

**Chief Financial Officer's Report to
Priorities and Finance Committee
2019 April 02**

**ISC: UNRESTRICTED
PFC2019-0401**

Amendment of Council Policies: Multi-Year Business Planning and Budgeting Policy CFO004, Budgeting Reporting Policies CFO006 and Transparency and Accountability Policy CC039

EXECUTIVE SUMMARY

The purpose of this report is to seek Council's approval of amendments to three existing Council policies, The Multi-Year Business Planning and Budgeting Policy CFO004, Budget Reporting Policies CFO006 and Transparency and Accountability Policy CC039. These policies set out the guidance for multi-year business planning and budgeting and reporting of budget variances, adjustments and spending and need to be updated to bring them into alignment with current Council direction and practice.

ADMINISTRATION RECOMMENDATION:

That the Priorities and Finance Committee recommends that Council approve

1. Multi-Year Business Planning and Budgeting Policy CFO004, as revised, contained in Attachment 1;
2. Budget Reporting Policies CFO006, as revised, contained in Attachment 3; and
3. Transparency and Accountability Policy CC039, as revised, contained in Attachment 5.

PREVIOUS COUNCIL DIRECTION / POLICY

On 2018 November 30, Council approved The City's first service-based business plans and budgets One Calgary 2019-2022 Service Plans and Budgets. (C2018-1158)

On 2016 September 20, Council authorized Administration to make expenditures related to cash flow timing changes and update Council Policy CFO006 to reflect new levels of approval for capital budget cash flow timing changes (PFC2016-0713).

On 2014 September 15, Council approved the Leadership Strategic Plan and direction to move to service-based business plans and budgets. (C2014-0703)

On 2013 April 22, Council approved a four-year approach to business planning and budgeting (PFC2013-0338) to align The City's business plan and budget process to the four-year election terms.

On 2007 December 5, Council approved the revised Multi-Year Business Planning and Budgeting Policy CFO004 to include a three-year approach to approving the capital budget (FCS2007-46).

On 2006 February 8, Council approved Budget Reporting Policy Change (FCS2006-08) and the existing policy on budget adjustments and over-expenditures from FB98-44 was superseded. The approved changes were reflected in Budget Reporting Policies CFO006.

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On 2005 January 18, Council approved Recommended Approach to Multi-Year Budgeting (C2005-04) and it was reflected in Council Policy Multi-Year Business Planning and Budgeting Policy CFO004.

BACKGROUND

Multi-Year Business Planning and Budgeting Policy CFO004

This Council policy applies to all City multi-year business plans and budgets. It provides criteria specifying:

- The multi-year planning and budgeting approach;
- The annual and mid-cycle adjustment processes to adjust the plans, measures and budgets; and
- Mid-year and year-end accountability reports to inform Council about the performance of the Corporation in relation to approved business plans and budgets.

The policy was last updated in 2012 and there have been some changes in Council direction since that time that are not currently reflected in the policy.

Budget Reporting Policies CFO006

This Council policy provides criteria specifying:

- limits within which Administration can authorize expenditures that exceed the adopted capital and operating budgets, budget transfers and changes to the organizational structure with net zero budget impact;
- procedures for Council to verify expenditures authorized by Administration; and
- reporting requirements for projected year-end unfavourable variances and emergency expenditures.

According to Section 248(1) of the MGA (Municipal Government Act), a municipality may only make an expenditure that is:

- a) included in an operating budget, interim operating budget or capital budget or otherwise authorized by the council,
- b) for an emergency, or
- c) legally required to be paid.

Through this policy Council provides the spending authority intended to allow the flexibility to enable Administration to respond immediately to unanticipated occurrences through relatively minor budget changes.

Multi-Year Business Planning and Budgeting Policy CFO004 and Budget Reporting Policies CFO006 share the same authorization threshold for budget adjustment and have a cross-referenced area regarding carryforward of unfavourable departmental variances.

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Transparency and Accountability Policy (CC039)

The City of Calgary is committed to conducting business in an open and transparent manner and creating a culture wherein Council and City of Calgary employees are aware of and understand the principles of transparency and accountability. This policy reflects Council and The City's ongoing effort to support open, transparent and accountable local government.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

The main changes recommended in this report are:

Multi-Year Business Planning and Budgeting Policy CFO004

The revised Council Policy CFO004 is presented in Attachment 1. The revisions to CFO004 are to bring the policy into alignment with current Council direction and practice. A summary of changes is provided in Attachment 2. These changes fall into three broad categories:

1. Update the policy to reflect Council's decision in 2013 (PFC2013-0338) to move from a three-year plan and budget to a four-year plan and budget and to include a review of Council priorities and check-in with the public at the mid-cycle adjustment;
2. Revise the policy to align to the service-based approach as the means by which business plans and budgets are approved and performance reported; and
3. To expand the scope of budget adjustments to include service reviews that identify opportunities to improve service performance.

All these changes are to update the wording of the policy to reflect past decisions of Council and do not introduce new policy direction. The changes identified, are therefore considered housekeeping in nature.

Budget Reporting Policies CFO006

The revised Council Policy CFO006 is presented in Attachment 3. The revisions to CFO006 were made based on reviewing the current policy and context under which it was developed, assessing current conditions and researching best practices. The revisions to CFO006, also summarized in Attachment 4, include:

1. Reflecting a new environment of Service Plans and Budgets. The revisions maintain the authority of the general managers within the current organizational structure while recognizing the approval of the service plans and budgets.
2. Separate sections for operating and capital budget to better reflect the inherent difference between operating and capital and reduce confusion in budget reporting requirements and processes.
3. Increasing the current Administration authorization limit of net departmental over-expenditures, budget adjustments and transfers to \$400,000 from \$200,000. The

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existing threshold of \$200,000 was established in 1998 (FB98-44) and maintained when CFO006 was approved by Council in 2006. Since the 2006 approval, the total size of The City's budget has more than doubled. The threshold needs to be reconsidered to maintain a similar level of authority and provide enough flexibility for Administration to manage budget within a certain level of net budget impact. A threshold based on percentage of budget was also reviewed to reflect the different scale of departments budgets, but a dollar value limit is recommended due mainly to the simplicity.

4. Adding new thresholds for operating budget adjustments based on the gross amount of expenditures at \$2 million per service per calendar year. The current policy focuses on net departmental budgets, which entails some risks that:
 - A significant expenditure budget adjustment would not require Council approval if it is offset by the other account categories (net budget impact is zero).

The proposed authorization limit of \$2 million for the gross amount has been set based on the materiality of its potential business implications. For past net zero adjustments, the adjustments exceeding \$2 million tend to be related to substantial business activities, such as service demand changes, significant process changes, and new revenues, while others below the amount are mostly related to the transfers between departments or due to organizational changes.

5. Clarifying that capital budget adjustments are based on approved budget identifiers (can have multiple budget identifiers/investments within each service) as opposed to operating budget adjustments which are based on the total service budget.
6. The revised policy provides additional guidance on capital budget relinquishments. It clarifies authorization levels and thresholds that are separate from budget transfers and over expenditures.

Transparency and Accountability Policy CC039

Changes are also required to Policy CC039 to remove references to accountability reporting frequency and content as currently there is duplication and inconsistencies between this policy and CFO004. The proposed revised policy is in attachment 5. The change recommended refers the reader to CFO004. CFO004 was amended in 2012 to change the frequency of accountability reporting from quarterly to Mid-Year and Year-End (refer to section 5.6 A, of the revised policy in Attachment 2).

Within CC039, the following bullet is included (twice on page 3).

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- “Quarterly and annual reports to Council and citizens on department business plans and budgets”

It has been changed to read:

- “Accountability reports to Council and citizens on business plans and budgets in accordance with the Multi-Year Business Planning and Budgeting Policy (CFO004).

This change will ensure that the policies remain aligned and do not contradict one another.

Stakeholder Engagement, Research and Communication

The summary of proposed changes to CFO006 was presented to selected portfolio finance staff, who were provided with the opportunity to discuss its implications. The proposed revisions were also presented to Infrastructure Calgary. City Clerk’s Office and Law Department were consulted regarding its compliance with the Council policy framework and the MGA.

The proposed changes to CFO004 are consistent with previous Council direction that included engagement both internally and externally. A wide range of stakeholders were consulted in 2013 when the term of the multi-year plans and budgets was changed from three years to four years. In addition, a wide variety of both internal and external stakeholders were consulted in the development of the service list and in the development of the 2019-2022 plans and budgets (One Calgary).

City Clerks was consulted and concurs with the proposed changes outlined Policy CC039 with a cross reference to CFO004.

Strategic Alignment

The recommendation enables business plan and budget policies that are consistent with the Leadership Strategic Plan and service-based business planning and budgeting, which is in alignment with the Citizen Priority of Well-Run City.

Social, Environmental, Economic (External)

The updates to these policies will help the organization to better deliver on Citizen Priorities by having a more citizen-centric view of the services that The City provides and by providing the foundations for managing the service plans and budgets that are approved by Council.

Financial Capacity

Current and future operating budget:

The policies recommended in this report may impact the processes and procedures of managing operating budgets, however, there are no specific operating budget implications arising from implementing the recommended policies in this report.

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Current and future capital budget:

The policies recommended in this report may impact the processes and procedures of managing capital budgets, however, there are no specific capital budget implications arising from implementing the recommended policies in this report.

Risk Assessment

The One Calgary 2019-2022 business plans and budgets were approved by lines of service however The City still maintains a departmental based organizational structure. The proposed policies follow a departmental approach in terms of approvals while including additional updates to reflect the new service based environment. The risk of not updating CFO006 is that there will not be clear guidance on how to update budget processes to accommodate both structures.

The risk of not updating CFO004 is that the policy remains out of sync with current Council practice and direction which could lead to confusion.

REASON(S) FOR RECOMMENDATION(S):

The Multi-Year Business Planning and Budgeting Policy CFO004 and Budget Reporting Policies CFO006 need to be updated and clarified given the changes including the growth in total budget size and the change to four-year, service-based business plans and budgets. The change to CC039 will ensure that the policies remain aligned and do not contradict one another.

ATTACHMENT(S)

1. Attachment 1 - Multi-Year Business Planning and Budgeting Policy CFO004 (Revised)
2. Attachment 2 - Summary of proposed revisions to Multi-Year Business Planning and Budgeting Policy CFO004
3. Attachment 3 - Budget Reporting Policies CFO006 (Revised)
4. Attachment 4 - Summary of proposed revisions to Budget Reporting Policies CFO006
5. Attachment 5 - Transparency and Accountability Policy CC039 (Revised)