are appropriate for their municipality. However, politicians and sometimes department heads feel that there may be room for improvement. This is particularly the case where politicians are not involved in the process from start to finish. There does not appear to be any strong relationship between either population or budget size in relation to the budget technique used or the length of the budget process.

The dominant actor or group may be related to the form of government or the budget process used. It appears that the form of government is important in the case where the form designates an administrator to be responsible for the preparation of the budget. This is true provided that the role of this administrator is not diminished by the budget process that has been developed. In Edmonton, for example, the City Manager has the responsibility but the process does not allow him to play a strong role.

Politicians have a dilemma with the budget process. They tend to desire more input into the budget process, but they also complain that they spend too much time on the budget process. This complaint is particularly true where there are part-time aldermen who find the process too complex and too overwhelming in terms of volume of information. What may be required, therefore, is good, concise information, not voluminous performance measures.

Budgets tend not to be approved prior to the start of the budget year. Capital budgets tend to have a time frame longer than one year, tend to have a shorter budget preparation time than operating budgets and therefore tend to be approved prior to the operating budget.

In the municipalities examined, there is a mixed response to budgeting being related to other municipal documents. Although this would seem desirable to achieve the fiscal planning objective, the only consistent relationship is the approved one year capital budget being related to a longer term capital budget or forecast.

One consistent activity in all the municipalities examined was the undertaking of measures to control capital spending and attempts to lessen the long term impacts on operating budgets from debt service.

Citizen input does not generally play a large role in the budget process. Where there is citizen input, it tends to be in the area of capital expenditures of a nature that are visible to the citizens. Issues evolve around items such as parks, sidewalk and street improvements. It might be that the primary role of citizens is to act as a check against expenditures rising too rapidly. There may be some acceptable rate of increase in property taxes which if exceeded will lead to citizens not voting for the incumbent aldermen or even some form of tax revolt. This acceptable tax increase will in some way relate to the amount of expenditure increase, but it is the budget technique and process that will relate to the allocation and efficiency of expenditures for various activities.

Related to both issues pertaining to capital budgeting and citizen input is the problem identified by the Federation of Canadian Municipalities of infrastructure renewal. Attempts to control capital expenditures and the fact that political gains only tend to accrue for visible capital works (not underground or non-visible infrastructure) may lead to increased infrastructure problems in the future.

NOTES

1. See Harry Kitchen, Local Government Finance in Canada (Toronto: Canadian Tax Foundation, 1984); Richard Bird and N.E. Slack, Urban Public Finance in Canada (Toronto: Butterworths, 1983).
2. See Lewis B. Friedman, Budgeting Municipal Expenditures (New York: Praeger, 1975); and James N. Danziger, Making Budgets: Public Resource Allocations (Beverly Hills, California: Sage Publications, 1978).
3. For example, see James Cutt and R. Ritter, Public Non-Profit Budgeting: The Evolution and Applications of Zero-Based Budgeting (Toronto: The Institute for Public Administration of Canada, 1984).
4. See Bird and Slack, Urban Public Finance, 57. Table 5-1 shows that since the mid 1970s transfers as a percentage of local government revenue have been declining.
5. It has been identified in a recent study by the Federation of Canadian Municipalities that urban infrastructure is in serious need of repair and that more resources need to be devoted to it. See "Municipal Infrastructure in Canada: Physical Condition and Funding Adequacy," Federation of Canadian Municipalities (January 1985).
6. See Kitchen, Local Government Finance, 354-359.
7. One form of a fiscal planning process is described by James C. Snyder in Fiscal Planning and Management in Local Government (Lexington, Mass: D.C. Heath, 1981), chapter 4.
8. Garnet Garvin and R.J. Long, "Capital Budget Decision-Making Processes in Canadian Urban Municipalities," Canadian Public Administration 24 (Winter 1981): 634-40, points out that reoccurring costs in operating budgets from debt financing are often not properly considered by local government budget analysts.
9. For figures regarding the grant revenues as a percentage of all general local revenues by province, see Bird and Slack, Urban Public Finance, 58.
10. The Recreation Department began to use PPBS after receiving a report by J. McNiven regarding how it could be employed in their department in 1975.

NOTES (Continued)

11. These were recommendations Number 26 and 27 in Halifax Commission on City Government, Report on the Structure and Process of Halifax City Government (Halifax: City of Halifax, 1982).
12. This award was won for the submission of a paper describing the process entitled "Setting Local Government Priorities through the Budget Setting Process," prepared by Peter Fernandes and Myriam Laberge of the City of Edmonton's Corporate Budget Office.

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