

# Budget Process Improvements

by Jim Hutton

On February 7<sup>th</sup> our city Council reviewed the 2023 budget and for the first time in many years the budget increase was less than one percent. It was obvious to anyone reading the draft operating budget that this year was very different from past years. The budget presented by staff had a very meager increase of only 0.56% during a time when inflation is running at 5-6%.



This was a departure from past years where Council had to send back budgets with increases of 2 to 3%. This could not have happened without the City Manager directing budget managers to sharpen their pencils. It's important for taxpayers to recognize the significance of this change in budget preparations. It's clear that the City Manager has heard our concerns and has begun the process of reducing expenses. This change should be both recognized and appreciated by all taxpayers.

This year staff made Council's job relatively easy and they readily approved an operating budget with an increase of less than one percent. However, as some members of council pointed out, there is still a significant gap between taxes in Owen Sound and taxes in our nearest neighbours in Georgian Bluffs. The owner of an average detached bungalow in Georgian Bluffs currently pays \$1,806 in taxes while an owner of the same property in Owen Sound pays \$4,210. This is a huge gap that is stifling Owen Sound's growth and encouraging residents to move across the city boundary where they can save \$2,404 per year in taxes while still enjoying everything that Owen Sound has to offer. Therefore there is much more to do to reduce this disparity.

## Changing the Budget Process

If we are to make any significant inroads in achieving property taxes that are competitive with our neighbours then we will have to change the budget preparation process. These changes should include tools such as **"Zero-Based Budgeting"** that I recommended in my [Road to Recovery](#) article. However the real change that's needed is how the budget is reviewed. This year our part-time council spent a little over six hours reviewing the draft operating budget containing \$39 million in spending. Although I'm sure they each devoted much more than this in their preparation for the review, six hours of formal review does not reflect the importance of a \$39 million budget. For the most part they had to depend on an overview of the budget presented by the Director of Corporate Services. As the Director correctly pointed out there was no time to go into a lot of detail at the department level.

### The Solution

What we need Council to do is to devote much more time to the budget process. The review period should be two weeks and the process should include the review of each and every

department budget, line-by-line. To enable this each member of council should be paid a full time salary, at the city manager level, during which will likely be an intense two week budget review process. This will cost taxpayers in the order of \$60,000 to \$70,000. However, the return on this investment to taxpayers can be enormous. This would allow members of council to take a short leave of absence from their full time employment. In this process each budget manager would present their budget and have an opportunity to fully justify each and every line item. Ideally, each budget would start from a zero base as opposed to what was spent the previous year.

## Closing the Gap

During the budget review process the Deputy Mayor acknowledged that, although we made good progress in keeping the budget increase to a minimum, we still had quite a way to go to eliminate the gap in taxes between us and our surrounding municipalities. There really is only one way of closing the tax gap and that is to reduce expenses. This year we witnessed a significant reduction in the annual tax increase, however it will take sixty years to completely close the gap with Georgian Bluffs if we just keep tax increases at less than one percent. Closing the gap in our lifetime can only be achieved with annual **tax reductions** combined with significant **one-time expense reductions**.

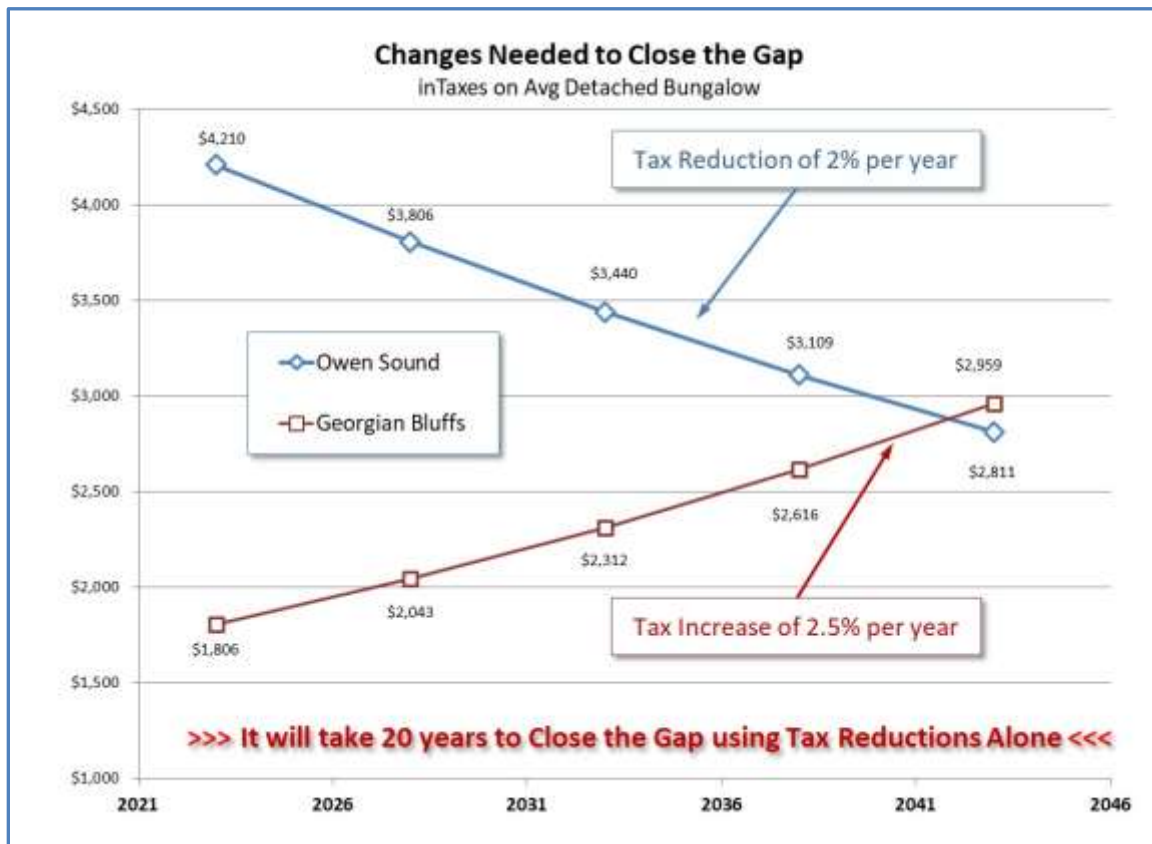


Figure 1; Closing the Gap with Annual Tax Reductions

As shown in the graph above, if we were to have successive annual tax reductions of 2%, and Georgian Bluffs were to increase their taxes on average by 2.5%, it would take 20 years to

completely close the gap. So in order to reduce the gap over a reasonable time period, it will also require one-time reductions in expenses, in addition to annual tax reductions.

There are three areas that should be seriously considered for significant expense reductions. They are: the Art Gallery, the Transit System and the Workforce. I will examine each of these for their potential in closing the tax gap.

## Examining the Art Gallery

With respect to the Art Gallery, I've mentioned in previous papers that we learned in the community survey that the Art Gallery is valued by less than 8% of the community. Their budget is \$506,000 and has nearly doubled over the past 5 years. The cost to taxpayers is currently \$475,000 year. the survey also showed that 76% of the community either never or rarely use this facility.

Last fall I sat down with the Director of Gallery to discuss the need to improve the Gallery's profile in the community. I suggested that the Gallery needed to reach out, beyond the art community, by rolling out more community-based art education programs. I also suggested that regular presentations at our schools and college would vastly improve both community engagement and the value of the Gallery in the eyes of taxpayers. I also identified business graduate schools as a cost-free source of expertise to develop a new business plan and a revised community-focused marketing strategy.

I truly believe that implementing these suggestions could greatly improve the value of the Gallery in the eyes of the taxpayer. However, in the absence of a successful community engagement program, along with an education program that is highly valued by the community, the return on our annual **\$475,000** expenditure is just not justified.

## Examining the Transit

In regard to public transit, in 2015 we paid \$744,000 to provide transit services to a small portion of the population. Since then the number of people using transit has declined while the budget has nearly doubled. Transit now costs us over \$1.3 million per year to serve fewer people than we did in 2015.

This service needs to either be significantly changed to reduce its burden on taxpayers, as I suggested in my article, [How to Fix Our Broken Transit System](#), or it should be shuttered and current regular users added to the mobility transit service. By doing, so regular users of the system, based on the historical purchase of transit passes, would benefit from improved service. However there would be a one-time cost for cancelling the current contract. In addition the cost of the mobility transit system would be significantly increased. It's unclear what portion of the cost is associated with mobility transit. Assuming it's in the order of 20% that would leave a potential annual savings of about **\$800,000** per year if the regular service was cancelled after the one-time contract cancellation cost.

## Examining the Workforce

I've examine Owen Sound's workforce in the past by comparing Owen Sound's salary expense to that of other municipalities. My analysis can be reviewed in my Hub Article ["Comparing Owen Sound Salaries and Benefits"](#). This review included some municipalities that contracted out either Fire Services or Police services. Although the results clearly indicated that Owen Sound was over staffed, the inclusion of municipalities with contracted protective services distorted the results. As a result I decided to revisit the study with carefully selected municipalities and remove Protective Services' salaries and benefits expense.

### How I Selected the Municipalities

I selected these municipalities using three criteria. First, I selected those with similar populations to Owen Sound. Then I reduced this list by eliminating rural communities and finally I reduced the list further by selecting only those municipalities with a similar number of inhabited dwellings. To achieve this I used Statistics Canada's databases.

To begin my analysis, I reviewed the 2021 audit financial statements for similarly sized municipalities and extracted the total that each municipality paid in Salaries and Benefits. Since some municipalities contract for fire and police services, I removed all protective services salaries from the data. The graph below shows what each municipality paid in Salaries and Benefits for all areas except for Protective Services in 2021.



Figure 2; Salaries and Benefits Expense for Similarly Sized Municipalities

As you can see there are four municipalities with greater populations than Owen Sound and three with lower populations. The average salary expense for these municipalities, excluding protective services salaries, was just about \$9 million. Huntsville, Amherstburg and Owen Sound all had a Salary Expense greater than the average.

Owen Sound spent \$13 million on Salaries & Benefits, excluding Protective Services salaries. To reduce Owen Sound’s expense to the average of \$9 million, an expense reduction of \$4 million would be required.

### One Part of the Problem

As I mentioned above this data was acquired using each municipality’s audit financial statements. These statements do not provide any visibility into the number of employees in each municipality. However we can get a feeling the portion of each municipality’s salary expense involving management by looking at the numbers of managers with salaries greater than \$100,000.

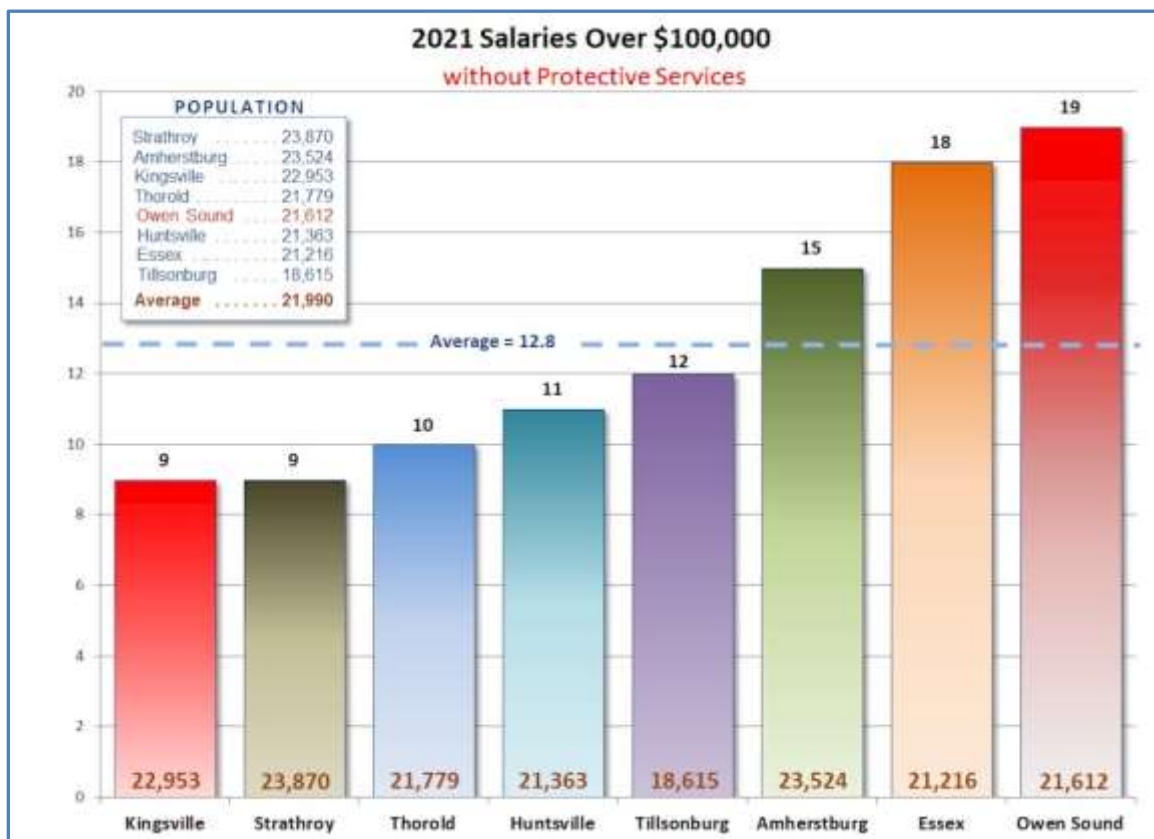


Figure 3: Managers with Salaries Greater Than \$100,000

source: [2021 Ontario Sunshine List](#)

As shown above the average number of managers, in municipalities in the study group, on the Ontario Sunshine List is 12.8. Amherstburg, Essex and Owen Sound all have more that the average number of employees earning more than \$100,000 with Owen Sound having the

greatest number at 19. This seems to confirm that when it comes to managerial salary expense, Owen Sound leads the pack, at least in this group of municipalities.

An interesting side note is that the total number of employees earning more than \$100,000 in 2021 was 73. Therefore, 54 or 74%, of Owen Sound’s employees earning more than \$100,000, work in Protective Services. Perhaps protective services will be examined for cost savings in a later study.

### Verifying the Results

These results strongly suggest that a portion of the excessive salaries and benefits expense is due to the overstaffing of managers. One method of verifying this would be simply to count the number of managers in each of the comparative municipalities.

Most municipalities post either their organization charts or staff directories on their websites. Using this information along with their budget books we can get an estimate of the number of managers employed at the municipality. This information was only available on five of the municipal websites. It’s important to note that these sources give us only an estimate of the actual numbers since this information is often outdated. The most reliable data was from those municipalities that had their current organization charts on their websites. The results are show in the graph below.



Figure 4; Estimated Number of Managers

As shown above, it is estimated that Owen Sound employs approximately 29 managers based on information gleaned from the city staff directory and confirmed by the 2021 budget book. In contrast, Strathroy, that has a population that is slightly greater than Owen Sound, yet employs only 15 managers to manage its municipality. The fact that it appears that Owen Sound needs 14 more managers suggests that the workforce is top-heavy and that the management ranks needs to be downsized.

Although this is at best, an estimate, of the number of managers, it does correlate with data from more reliable sources such as the Audited Financial Statements and the Ontario Sunshine List. However, all of this data combined gives Council ample justification to begin the process of “right-sizing” the management team and examine the entire workforce for areas that can be downsized to bring Owen Sound’s Salary Expense more in line with similarly sized municipalities.

### **What is the Right Size for the Management Team**

The average number of managers in Figure 4 above is 20.2. So, this should be the targeted size of the management team based on this comparison. This would require a reduction of 9 managers.

When we examine the Sunshine List comparison in Figure 3, we see the average number managers were 13; which suggests this should be the targeted size of the management team. Since Owen Sound had 19 managers on this list we would need a reduction of 6 managers.

As a result it’s safe to say the Owen Sound management team is overstaffed by 6 to 9 managers. Based on an average salary of \$130,000 the annual savings would be \$780,000 to \$1,170,000 , not including one-time severance or early retirement costs.

The average salaries and benefits expense in the study group was approximately \$9 million. Owen Sound’s salaries and benefits in 2021 expense was \$13 million. If Owen Sound reduced its salaries and benefits expense to the average in the study group it would realize an annual savings of \$4 million. Based on the results of the analysis of the manager data 25% of the reduction should come from the management team leaving the non-management workforce to provide \$3 million savings from staff reductions.

## **Putting things in Perspective**

When we graphically represent the three potential areas for savings, as shown below, it becomes pretty obvious where we should look for the “low hanging fruit”. The savings available from both the Art Gallery and Public Transit are clearly over shadowed by the potential savings available from workforce reductions. Therefore the initial focus for savings should be staff reductions.

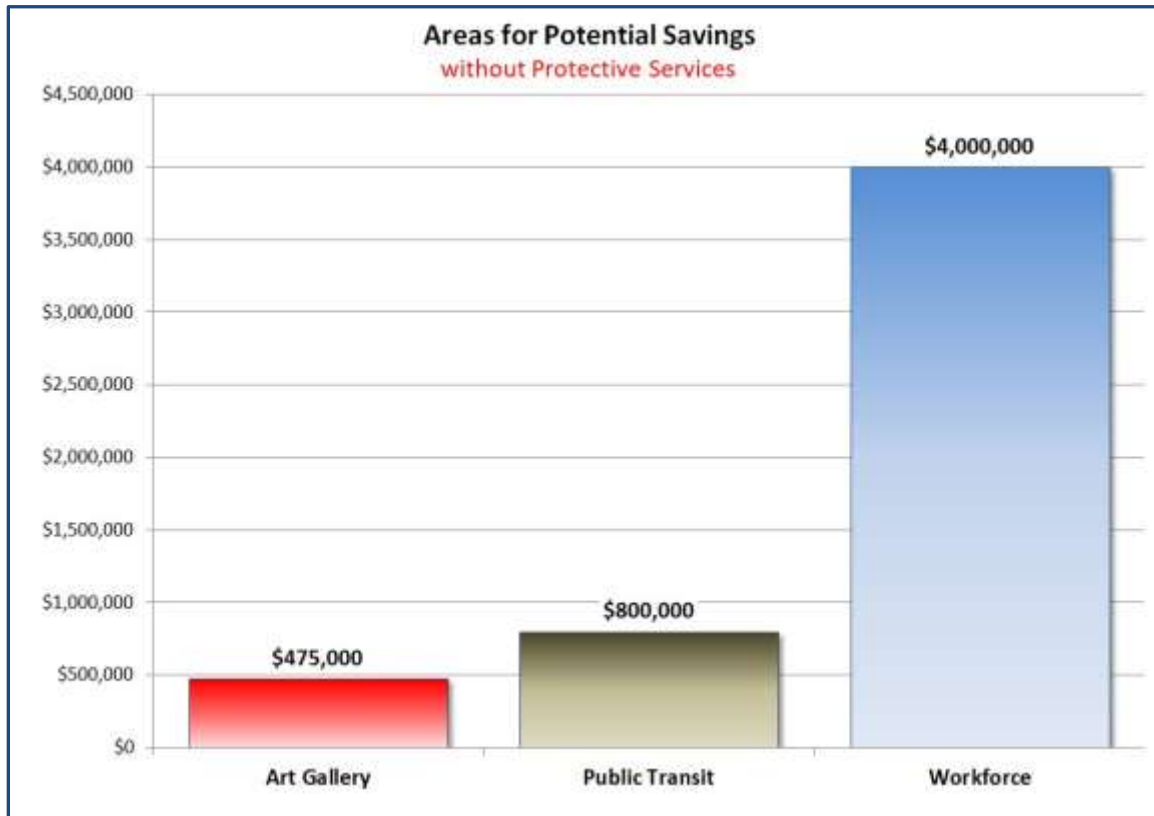


Figure 5; Relative Size of the Three Potential Areas for Savings

## An Historical Review

The only question that remains is; how did we get to our current situation where our municipal workforce is grossly over staffed in comparison to other similarly sized municipalities? My initial belief was that this disparity was created by Councils over the past 20 years or so by approving excessively high annual increases in expenses. However when I examined the changes in Salaries and Benefits expenses over a ten year period for Owen Sound and two other municipalities, I found that I was mistaken. Owen Sound's problem has existed for a much longer time period.

Owen Sound's Salaries & Benefits expense in 2011 was more than twice that of either Strathroy or Springwater as shown in the chart below. By 2021 this difference had reduced somewhat. What this tells us is that, although the Councils over the last ten years added to the problem, they did not create the problem. This disparity likely originated as much as 40 to 50 years ago and each Council over this period added a little to the problem until we got to where we are today. I suspect that each of these Councils failed to ask the critical questions at budget time; such as, if our population is not growing why do you need hire more staff to run the city?



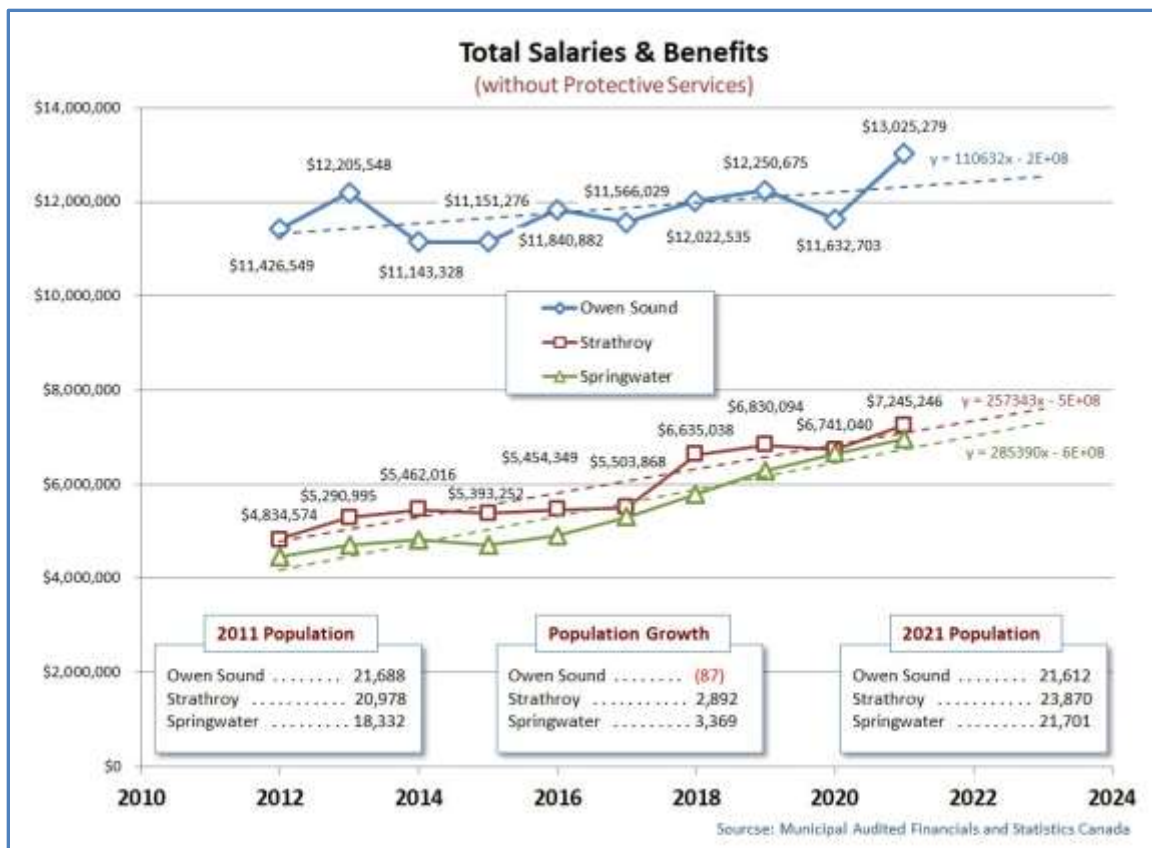


Figure 6; Historical Changes in Salaries & Benefits Expense

As you can see from the above, Owen Sound actually had 87 residents fewer residents in 2021 than it had in 2011. Yet, Owen Sound’s Salaries & Benefits expense grew by \$1.6 million. This suggests that there were at least some additions to the workforce during this period. However, it’s quite clear, a preponderance of the problem originated prior to 2011.



## Summary

1. In order to have ongoing vigilance when it comes to reviewing the annual budget Council needs to do a detailed, line by line, review of each and every department budget. To facilitate this the budget review period needs to be extended from two days to two weeks and members of council properly compensated for their time.
2. In addition to a rigorous annual budget review significant one-time expense reductions are necessary to close the gap in taxes with Georgian Bluffs within a reasonable timeframe. Two of the candidates examined for reductions, the Art Gallery and Transit Services are overshadowed by the potential savings available from staff reductions and for the time being should not be considered candidates for reduction.

3. Owen Sound's workforce has grown well beyond that employed by other, similarly sized, municipalities and has been excessively high for many years. The workforce in general is much larger than needed. The management team is, at a minimum, carrying 6-9 managers more than needed in comparison with other similarly sized municipalities.
4. Staff reductions should be done over a 4 to 5 year period and should consist of a combination of retirement incentives, internal transfers and as a last resort, involuntary terminations. Each internal transfer should be accompanied by a comprehensive retraining program.
5. The target for Salaries and Benefits expense, excluding Protective Services, should be \$9 million to bring Owen Sound in line with the average Salaries and Benefits expense of similar municipalities. This will require this line item to be reduced by \$4 million.
6. Although the current Council did not contribute to this problem in the 2023 budget, unlike other Councils have over the past 50 years, it is this Council that needs to find the courage to take all steps necessary to bring Owen Sound's taxes in line with our surrounding municipalities within a reasonable timeframe.

### **The Approach to Staff Reductions is Critical**

How you approach the task of reducing a public service workforce, which has gradually grown over a long period of time, will make the difference between success and failure. Every effort should be made to encourage voluntary departures and internal transfers to minimize the impact on employees and their families.

"Right-sizing" the workforce cannot be achieved without a proactive and effective communication strategy and can only be seamlessly achieved if spread over several years. In this case I would suggest 4 to 5 years. In regard to communication it is vitally important to be fully transparent with all employees on the need for the reductions and to develop effective communication with union leadership. Protective Services should be excluded from the reductions at this time and a comprehensive study of Protective Services should be initiated given their annual Salaries and Benefits cost of \$14 million is greater than all other departments combined.

### **Notes to Members of Council**

1. I identified the problem for you and showed you how it came to be. In addition, I gave you the evidence that will justify the bold steps needed to do the right thing for Owen Sound taxpayers.

2. It is now up to you to take the decisive action needed to adequately address the problem within a reasonable timeframe. I know from personal experience that downsizing a public service workforce is both challenging and emotionally taxing. However, this cannot be avoided and “right-sizing” the workforce should be your #1 priority this year.
3. Do not approve the 2023 budget at this time. This cannot be put this off for another year. You must act now.
4. The current draft budget shows some progress has already been made. To complete this for the 2023 budget year an annual reduction in the order of \$600,000 is needed. Staff reductions should include a voluntary early retirement and internal transfer programs. If you make it sufficiently attractive you could achieve this year’s goal without the need for forced terminations.
5. A reduction of \$600,000 in Salaries and Benefits expense should become a firm commitment by writing it into the 2023 budget. A separate global line item for “Incentives and Severance” should be established to ensure that reductions in Salaries and Benefits expense are clearly identified in each department’s budget while not burdening them with the Incentives and Severance expense.

