



Submission on the City of Calgary's 2009 - 2011 Proposed Budget

**Ensuring Expenditures are Focused,
Effective and Efficient**

November 17, 2008



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INTRODUCTION

The Calgary Chamber of Commerce represents over 3,200 Calgary-based businesses. The Chamber seeks to raise the consciousness and quality of public discourse on key policy issues confronting its members and stakeholders, through informed discussion grounded in fact and reasoned analysis.

The Calgary Chamber puts forth this submission on behalf of its members – the small, medium and large enterprises that are directly impacted by the governance, service delivery and spending decisions of the City of Calgary.

The Chamber conducts annual pre-budget surveys to canvas its membership on the spending and fiscal management priorities of government. When asked how the City of Calgary could best manage spending in the coming fiscal period, members provided the following list of ideas in order of priority.

1. Conduct program evaluations to ensure value for money.
2. Limit annual spending increases to population and economic growth.
3. Encourage more compact development to reduce infrastructure and service costs.
4. Identify and continue to fund core priorities at current levels, and institute a spending freeze in non-core areas.
5. Contract out services to the private sector.
6. Freeze spending in core areas, and reduce spending in non-core areas.
7. Increase the use of debt financing for major infrastructure projects.
8. Seek innovative financing sources such as new taxes (e.g. a sales tax).

This ranking suggests that Chamber members prefer that the City focus on responsible fiscal management practices rather than securing additional and/or alternative funding sources. Key for members is ensuring value for taxes paid; setting a target to limit annual spending increases; smart growth management; and prioritization of spending.

These priorities inform the Chamber's budget submission, which is structured around three main themes: [1] greater transparency and accountability; [2] prudent fiscal management; and [3] efficient and equitable taxation.



I. GREATER TRANSPARENCY AND ACCOUNTABILITY

In the Chamber's pre-budget submission survey, members rated "conduct program evaluations to ensure value for money" as their highest priority for managing municipal expenditures.

In response, the Chamber advocates a stronger emphasis on municipal auditing and a more transparent budgeting process that encourages greater public input.

A. Municipal Auditor General at a Provincial Level

Prudent fiscal management and transparent and accountable governance are integral to a well-functioning, legitimate and responsive local government system. To this end, sufficient safeguards must be in place to ensure municipalities govern in a manner accountable to taxpayers, and that returns the greatest value per tax dollar. Part 8 of the *Municipal Government Act* requires that municipalities submit to the province annual financial statements and a financial information return, along with an auditor's report on each. The auditor's report provides an opinion on whether the statements are fairly presented and comply with appropriate accounting principles, also known as an 'attest audit'.

Attest audits, however, are only one component of what is known as 'comprehensive auditing'. Comprehensive auditing consists of three components: attest, compliance and value for money audits, and is the approach taken by both the Federal and Provincial Offices of the Auditor General. Compliance audits report matters of misuse or mismanagement of public funds, or expenditures not authorized by government. Value for money audits report cases where "public funds have not been spent with due regard to economy and efficiency and where there are no satisfactory procedures in place to enable those who administer programs to measure and report on the effectiveness of these activities."¹

Compliance and value for money audits are critical functions of government that assure trust and integrity in the system. The *Municipal Government Act* provides Alberta municipalities with among the greatest level of autonomy and authority of all local governments in Canada and, as a result, these municipalities should be held to expenditure and accountability standards similar to those of senior levels of government. However, many Alberta municipalities lack the institutional and fiscal capacity to directly undertake comprehensive auditing practices.

The province could improve the accountability of municipal government expenditure decisions by establishing an Office of Municipal Auditor General to conduct

¹ A Guide Book for the Heads of Agencies: Operations, Structures and Responsibilities in the Federal Government. 1999. Annex E. http://www.pco-bcp.gc.ca/index.asp?doc=guide2/annex-e_e.htm&lang=eng&page=information&sub=publications



compliance and value for money audits at the municipal level. The Office could conduct audits based on the size of municipal expenditures, as well as the size/classification of municipalities.

A provincial government-based office would add external legitimacy and credibility to the process, and allow for comparisons across municipalities, identifying inefficient, duplicative and/or under-resourced programs in need of increased local/ provincial attention, the sharing of best practices, and assisting municipalities in delivering higher value to their citizens.

B. Strengthening the Role of City Auditor

Under the *Municipal Government Act* Alberta municipalities may establish a City Auditor's Office. The City of Calgary created an Office of Municipal Auditor in 2004. According to the City of Calgary's auditor bylaw "the City Auditor shall be subject to the supervision of and accountable to Council and report to Council through Audit Committee".² While the Chamber applauds the City's efforts to move towards a more robust auditing framework, the City needs to strengthen the independence of the City Auditor's office.

The City Auditor's July 2007 report to the City's Audit Committee entitled *Review of City Auditor Reporting Relationships* outlines some of the best practices pursued by other jurisdictions and many of the recommendations held therein should be considered as part of a strengthened auditing framework.

Independence of the City Auditor

The independence of the City Auditor is currently hindered by the process through which the person holding the office can be removed. Currently, City Council can suspend or revoke the appointment of the Auditor with a simple majority vote. To improve the independence of the audit framework while preserving City Council's authority to remove an incompetent auditor, a super majority of two thirds of Council should be required to revoke or suspend the Auditor.

Section 8 of the Bylaw holds that, "The City Auditor shall prepare an annual audit plan for approval by Audit Committee and an annual budget to be submitted through Audit Committee for Council approval." While Council needs to be informed on the activities of the Auditor to promote a constructive working relationship, making the annual audit plan subject to the approval of the Audit Committee severely limits the independence of the Auditor. The Auditor should be in control of his / her work plan and submit it to the Committee for informational purposes only, with an opportunity for Council to amend the plan with a super majority of two thirds.

² City of Calgary Bylaw 30M2004. Available online:
http://www.calgary.ca/docgallery/bu/city_auditors/30m2004.pdf



Annual budget approval also poses a threat to the independence of the Auditor as it leaves room to diminish funding of the Auditor's office in a relatively discreet manner. Making the Auditor's budget proportional to the size of the City's budget assures an appropriate allocation of resources that will increase the reliability and quality of Auditing as the Auditor would not have to campaign for funding each budget cycle.

The strongest guarantee of independence for the City Auditor would come in the form of legislation at the provincial level mandating the office and providing all of the features listed above as an auditing framework. Quebec has already instituted a legislated position of Chief Auditor for all municipalities with a population greater than 100,000.

Recommendations

It is recommended that the City of Calgary encourage the provincial government to establish an office of Municipal Auditor General to undertake comprehensive (i.e. attest, compliance and value for money) auditing of municipal expenditures.

It is recommended that the City of Calgary encourage the provincial government to require municipalities with populations in excess of 100,000 to establish a City Auditor.

C. From a Three-Year Binding Budget to a Three-Year Annual Rolling Budget

The City of Calgary operates on a three-year budget cycle, whereby City Council approves three years of operating budgets at one time, rather than approving the operating budget on an annual basis. As a result, the City undertakes full budget reviews only once every three years, and engages in budgetary adjustments for the two years in between. The 2006 - 2008 period was the first three-year budget cycle undertaken by the City.

Benefits

According to the City, some of the benefits of a three-year budget include a more predictable financial framework that facilitates municipal business planning; providing citizens with greater certainty regarding service delivery and tax levels; and reducing the amount of time spent on preparation review of city budgets.³ This approach, however, also creates a number of challenges.

³ City of Calgary. 2005. Staff Report C2005-94



Challenge #1 - Inability to Respond to Changing Economic Conditions

Budgeting for three-year periods limits the City's ability to respond to significant economic, social and service delivery challenges that arise over the interim period. This challenge was particularly evident during the 2006 - 2007 period, in which the City experienced record annual population growth (3.7 per cent), record employment growth (7.4 per cent), and record income growth (4.5 per cent).⁴ The three-year budget limited the City's ability to respond to the ensuing constraints on its infrastructure and the increased demand for municipal services as a result of this growth.

Incorporating greater flexibility into the municipal budget process would have enabled the City to better respond to these growth challenges, which were not anticipated in the development in 2005 of the 2006 - 2008 budget.

While there is merit in developing multi-year business plans and performance measures as forward guidance, a three-year locked-in budget runs contrary to the practices undertaken by senior levels of government as well as the vast majority of private sector organizations. Indeed, both the provincial and federal governments develop multi-year rolling budgets and business plans on an annual basis, whereby a new budget is produced every year, and expected revenues and service delivery needs are forecasted for subsequent years to enable business units to anticipate and plan for service levels in future years.

Similar to the three-year budget, the multi-year rolling budget approach provides budgetary, business planning and service delivery certainty and predictability; however, unlike the three-year budget, the rolling budget allows governments to incorporate flexibility into the budgeting process, enabling decision-makers to respond to changing infrastructure and service demands in a timely manner.

Challenge #2 - Lack of Civic Engagement & Accountability

The City's three-year budget cycle limits the ability of citizens to provide input into the budget and hold government to account. Intentionally designed to "lag by one year Council's term of office"⁵ this practice seeks to ensure new City Council members are able to gain a basic understanding of the budgetary process during their first year in office.

The current budgeting approach, however, effectively commits newly elected Councils to the third year of the previous Council's three-year budget, a full third of their mandate, limiting the ability of the new Council to fulfill commitments and

⁴ Calgary Chamber of Commerce. 2008. *Municipal Land Development Policies and Regulations and the Impact on Calgary Housing Affordability*. P. 1.

⁵ City of Calgary. 2005. *Background Information 2006 – 2008 Budget*. p. 5.



campaign promises made to the electorate during their election campaign, leading to increased voter apathy and cynicism, decreasing civic engagement.

To ensure that Councillors become familiarized with the intricacies of the municipal budgeting process at the onset, the City could require that new Councillors attend mandatory budget training seminars shortly after their election to office. This approach, widely practiced in other jurisdictions, would better equip Councillors to serve and respond to the needs of their constituents during their first year in office, while enabling more effective civic engagement.

Mayor and Council should embrace and encourage public engagement as positive elements of our political process. Whether by design or an unintended consequence, the current process discourages engagement and accountability and must be changed.

Recommendations

It is recommended that the City of Calgary change from a three-year binding budget to a three-year rolling budget introduced annually, so that it may better respond to unanticipated growth and service delivery pressures, and allow for greater public input and accountability.

It is recommended that the City of Calgary provide mandatory budget training to all City Councillors.

It is recommended that the City of Calgary adopt 'greater transparency and citizen engagement' as a 2009 – 2011 City Council Priority, to encourage public input and participation in the municipal decision-making process.



II. PRUDENT FISCAL MANAGEMENT

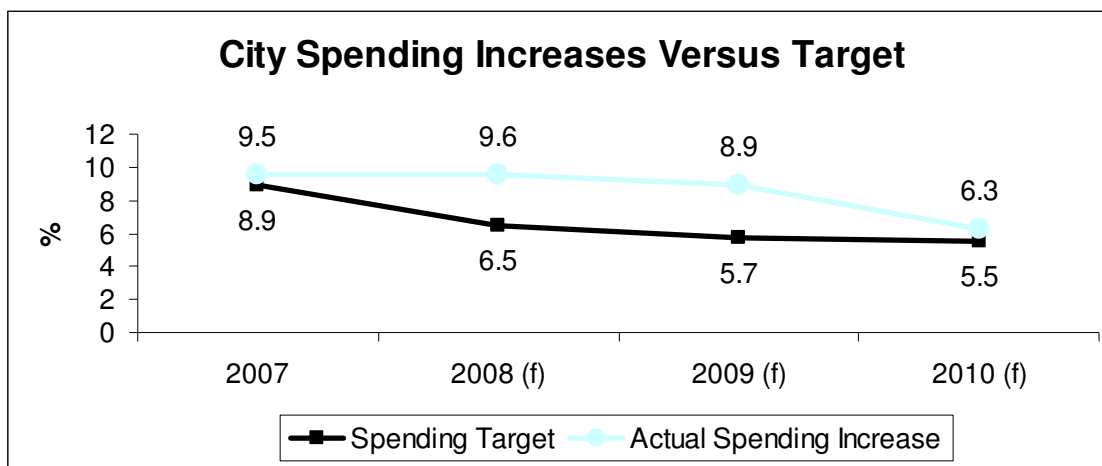
A. Set a Target to Limit Annual Spending Increases

Chamber members rated “limit annual spending increase to population and economic growth” as their number two priority for managing municipal spending.

While the Calgary Chamber of Commerce recognizes the importance of maintaining current service levels, the message from Calgary business is clear, government needs to control spending. The Chamber, therefore, encourages government to adopt a more sustainable and prudent approach to program expenditures and in previous pre-budget submissions, recommended that government limit program spending increases in line with inflation and population growth.

However, maintaining spending in line with population and inflation growth alone does not necessarily allow government to respond to pressures associated with economic growth, as economic expansion can occur in the absence of population growth and often impose significant strains on public services and infrastructure. Therefore, the Chamber recommends City Council limit annual spending increases to the greater of population growth plus inflation or real GDP growth in the economy plus inflation.

This target incorporates key growth factors into the municipal budget process and, when considered in combination with development levies and increased revenues collected from new tax-paying households, should provide sufficient revenues to support the increased needs and demands of the City. This target is ambitious as in 2007 and 2008 (forecast) the City was unable to achieve it. Based on projections in the municipal budget, the City will not meet the target in 2009 or 2010 unless operational spending is restrained.



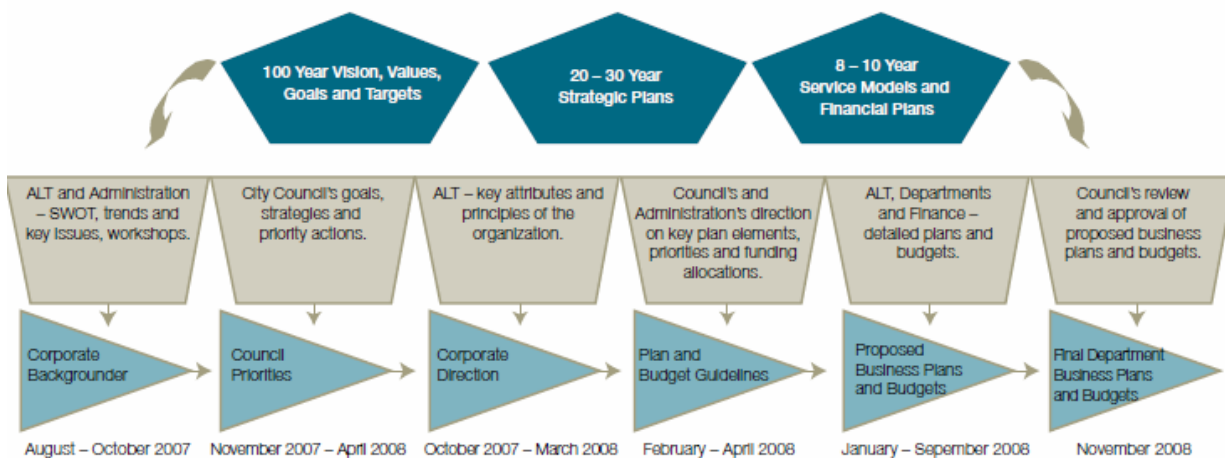
Source: City of Calgary 2009 - 2011 Budget, 2009 Calgary Economic Development Outlook

Recommendation

It is recommended that the City of Calgary limit annual spending increases to the greater of population growth plus inflation or real GDP growth plus inflation. For 2009 this ceiling is set at 5.7 per cent and for 2010 it is 5.5 per cent.

B. Municipal Expenditure Management

As part of the three-year municipal planning and budgeting process, the City links budget preparation to the development of three-year business plans and performance measures for each department, and undertakes the following process to create its three-year budget:



Source: City of Calgary. *Corporate Summary – Proposed Business Plans and Budgets 2009 -2011*.

Available online: http://www.calgary.ca/docgallery/bu/finance/budget/2009_2011/pdf/06_corporate_summary.pdf

One of the key challenges in managing government expenditures is ensuring sufficient safeguards are in place to justify additional program spending. To this end, senior levels of government have implemented expenditure management systems to assist in justifying and prioritizing incremental program expenditures.

The federal government announced a new Expenditure Management System (EMS) in 2007 to ensure Canadians receive value for money by reducing waste and making government more efficient through ongoing reviews of all department spending on a



four-year cycle.⁶ These reviews assess whether the existing programs are achieving their intended results, are managed effectively, and are aligned with the priorities of Canadians and federal responsibilities.

In 2007, the first year of the EMS review, 17 organizations (15 per cent of total spending) were evaluated, resulting in savings of \$386 million. The federal government intends to continue reviewing spending during the next three years.

Similar to the federal approach, the City of Calgary could undertake a review of all departments' spending during the next three years to:

- Increase efficiency and effectiveness – investigate ways to deliver programs and services more cost effectively and with better results;
- Focus on core roles – ensure programs are consistent with the responsibilities of the municipality and work with the province to fund those that are not; and
- Prioritize – eliminate programs that are no longer needed.

While significant anecdotal evidence exists to suggest that the City of Calgary undertakes substantive departmental reviews in preparation for the three-year budget, no consistent and comprehensive set of guidelines, processes and/or principles exist to provide assurances that the City's expenditure management programs and processes are effective and rigorous.

Upon being confronted with significant tax and user fee increases, the business community is increasingly concerned with receiving value for money. Creating an expenditure management process would be an important step to instill confidence that money is being spent wisely.

The Chamber is heartened that two of Council's 2009 – 2011 Priorities are aimed at expenditure management review.⁷ Priority 7.1 instructs the City to "participate in a corporate benchmarking program with comparable municipal governments and implement an internal evaluation program to improve the efficiency and effectiveness of service delivery". Priority 7.2 aims to "implement service delivery efficiencies through the application of business process improvements and alternative delivery mechanisms." The Chamber has been calling for these measures in previous pre-budget submissions.

⁶ Government of Canada. *Budget 2008. Annex 3 – Responsible Spending*. Available online: <http://www.budget.gc.ca/2008/plan/ann3-eng.asp>

⁷ City of Calgary. *Council Priorities 2009 – 2011*. Available online: http://www.calgary.ca/docgallery/bu/finance/budget/2009_2011/pdf/09a_council_priorities.pdf



Recommendation

It is recommended that the City of Calgary develop, implement and widely communicate a comprehensive expenditure management process that assesses whether existing programs achieve their intended results, are managed effectively, and are aligned with the priorities of council.

III. EFFICIENT AND EQUITABLE TAXATION

On May 14, 2008 Council voted down a proposal to harmonize the business tax and the non-residential property tax. The proposal met with some resistance from the business community because of concern that the harmonized tax would result in a higher tax burden on business over the long-term.

The Chamber now asks the City to reopen the debate on the harmonization of these two taxes to lessen the administrative burden on business and to lower the proportion of total tax revenue generated from non-residential sources because businesses use far less services than residents.

In a pre-budget survey, 79.8% of members supported the consolidation of the business tax and the non-residential property tax, provided that the overall tax burden on business remains the same or declines.

The percentage of total tax revenue generated through non-residential and business taxes declined from 59.8 per cent in 2005 to 58.1 per cent in 2008, and is forecast to drop to 56.9 per cent by 2011. The Chamber urges the City to accelerate the reduction of the proportion of property tax revenue paid from non-residential and business tax sources with a goal of bringing the ratio down to 50/50 by 2015. This ratio, which Edmonton maintained in both 2007 and 2008, would result in a more equitable and representative property taxation system.

Recommendation

It is recommended that the City of Calgary harmonize the business and non-residential property tax provided that the ratio of total tax paid by business community continues to decrease.



SUMMARY OF RECOMMENDATIONS

The Chamber recommends that the City of Calgary:

1. Encourage the provincial government to establish an office of Municipal Auditor General to undertake comprehensive (i.e. attest, compliance and value for money) auditing of municipal expenditures.
2. Encourage the provincial government to require municipalities with populations in excess of 100,000 to establish a City Auditor.
3. Change from a three-year binding budget to a three-year rolling budget introduced annually, so that it may better respond to unanticipated growth and service delivery pressures, and allow for greater public input and accountability.
4. Provide mandatory budget training to all City Councillors.
5. Adopt 'greater transparency and citizen engagement' as a 2009 – 2011 City Council Priority, to encourage public input and participation in the municipal decision-making process.
6. Limit annual spending increases to the greater of population growth plus inflation or real GDP growth plus inflation. For 2009 this ceiling is set at 5.7 per cent and for 2010 it is 5.5 per cent.
7. Develop, implement and widely communicate a comprehensive expenditure management process that assesses whether existing programs achieve their intended results, are managed effectively, and are aligned with the priorities of Council.
8. Harmonize the business and non-residential property tax provided that the ratio of total tax paid by business community continues to decrease.