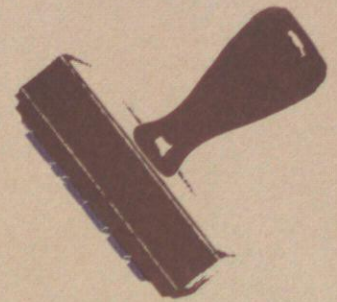




BUREAU OF MUNICIPAL RESEARCH

Suite 406, 4 Richmond Street East, Toronto, Ontario M5C 1M6

COMMENT



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BUDGETING - NOT A METRO FORTE

INTRODUCTION

Each year local governments across the land go through the ritual commonly referred to as the "budgetary process". This exercise is performed in the hope of bringing forward a spending plan for the operation of municipal services, at the least possible cost to the taxpayers. In this Comment, we shall discuss the budgetary process¹ and some problems which may result from unsound budgetary practices. We will offer several suggestions for improving this process which will, in most cases, have applicability to municipalities throughout Ontario. The report is, however, primarily based on the experience of the Corporation of Metropolitan Toronto.

The main problems are identified as:

- * the lack of a centralized budgetary review department
- * budget increases based on very little inter or intra departmental analysis
- * no real opportunity for elected officials to criticize spending programs
- * unnecessarily late adoption of the final budget
- * a rising revenue-expenditure gap in spite of provincial assistance

1. We are referring to the operating budget as opposed to the capital budget which must be submitted each year as a five year spending plan with criteria set by the Ontario Municipal Board. Also excluded is any consideration of the budget for educational purposes. Only general, current operating expenditures are included.

If Metro Toronto does not soon address itself to these problems, the probability of unwise expenditures or poor decisions on priorities increases greatly. In short, millions of tax dollars may be wasted and taxes are likely to rise faster than in the past. There is also an outside chance, depending on the continued economic viability of Canada, that a financial crisis could occur in Metro due to the ineffectual budgetary system, which would leave Metro ill-prepared for an economic downturn.^{1.}

THE GENERAL PROCESS

Preparing the Public

The citizen first becomes aware that the budget sessions have begun at the sight of a headline which may read, "Mayor Predicts Sizeable Tax Increase". Following this, almost on a daily basis, will be statements by the Finance Commissioner and/or aldermen complaining about the many demands for services and the increasing cost of providing these amenities. The blame is very rarely, if ever, attributed to inefficiency but rather to inflation, excessive wage demands, or the unwillingness of higher levels of government to share the bottomless tax pot they are said to possess.

The next round of discussions will invariably centre around the day and night sessions being held in a desperate attempt to cut and pare the budget down to an acceptable size. Acceptable usually refers in this instance to large enough to provide the basic services but not so large as to place an excessive tax burden on property owners generally, but especially those on fixed incomes.

After it is felt that the public has been sufficiently alarmed by the prospects of a large tax increase and more than adequately impressed by the herculean efforts of their elected and appointed officials to bring this fiscal nightmare known as the budget under control, the annual miracle occurs. Low and behold, the budget is passed with just a slight tax increase and the sighs of relief can be heard for miles around as citizens give thanks for being spared yet another year from having their pocketbooks completely devoured by the firey tax monster.

1. In a recession or a depression tax revenues decrease while demands for services increase. This situation is further complicated if there is a large debt service as well as poor program evaluation.

To Each His Own

In most Canadian municipalities, and especially in Metro Toronto, the responsibility for initiating the preliminary budget proposals falls on the senior civil servant of each department. In the case of Metro, these departments are reflected in the functional allegations within the budget, as follows:

Water Works		Refuse Disposal
Social Services		Roads and Traffic
Parks		General Administration
Police) now combined for	Sewage
Licensing) budgetary purposes	Public Transportation
Emergency Services)	under Protective	Sundry
	Services	

Each year, in the Fall, the budgetary process begins with the various divisions within each department submitting their estimates for the coming year to the Commissioner in charge. Some time soon after the first of the year, after the Commissioners have conferred with their senior staff, a formal budget request is submitted to the standing committee which is responsible for that particular function. Some changes may be offered at that time but usually the budget remains very much in tact and is forwarded to the Commissioner of Finance who in turn tabulates all requests and presents this collective budget to the members of Metro Council's budget sub-committee. The budget sub-committee, in the case of Metro Toronto, is made up of Metro Chairman Paul Godfrey, Toronto Aldermen Art Eggleton and Karl Jaffary, Mayor Cosgrove of Scarborough, Mayor Blair of East York, and Mayor Flynn of Etobicoke. The sub-committee meets with each Commissioner to review his or her department's particular requests and it is at this time that any proposed increases or decreases in programs or budget are discussed.

The Ten Percent Add On

Almost without exception, the budget sub-committee is faced with departmental requests in excess of last year's budget and usually they approach or exceed a ten percent increase! Some members of present and past budget committees have alleged that they suspect some Commissioners of merely adding ten percent to every budget item and then practicing their most impassioned appeal for the welfare and safety of Metro citizens. While this may be an exaggeration in most cases, it would probably be safer to say, based on discussions with several Metro officials, that there is a definite lack of any systematic evaluation and review process aimed at determining program effectiveness. It is assumed that last year's programs were necessary when they were implemented; ergo, they must be necessary now and in the future. In the mean time, additional needs have been recognized and it is desirable that either existing programs be expanded or new ones developed to handle these additional needs. As in many other instances, growth is

perceived as good and few public officials wish to relinquish even the smallest portion of their accrued influence and responsibility.

It is true that various department heads have developed sound operations in terms of organization and structure. But program evaluation, if it exists at all, has developed as a factor of experience most often based on long standing practice and criteria. Some departments such as Works¹ are much more alert to the use of modern evaluation procedures because of the nature of the service they provide. Other departments dealing with less tangible services are likely to depend more on intuition and personal observation.

The basic problem can be divided into two variations of establishing priorities. There are inter departmental problems and intra departmental problems. Intra departmental problems occur due to the inability to determine which functions within the department could be reduced to make way for what has been recognized as a new need. Inter departmental problems is also related to the problem of establishing priorities. The elected official gets but the vaguest of inputs from his constituents to determine if more should be spent on police, roads, parks or whatever. To make matters even worse, he can be assured of getting absolutely no reading on which items people would like to have reduced; just the same old message to keep taxes down. In both instances, the difficulty arises, at least in part, because the general attitude of elected and appointed officials has consistently been, how can we pay for increased services, instead of, what we are willing to give up in order to get them. And just as important has been the lack of any established system for determining the cost-benefit, both financially and socially, of the services provided.

Open Versus Closed Sessions

A matter of recurring interest is the accessibility, to the media and public generally, of information pertinent to the budget discussions. Budget sessions in the past have been open to the general public but this year several committee members requested that meetings with department heads be held in private.² There was a furor in the press as well as outcries by various groups and individuals, the BMR included among them, that the closing of budget sessions was a completely unacceptable way to conduct public business. In terms of the strictest liberal definition of democracy, these cries were probably legitimate, and effective since the committee decided very quickly to reopen the meetings. Some members of Council have indicated privately, however, that this may have been a very harmful and misleading interpretation of the intentions of the budget committee. Private meetings, according to several of the Metro Councillors, allow for a very detailed cross examination of civil servants, with a minimizing of attempts to play on the sympathies of the public as regards program evaluation. In

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1. Refers to Roads, Sewage, and Refuse Disposal Departments.
 2. Metro Chairman Paul Godfrey, quoted in the Toronto Star, February 9, 1974

other words, there is a tendency in public meetings to go easy on criticism for fear of public misunderstanding of the Council member's intentions. There is much to be said for this argument, but it basically avoids the main issue of there being no overall administrative responsibility for the Metro budget. In many instances in other communities, especially where there is a paid non-elected chief administrator, the first budget sessions are held in private with that individual and this is where the initial budget paring is accomplished. No such function exists in Metro, since the responsibility of the Metro Finance Commissioner is only to compile the budgets submitted by the various departments.

Metro has hired a budget officer and a program is being developed which has the potential for alleviating many of the problems which have been mentioned thus far. There is a pilot project now underway in the Parks Department that should provide the basic framework for a much improved accounting system as well as some sophisticated management evaluation techniques which can be adapted by all other departments. And while the individual chosen to develop this system appears to be more than capable, the basic question is not one of expertise but rather of placement. Should a budget evaluation and review department report to one of the appointed civil servants or should it report to one or more elected officials? The argument was discussed in the Fall of 1973 when the Metro Chairman's office made a bid to establish such a function as part of their responsibility. Metro executive committee refused this approach and instead gave the mandate to the Finance Commissioner. While the motives of the executive committee are not explicitly known, it is suspected that such a move was made more from a desire to refuse the Chairman's office more power than an overwhelming desire to keep the budget review in the hands of appointed officials.

Many elected officials question the advisability of having appointed officials police their own spending programs. This would perhaps be similar to asking a husband to go through prenatal exercises in preparation for the birth of a child. While no one would deny that the civil servants initiate the budget process, the elected official, in similarity to the wife, should bear the full responsibility for the final product. The fact that the elected officials go through what appears to be several agonizing budget sessions may again call for the analogy of the child bearing situation in that their "labouring" over budget priorities and program evaluation is completely "false". The budget, as it is finally approved, is not the legitimate creation of the elected officials but rather an abortive attempt on their part to participate in a function that is clearly beyond their control.

The Finance Commissioner has expressed the valid opinion that much more can be accomplished through co-operation than through coercion and he would like to have an opportunity to show that the departments can bring about the needed reforms without "interference" from elected officials. One consolation, if there is one, in this current effort

is the presence of two elected officials on the steering committee which is guiding the establishment of this new budget review and evaluation system.

If the co-operation of the various departments is forthcoming and if an objective effort is made on the part of elected officials and staff there is a good possibility of bringing about major changes in the system which should substantially increase the ability of Metro Council to realistically evaluate the programs and services which it provides. If, however, the best effort of all involved is not forthcoming, important time will have been lost and the system will more than likely be strained to the point of limiting the possibility of repair.

Four Months of Limbo

In addition to the aforementioned procedural shortcomings, the mere fact that the budget for the year isn't approved until four or five months of the year has gone by, does not speak well for efficient budgeting. One might as well wait until the end of the year and get a truly accurate picture of budgetary needs based on what was actually spent. We are well aware that this delay occurs because the Provincial government does not pass its budget until April or May, but there are several alternatives which would be an improvement on the existing situation. The main thrust of each would be to make provincial payments more closely coincide with local government budget adoption by changing the fiscal year of the province or local governments, or by changing the time when provincial payments are made. More will be said later in the report concerning the recommended procedure.

Spending Patterns - Comparison of Expenditures and Revenues

The Executive Committee of Metro Council has just passed the budget for 1974 which will remain intact unless the Council as a whole decides by a vote of at least 2/3 of its members to make adjustments. The operating budget will total \$396,660,862, an increase of 7.8% over last year, which converts to a tax increase of 2.14 mills. A mill is about \$1 on each \$1,000 of assessment with the average house value in the city being approximately \$5,000 and as high as \$7,000 in some boroughs.

The percent of increase over last year's budget of 7.8% is significant since it represents one of the smallest increases in the last five years. In fact, since 1970 the budget has increased a total of 60%. A breakdown of the comparison of expenditures and revenues between 1970 and 1974 is as follows:

Expenditures

<u>Item</u>	<u>1970</u> ^{1.}	<u>1974</u>	<u>% Change</u>	<u>Item % of 1974 Budget</u>
General Administration	\$ 6,114,655	\$ 9,837,040	61%	2%
Social Services	66,571,656	94,005,165	41%	24%
Parks	5,390,633	7,486,451	39%	2%
Protective Services	54,945,482	89,009,387	62%	22%
Refuse Disposal	6,611,588	11,153,366	69%	3%
Roads & Traffic	30,892,157	39,304,836	27%	10%
Sewage System	13,935,594	21,958,956	58%	5%
Public Transportation	20,383,444	59,079,915	190%	15%
Sundry	21,777,524	38,323,692	76%	10%
Water Works	21,120,552	26,412,054	25%	7%
TOTAL	\$247,743,285	\$396,660,862	60%	100%

Revenues

<u>Item</u>	<u>1970</u>	<u>1974</u>	<u>% Change</u>	<u>Item % of 1974 Budget</u>
Provincial Grants	\$ 59,505,049	\$126,844,322	113%	32%
Sundry	45,190,823	72,315,970	60%	18%
Local Levy	143,047,413	197,500,570	38%	50%
TOTAL	\$247,743,285	\$396,660,862	60%	100%

Changing Priorities

The preceding comparison of Metro finances shows marked changes in the priorities of spending since 1970.

Costs associated with transportation in 1970 represented the third largest in the budget and just five years later has moved into the number one position. Roads and Traffic, and Public Transportation total more than \$98 million in the 1974 budget compared to \$51 million in 1970, an increase of 190%. The remaining two major items, social services and protective services, enjoyed comparatively moderate gains of 41% and 62% respectively and other items fell in a range from 25% to 76% increase over the five year period. The three major items, Social Services, Protective Services and Transportation, account in 1974 for 71% of the total expenditures.

1. Due to a change from 1970 to 1974 in reporting debt payments of each department, figures for some departments may be slightly incorrect. Percentages are accurate for comparison purposes and all totals are correct.

THE PROVINCIAL BAIL-OUT

If the province can continue to be generous with its tax money (113% increase in provincial grants in the last five years), Metro may be able to continue for some years at its existing rate of increased spending; if not, they may have to seriously rethink budgetary procedures and spending priorities.¹ This may have to be done in any event in light of the approach now in effect which very possibly gives rise to loose spending habits and unwise decisions in the expenditure of tax dollars. While the sizeable increase in transportation costs could be expected due to suburban sprawl and continued downtown centralization, what could not have been predicted was the extent to which the Provincial government was going to underwrite much of Metro's increased cost of operation. The Metro mill rate has only increased from 24.72 mills in 1970 to 29.25 mills in the 1974 budget; this has been possible as a result of an increase in provincial grants of 113% in that same period.

WHAT OF THE FUTURE - THE BUDGET GAP

It is quite unfortunate that the Provincial government has adopted a policy of increasing revenue to municipalities in line with their own yearly increase in revenue. While we are uncertain as to the exact application of this policy, in its strictest interpretation it could mean a drop from 22% to 12% per year in Provincial grants. If this formula had been in effect during the past five years, Metro would have been hard pressed to make ends meet, since property assessment has only increased 17% in the last five years compared to a 60% increase in expenditures. Taxable assessment in 1970 was \$5,787,118,997 and increased to \$6,785,310,406 in 1974.

Our concern may be premature since prospects for continued economic expansion of the Ontario and Canadian economy appear to be good. A recent report by the Toronto Dominion Bank² estimates real economic growth of 5% in Canada in 1974 compared to an estimated increase of only 1% in the United States. Federal income also serves as a good indicator and the gain in 1973 over 1972 was 14% compared to an increase in expenditures of 12%. It should be remembered, however, that inflation in all likelihood will again be the major economic problem facing Canadians, and it has tended to diminish greatly the gains made through economic growth.

Just what the provincial and federal economic outlook means to Metro is not exactly clear due to a number of unpredictable local circumstances. Continued population growth will likely keep the

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1. Future increases, according to the Provincial Treasurer, will be in line with the overall economic growth of the Province which was 11.7% in 1973. At this rate, Metro would gain a net 4% against their total budget as an increase each year.
 2. Canada's Business Climate, Spring 1974, Toronto Dominion Bank

pressure on the housing market as well as a high demand for all municipal services.¹ Toronto's 45' holding by-law and North York's development control legislation have not been adequately assessed in terms of the short or long range impact on the economy. If sufficient housing continued not to be in adequate supply there could be a substantial increase in crowding conditions and a corresponding increase in the cost of municipal services such as health, fire and police. If this were coupled with a sharp reduction in new commercial and business expansions as the result of development controls or other factors, municipal costs could increase even further with a reduced assessment base adding to the financial squeeze.

Given the expenditure and revenue trends of the past five years, and provincial commitment to an increase of approximately 12% per year in provincial grants (instead of the 22% yearly average 1970 to 1974), Metro faces a potential revenue gap of \$66,000,000 by 1979. If the foregoing housing and/or commercial crisis materializes, it would not be surprising to see that figure double or triple. While these may be pessimistic suppositions, they are valid food for thought and consequently very good reasons to have Metro put its budgetary house in order as soon as possible.

Other points to consider might include the world money market and the effect a tight market would have on Metro's ability to finance future capital projects. If the money situation worsens, Metro and many other municipalities may have to finance more projects from current operating funds and may have to delay some others. The pressure thus placed on programs and services would further reduce public confidence and the quality of life as well.

And a final reason for putting the budgetary process into some improved and more definable structure could come in the form of a question. How was Metro able to keep its budget increase to only 7.8% this year when wage settlements and the cost of materials and supplies have consistently exceeded 10% per year in 1973 and are expected to increase in 1974? Also, how much more room is there for absorption of future increased costs? These are questions an improved process may be able to answer.

SOME RECOMMENDATIONS

- (1) Passage of the Budget should be set for December 31 of each year. This may prove to be more feasible if suggestions for moving elections back to November are implemented. (Provincial revenues could be estimated with adjustments in the budget allowed if Provincial funding is altered considerably).

1. Toronto Star, June 14, 1974, Report of the Metro Transportation Plan Review predicts 48,000 more struggling commuters than road and transit facilities will be able to carry. This represents but one example of how municipal services may be strained in the future.

- (2) Establish a budget department to report to the budget sub-committee (elected officials) and work out of the Department of Finance. The budget department would scrutinize budget requests as well as general operating procedures and report to the budget sub-committee in private prior to formal meetings with department heads which could then be held in public session.¹
- (3) A standardized budgetary format should be established for all departments including 3-5 year estimates of the cost of all programs. Also monthly status reports should be produced by the budget department to show all developing trends. (While these procedures are reported to be under development there would appear to be a need to communicate this game plan to all elected and appointed officials effected; something that has not been done to date.)
- (4) Examine the feasibility of establishing centralized tax collection at Metro, or at the very least provide for earlier payments by local municipalities to Metro to avoid unnecessary borrowing by Metro at the beginning of the year. (While this point was not raised in the body of the report, it none-the-less adds to undesirable financial practices which could be easily avoided by the suggested adjustment.)
- (5) Since Metro has special problems relating to the services it provides to the population beyond its legal boundary, perhaps the Province should be asked to adjust its grant formula to reflect this situation. Metro could, under such a readjustment, ask for considerably more than the 11.7% increase which reflects the provincial rate of growth.

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Charles K. Bens,
Executive Director.

1. If the department heads are willing to co-operate with the Finance Commissioner in establishing a budget review system, they should be at least as co-operative with their elected employers, Metro Council. This should especially be true if, as they have indicated on various occasions, they have nothing to hide and are confident their present program evaluation has been doing a good job.