



4.1.

Budget Process – Operating Component

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2020 ANNUAL REPORT

Auditor General of the Ville de Montréal

Budget Process – Operating Component

In a municipal context, the budget is a communication tool that enables a municipality to inform the population of the directions taken and the strategic choices made to determine the level of taxation as well as the level of service of the various municipal activity sectors. It also allows resources to be allocated accordingly. Thus, to be able to produce a budget, the Ville de Montréal (the City) needs a structured process.

The City adopted a \$6.17 billion operating budget for fiscal year 2021, with 64.7% of its operations funded by \$4 billion in tax revenues. Expenditures, which are equivalent to revenues, are divided into 13 activities. Compensation alone represents a budget of \$2.5 billion, or 40.9% of budgeted expenditures. The budget's second major component is gross debt service, which amounts to \$1.1 billion or 17.2% of projected spending in 2021.

The budget process is complex and is governed by a host of laws and financial policies. It begins in January, when the preliminary financial framework is developed, leading to establishing orientations, and it ends in December with the approval of the budget by the authorities. In addition, it requires the participation of a large number of people in different business units and covers the island of Montréal, which corresponds to the territory of the agglomeration, including 16 related municipalities: the City (composed of 19 boroughs) and the 15 reconstituted municipalities.

Several information systems are used to prepare the budget, as well as several Excel files to collect and process the information required to establish forecasts.

Background

Purpose of the Audit

To ensure that the process supporting the preparation of the City's operating budget is efficient and rigorous.

The City has a specific management framework for the budget process and formal decision-making mechanisms for the orientations established to table a balanced budget. Nevertheless, we found that the preliminary fiscal framework developed to present five-year fiscal projections and inform decision-making is focused on the next year's budget. It is not followed by a balanced five-year fiscal framework that would expose the risks and challenges of the current projections—which is essential in the context of the City's growing structural budget imbalance.

The budget process is not part of an overall planning process. Organizational priorities communicated by the Direction générale are used as a backdrop, but the business units' budget is not necessarily based on these priorities or on their activities or service levels.

The current method for determining the orientations and budget envelopes for the business units is based instead on managing variances in revenues and expenditures in relation to the budget adopted the previous year. Thus, while some forecasts are well established, our work has revealed the existence of year-to-year over- and under-estimates for some categories of revenues and expenditures. This results in the variances being carried over year after year, compromising the accountability of the business units.

There have been some adjustments to the transfers from the central city to the boroughs, but they have not been thoroughly reassessed, since their funding was reformed in 2014, to determine whether they accurately reflect current needs and whether the parameters used are still appropriate. The funding model was to be reviewed after five years.

In addition, the published information does not allow for an assessment of the City's budget performance; it is only for one year, and it therefore is not possible to establish the trend of variances between forecasts and historical results.

The drafting of the City's \$6.17 billion operating budget relies heavily on a multitude of Excel files and outdated applications that are no longer supported by vendors and have required the implementation of compensating controls over time to mitigate risk.

It is imperative that the City review its budget process and adopt effective budget and financial systems so that it is better equipped to deal with current and future issues.

Main Findings

Financial Framework

- The financial framework focuses on the first year's budget, which makes it difficult to take into account the consequences over the next four years. No balanced five-year framework is prepared and published as part of the annual budget.
- The financial framework does not follow the City's recommended financial practices in terms of both documentation and consideration of actual historic results.
- Although the City has tabled its *Montréal 2030* strategic plan, the financial framework does not yet reflect the municipal administration's priorities.

Forecasting Revenues and Expenses

- Some of the assumptions used are not supported by proper documentation as required by the City's *Politique de l'équilibre budgétaire*.
- Our analyses show that the method used to establish revenue and expenditure forecasts results in over- or under-estimates from year to year. Thus, the budget does not clearly present the sources of funding and the planned expenditures.

Determining the Orientations and Drafting the Budget Envelopes

- Decisions made in determining budget orientations are not documented, and the method for allocating budget envelopes to business units does not take into account historic or future cost analyses on an activity-by-activity basis. It is based instead on managing the variances in revenues and expenditures from the budget adopted the previous year.
- The absence of assessments and benchmarks for the level of service or activity related to budgeted expenditures compromises the accountability of departments.
- No analysis has been carried out to assess whether the transfers from the central city, determined during the boroughs' funding reform in 2014, properly reflect their current needs, whether they are representative of the competencies devolved to them and the services provided to citizens, or whether they correspond to their fair share of the taxes collected by the central city for these services, despite the fact that they were to be reviewed after five years.
- Amounts are distributed to the boroughs, or reduced from transfers granted by the central city, even though they are not budgeted for. This practice is not conducive to budget transparency or the optimal allocation of resources during the drafting of the budget.

Arbitration, Consolidation and Adoption of the Budget

- There are no formal prioritization criteria to support the decision-making process for accepting new budget requests or for making cuts to the operating budget.
- Regarding the audited boroughs, the budget documents—published at the time of their presentation to the borough councils (BCs)—contained insufficient and, in some cases, very summary information.
- Also, the fact that certain boroughs present expenditure forecasts by activity, while the City's overall budget presents them by object, makes it difficult for the authorities and citizens to establish a link between these two types of information in order to appreciate the budget as well as the nature and evolution of expenditures.

Tools and Human Resources Involved in Drafting the Budget

- The budget system in place dates from the 1990s. As early as 2009, a study already pointed out the urgent need to replace these outdated systems and their inefficiency in delivering relevant, timely and error-free information. This project has been postponed twice due to a lack of human and financial resources. The drafting of the City's \$6.17 billion operating budget relies heavily on a multitude of Excel files and applications that are not integrated.
- With limited and outdated systems, the human resources assigned to preparing the budget spend a great deal of their time on clerical tasks, rather than on planning and doing more value-added analyses. In addition, the succession of certain key positions is not currently assured.

In addition to these results, we have made various recommendations to the business units, which are presented in the following pages. These business units were given the opportunity to agree to the recommendations.



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List of Acronyms

BC	borough council	SBA	système budgétaire automatisé
BFPR	Borough Financing Plan Reform	SCA	Service de concertation des arrondissements
CC	city council	SE	Service de l'eau
CFA	Commission sur les finances et l'administration	SF	Service des finances
CMM	Communauté métropolitaine de Montréal	SPVM	Service de police de la Ville de Montréal
CTA	<i>Cities and Towns Act</i>	SRH	Service des ressources humaines
DCSF	Direction du conseil et du soutien financier	STI	Service des technologies de l'information
DDG	deputy director-general	the Charter	Charter of Ville de Montréal, metropolis of Québec
EC	executive committee	the City	Ville de Montréal
RDD	registre des décisions	UAC	urban agglomeration council
SAJ	Service des affaires juridiques		

Glossary

Administrative Budget Committee

The administrative budget committee, led by the director general, is responsible for making proposals to the political budget committee, as well as ensuring that all budget decisions and orientations are reflected in the budgets of the City's business units.

Borough

Territorial, administrative and political division. The Ville de Montréal (the City) is divided, for the exercise of certain powers, into 19 boroughs considered as business units.

Budget

The operating budget ensures the management of day-to-day business: it covers the costs of services provided to the population, such as snow removal, public safety, recreation and drinking water supply. Municipal taxes represent the main source of funding for the budget.

Business Unit

Entity that designates a borough or central department.

Central Department

Administrative entity, or business unit, that provides planning and support functions to the administration and the boroughs. A central department may also have operational responsibilities.

Charter of Ville de Montréal, Metropolis of Québec

A Québec statute that contains provisions relating to the municipality's constitution, organization, jurisdiction and powers. This includes the rules governing the harmonization of municipal taxation.

Compensation

Includes salaries and allowances for elected officials and employees.

Debt

Amount owed to one or more creditors.

Debt Service

The City's debt includes all of the loans it has contracted. A portion of this is reimbursed annually and is incorporated into the expenditures of the operating budget. This is called debt service.

Duties on Transfers of Immovables

Income from duties imposed on the purchaser following a real estate transaction.

Employer Contributions

Expense item consisting of fringe benefits (various insurance programs, pension plan contributions, etc.) and payroll taxes (contributions to the QPP, employment insurance, CNESST, Health Fund) granted to elected officials and employees.

Expenditures by Object

A classification system for expenditures based on the economic nature of goods and services as defined in the *Manuel de la présentation de l'information financière municipale*. The classification groups expenditures into the following objects: salaries; employer contributions; transportation and communications; professional, technical and other services; rentals, maintenance and repairs; durable goods; non-durable goods; financing costs; contributions to other organizations; and other objects.

Paramunicipal Organization

Not-for-profit entity that has a legal personality under the conditions provided for by law and that has a business relationship with the City.

Pension Plan Costs

Pension plan costs fall into two broad categories:

- current service costs, which represent the employer's share of services rendered during the fiscal year;
- past service costs or other components related to pension plans, which incorporate costs related to the impact of plan amendments, amortization of actuarial gains and losses, changes in the valuation allowance and interest expense on these plans.

Political Budget Committee

The political budget committee is the decision-making liaison between policy decisions and administrative implementation.

Reporting Entity

Reporting entities are defined as organizations whose activities and financial resources are reported in the City's financial statements and which are under the control of the City according to the criteria established by Canadian Public Sector Accounting Standards.

Tax Base

The amount to which a tax rate applies. In the context of a municipality, it is the real estate assessment roll, i.e., the value of commercial and residential buildings.

Territories

Montréal Agglomeration

The territory of the 16 cities that make up the island of Montréal or (simply) the island of Montréal.

Local Municipality

- Not all local municipalities have the same designation: the same term can refer to a city, a municipality, a village, a parish or a township (source: MAMH).
- Each local municipality is administered by a municipal council (source: MAMH).

Central City

- The Ville de Montréal (the City), in relation with the other local municipalities of the Montréal agglomeration.
- The central city exercises agglomeration powers on the territory of the island of Montréal and local powers on the territory of Montréal, by means of an official body, as the case may be: the urban agglomeration council (UAC), city council (CC) or a borough council (BC).

Reconstituted Cities

- The 15 territories on the island of Montréal that regained their municipal status on January 1, 2006, excluding the territory of the residual city.
- The reconstituted cities are responsible for local services (also called community services) in their respective territories.

Related Municipalities

The 16 municipalities making up the territory of the island of Montréal (i.e., the 15 reconstituted cities and Montréal) and sitting on Montréal's urban agglomeration council (UAC).

Powers

Agglomeration Powers

The urban agglomeration council (UAC) or the executive committee (EC) exercises the agglomeration powers prescribed by law. It is responsible for the agglomeration services offered to the entire population of the island of Montréal by the central city, i.e., the Ville de Montréal (the City).

Agglomeration Services

All common services provided by the Ville de Montréal (the City) to residents of the island of Montréal.

Local Powers

- The municipal council of each city on the island of Montréal exercises the local powers prescribed by law, i.e., it is responsible for the local services offered within its municipality.
- The responsibilities exercised by local municipalities are also known as local services.
- In the case of Montréal, the Charter of Ville de Montréal provides that these local powers are shared between city council (CC) and the BCs. These are therefore:
 - local powers managed by the boroughs; or
 - local powers managed by the municipal council.

Source: Mainly from the document titled *Montréal – 2021 Budget – 2021–2030 Ten-year capital works program*.

1. Background

The annual budget is a management and planning tool that encompasses all the revenues and expenses that ensure the operation of an organization for a given year. The budget is used to plan the actions that the organization will take in the short term.

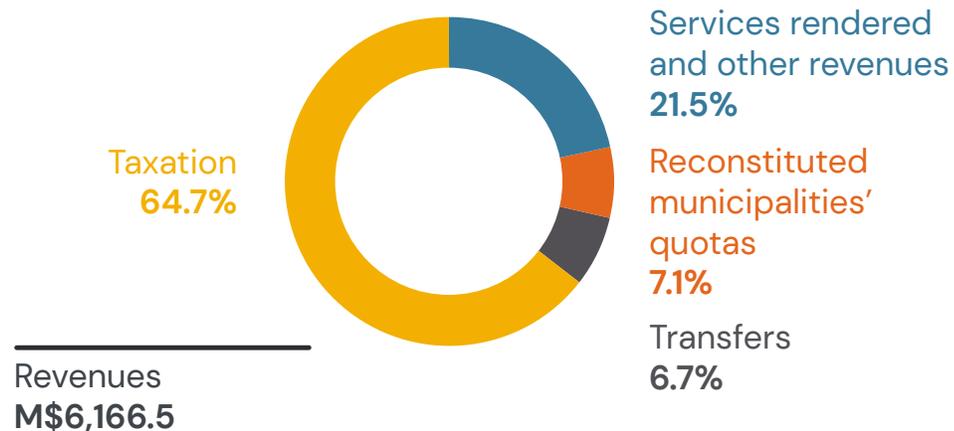
In a municipal context, the budget is a communication tool that enables a municipality to inform the population of the directions taken and the strategic choices made to determine the level of taxation as well as the level of service of the various municipal activity sectors.

Thus, to be able to produce a budget, the organization needs a structured process. The budgeting process establishes the strategy and the objectives and allocates resources accordingly. It is usually the result of strategic planning based on a long-term vision for the organization.

1.1. 2021 Operating Budget of the Ville de Montréal

The Ville de Montréal (the City) has adopted a \$6.17 billion operating budget for fiscal year 2021, with 64.7% of its operations funded by \$4 billion in tax revenues, as shown in Figure 1.

FIGURE 1
2021 Budget – Sources of revenues

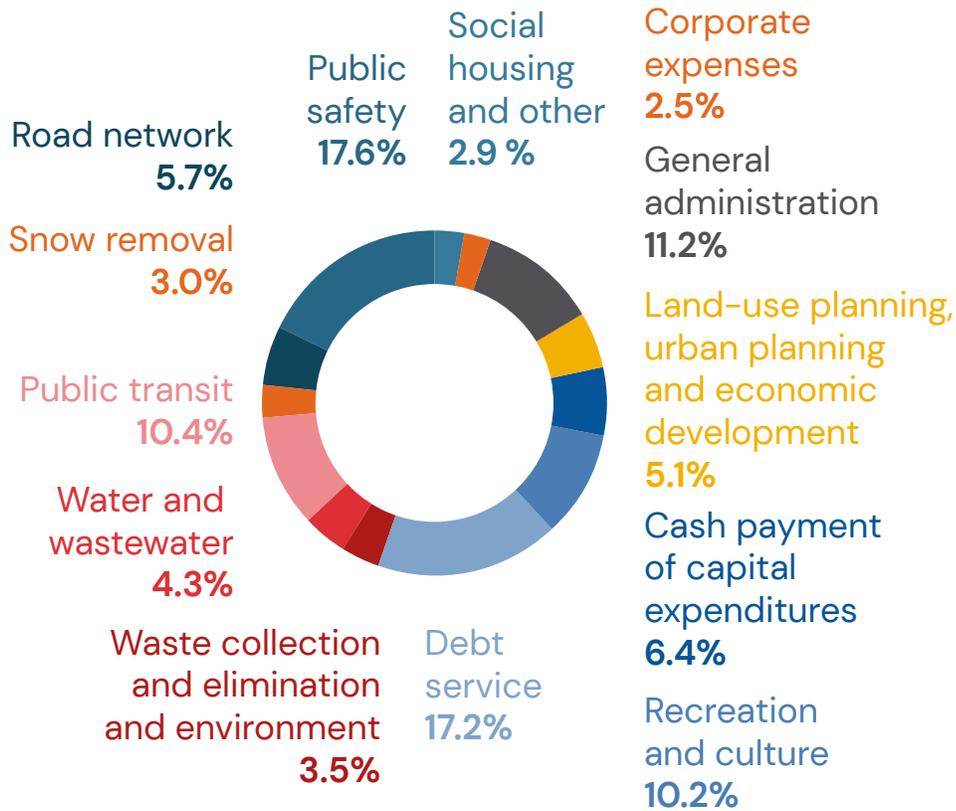


Source: Document titled *Montréal – 2021 Budget – 2021–2030 Ten-year capital works program*, page 21 (33/446 of the PDF).

Expenditures, which are equivalent to revenues, are divided into 13 activities, the main ones being: public safety (fire protection and police), recreation and culture, public transit and debt servicing, as shown in Figure 2.

FIGURE 2

2021 Budget – Breakdown of Expenditures by Activity

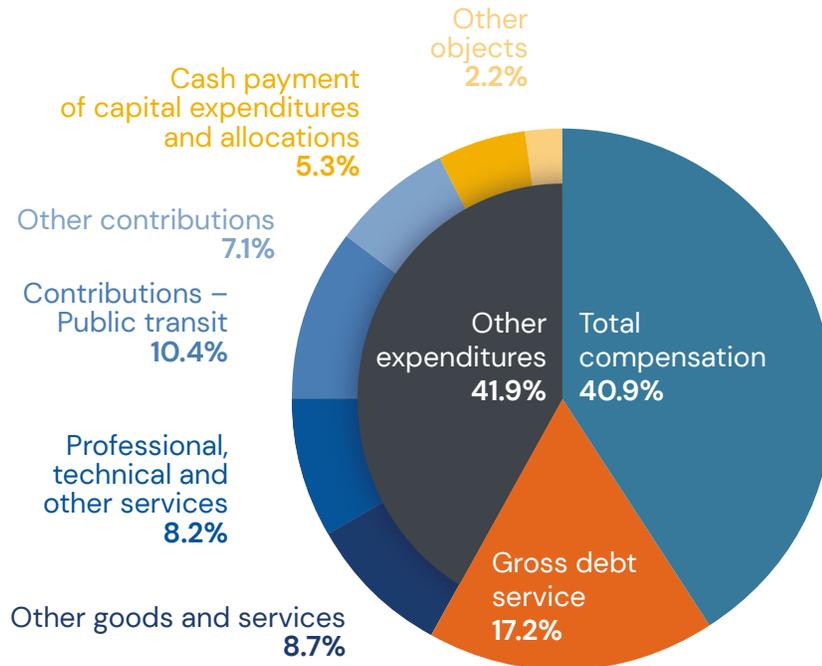


Source: Document titled *Montréal – 2021 Budget – 2021–2030 Ten-year capital works program*, page 21 (33/446 of the PDF).

The total compensation budget of \$2.5 billion represents 40.9% of budgeted expenditures. This corresponds to an authorized staffing level of 22,665 person-years. Gross debt service, another major budget component, amounts to \$1.1 billion or 17.2% of projected spending in 2021. The following figure shows the breakdown of expenditures by object presented in the 2021 budget.

FIGURE 3

2021 Budget – Breakdown of Expenditures by Object



Source: Document titled *Montréal – 2021 Budget – 2021–2030 Ten-year capital works program*, page 219 (291/446 of the PDF).

The island of Montréal represents the territory of the agglomeration, which includes 16 related municipalities: the City (composed of 19 boroughs) and the 15 reconstituted municipalities. The City heads the agglomeration and offers its services to nearly 2 million citizens. Appendix 5.2. presents the territory of the Montréal agglomeration.

1.2. Legal and Administrative Framework

In a municipality, the responsibility for drafting the budget lies with the director general, according to the *Cities and Towns Act* (CTA) (CQLR, chapter C-19). As the person in charge of the municipal administration, his or her duties include preparing the budget, the capital works program, plans and programs and projects to ensure the proper functioning of the City and submitting the budget to city council (CC), the executive committee (EC) or a commission, as the case may be, along with his or her observations and recommendations.

The CTA also states that CC must prepare and adopt the budget for the next fiscal year and provide for revenues at least equal to the expenditures contained therein. A treasurer's certificate appended to the budget must be prepared by the treasurer or director of finance to certify that budgetary appropriations will be available for budgeted expenses.

The *Charter of Ville de Montréal*, metropolis of Québec (the Charter) (CQLR, chapter C-11.4) specifies that the EC prepares and submits to CC the annual budget of the City. The budget must be adopted by CC, which cannot delegate this competence attributed to it. The CTA further states that a borough council (BC) can formulate opinions and make recommendations to CC regarding the budget and setting budget priorities.

The Charter also provides that each BC shall prepare and present to the EC a budget which provides for revenues at least equal to the expenditures contained therein. The BCs are responsible for managing the budget adopted by CC in accordance with the standards laid down by the latter. The Charter also requires the treasurer to certify that budgetary appropriations will be available for the operating budgeted expenses under the responsibility of CC and the urban agglomeration council (UAC).

The legislative framework provides that the City, as the central municipality, exercises agglomeration powers¹ over the entire territory of the island of Montréal, including that of the 15 reconstituted municipalities. The City's budget must therefore include all expenditures made in the exercise of these powers, as well as the quota revenues of the agglomeration's related municipalities to pay its share of these expenditures. Therefore, the estimates of revenues and expenses related to these competences must be distinguished in the budget from those related to the exercise of other competences, and they must be approved by the UAC.

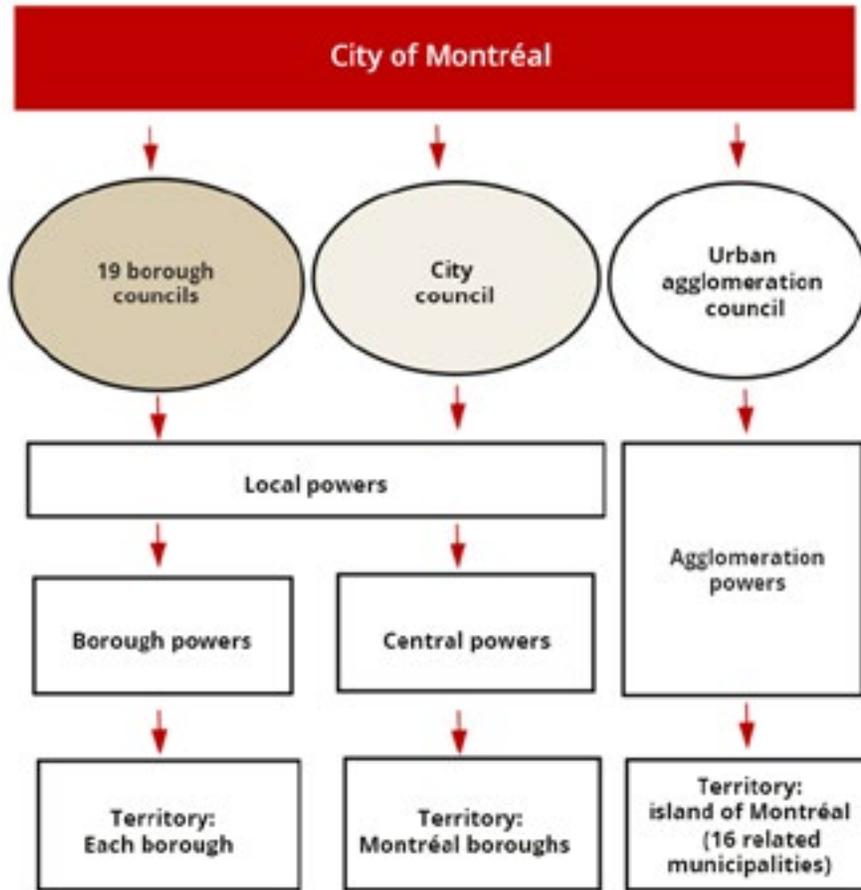
The provisions specifying the powers of the agglomeration, as well as the central city's powers and those of the boroughs, are set out in the *Act respecting the exercise of certain municipal powers in certain urban agglomerations* (CQLR, chapter E-20.001), the Order in Council concerning the urban agglomeration of Montréal² and the Charter. The following figure shows the organizational model and the division of powers at the City.

¹ The agglomeration powers are presented in Appendix 5.3.

² Order in Council 1229-2005, December 8, 2005, Québec government.

FIGURE 4

Organizational Model and Division of Powers



Source: Document titled *Montréal – 2021 Budget – 2021–2030 Ten-year capital works program*, page 334 (410/446 of the PDF).

Other general statutes contain specific provisions that must be taken into account in preparing the budget, in particular the *Act respecting municipal taxation* (CQLR, chapter F-2.1), the *Act respecting municipal debts and loans* (CQLR, chapter D-7) and the *Act respecting duties on transfers of immovables* (CQLR, chapter D-15.1).

In addition, the City has adopted several financial policies to ensure the sound management of public funds. These policies set out financial management practices for all of the City’s activities and serve as a decision-making guide for the EC, CC, UAC and BC, as well as for all managers and paramunicipal corporations. The following policies govern several aspects of the preparation of the operating budget:

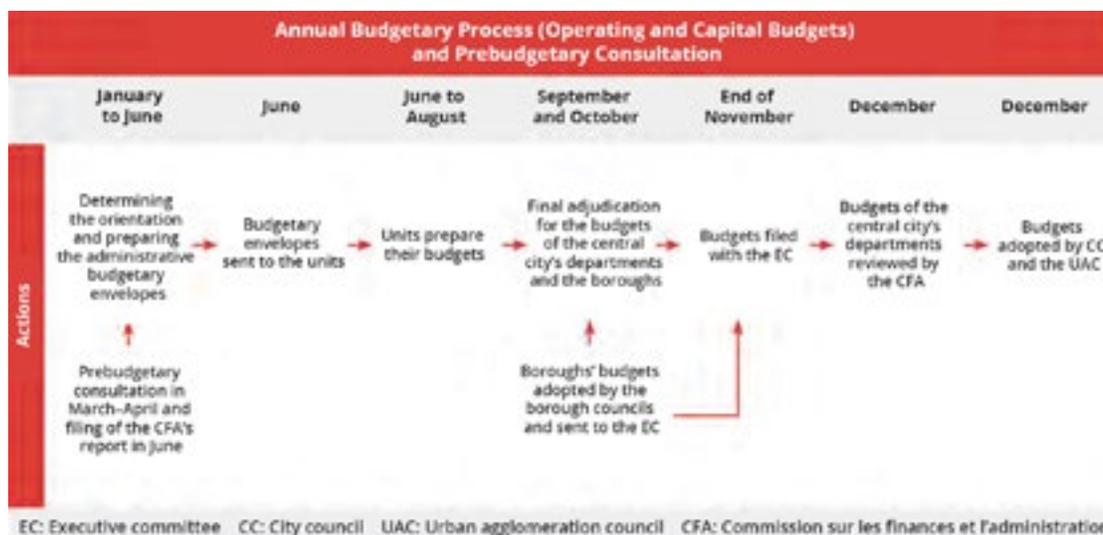
- *Politique de l'équilibre budgétaire;*
- *Politique des sources de revenus;*
- *Politique de gestion des dépenses;*
- *Politique de gestion de la dette;*
- *Politique de gestion des excédents de fonctionnement* (allocated and unallocated surpluses).

1.3. Roles and Responsibilities

The City’s budget process involves more than 50 business units that must produce their budgets in a decentralized manner in accordance with the directives issued by the Service des finances (SF). The following figure illustrates the cycle of the annual budget process.

FIGURE 5

Diagram of the Budget Process at the Ville de Montréal



Source: Document titled *Montréal – 2021 Budget – 2021–2030 Ten-year capital works program*, page 1 (71/446 of the PDF).

At the SF, under the responsibility of the treasurer, two branches are mainly involved in the preparation of the operating budget, namely the Direction du budget et de la planification financière et fiscale (the “Direction du budget”) and the Direction du conseil et du soutien financier (DCSF).

The Direction du budget is responsible for and monitors the entire budget process described in Figure 5.

The DCSF supports the central city's departments in the preparation of their budgets. Its team is responsible for validating the departments' budget data with the job register and ensuring that their organizational structure is up to date. It is also responsible for updating the registre des décisions (RDD) to collate information and ensure that all decisions made by the bodies that have a budgetary impact are considered in the departments' operating budgets.

The departments can also rely on their deputy directors-general (DDGs), who are members of the administrative and political budget committees. The DDGs monitor budget preparation for the departments under their responsibility as well as the evolution of results during the year. They are aware of the departments' problems, issues and new realities.

Other branches of the SF are involved in the budget process, including the Direction du financement, placement et trésorerie and the Direction de la comptabilité et des informations financières. They contribute to the development of certain assumptions and forecasts as well as to the drafting of the budget document.

The boroughs have their own financial teams. They are responsible for their respective budgets and must prepare them in accordance with the guidelines and instructions provided by the Direction du budget.

Other departments contribute to the budget process and the drafting of the budget document. The Service des ressources humaines (SRH) provides the information necessary to determine the expenditure forecasts for compensation and employer contributions. The Service du greffe prepares departmental presentations for the Commission sur les finances et l'administration (CFA) and organizes CC and UAC budget adoption processes. The Service de l'expérience citoyenne et des communications prepares and distributes communication materials.

Regarding the decision-making process, two committees are involved before the budget is submitted to the EC and the CFA, and then adopted by CC and the UAC. These committees, the political budget committee and the administrative budget committee, link policy decisions to administrative implementation. They also formulate and review various proposals. Appendix 5.3. presents the decision-making process leading to the adoption of the budget as well as the composition and role of the bodies and committees involved.

1.4. Systems and Tools Used to Prepare the Budget

Several information systems are used to prepare the budget, as well as several Excel files to collect and process the information required to establish forecasts.

A system was developed in the 1990s for the preparation of the operating budget, the système budgétaire automatisé (SBA) application. The job register under the responsibility of the SRH and the PRÉVIS application are used to forecast compensation expenditures. A tool is also used to consolidate budgeted and actual financial data from the SIMON integrated management system, the VISION II system. Numerous applications, function tables, interfaces and gateways have been developed so that these systems can communicate with each other. Appendix 5.4. presents a portrait of the information systems currently used to prepare the budget.

A project to replace the SBA application with a new integrated solution has been planned for several years. Work to this effect is planned for 2024 and is expected to eliminate data entry and function tables between the different systems.

An IT performance audit mandate was conducted in 2020 on the SBA application. Our findings are set out in a separate report.

2. Purpose and Scope of the Audit

Under the provisions of the *Cities and Towns Act (CTA)*, we completed a performance audit mission of the City's budget process. We performed this mission in accordance with the *Canadian Standard on Assurance Engagement (CSAE) 3001*, described in the *CPA Canada Handbook – Certification*.

This goal of the audit was to ensure that the process supporting the preparation of the City's operating budget is efficient and rigorous.

The role of the Auditor General of the Ville de Montréal is to provide a conclusion regarding the objectives of the audit. To do so, we collected a sufficient amount of relevant evidence on which to base our conclusion and to obtain a reasonable level of assurance. Our assessment is based on criteria we have deemed valid for the purposes of this audit. They are presented in Appendix 5.1.

The Auditor General of the Ville de Montréal applies *Canadian Standard on Quality Control (CSQC) 1* from the *CPA Canada Handbook – Certification* and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. In addition, it complies with the independence and other ethical requirements of the *Code of ethics of chartered professional accountants*, which are founded on fundamental principles of integrity, professional competence and due diligence, confidentiality and professional conduct.

Our audit work focused on the process of preparing the operating budget for fiscal year 2021. For some aspects, previous or subsequent data, information or documents were also considered to complete our analysis and allow us to obtain a complete picture of the process. The bulk of our work was carried out between July 2019 and March 2021. We also took into account information that was sent to us up to May 2021.

Most of the work was carried out within the following business units:

- Direction générale;
- Service des finances;
- Direction du budget et de la planification financière et fiscale;
- Direction du conseil et du soutien financier;
- Service de concertation des arrondissements;
- Service de l'eau;
- Service de police de la Ville de Montréal;
- Mercier–Hochelaga–Maisonnette borough;
- Saint-Laurent borough;
- Ville-Marie borough.

At the end of our work, a draft audit report was presented for discussion to the relevant managers in each of the audited business units. The final report was then sent to the management of each of the business units concerned for the purpose of obtaining action plans and timetables for their implementation as well as to the Direction générale. A copy of the final report was also sent, for information purposes, to the directors of the boroughs not directly concerned by our audit work to enable them to implement the recommendations when the situation warrants it.

3. Audit Results

It should be noted that the results are presented according to the main stages of the budget process (see Figure 5).

3.1. Determining the Orientations and Drafting the Budget Envelopes

3.1.1. Policy Determination and Developing the Preliminary Fiscal Framework

In the first week of January, the Direction du budget begins preparing the budget for the coming year. It then prepares the preliminary financial framework, which is defined in the documents of the SF as follows:

[TRANSLATION] “The preliminary fiscal framework is a financial management tool that is intended to provide, at the end of the budget process and throughout the next year’s budget-making process, an overview of the nature of the budget challenges facing the administration over the next five years.

This is a work in progress, which will be adjusted as new information is added and as balancing strategies are adopted by the administration with respect to both expenditure and revenues.

In addition to listing the main items impacting expenditures and revenues, it also serves as a basic document for the preparation of the units’ budget envelopes, while making it possible to monitor the achievement of a balanced budget. The fiscal framework is also the cornerstone that guides and records the main financial impacts of the administration’s short- and medium-term orientations.”³

From January to May, changes in anticipated revenues and expenditures for the next five years are collected and reported in the preliminary fiscal framework.

The items that will have an impact on the next fiscal years’ expenditures are also identified from the RDD of the EC, CC and the UAC, in an Excel file.

The preliminary fiscal framework is based on certain assumptions. In a first step, possible additional revenues are evaluated. To do this, the projected growth of the tax base is established and an increase corresponding to the projected inflation rate is applied to determine potential additional tax revenues. Other revenue sources (e.g., fines and penalties) are also indexed to the expected rate of inflation.

³ 2021–2025 preliminary fiscal framework. Direction du budget et de la planification financière et fiscale.

Regarding expenditures, an assessment of expenditure growth related to compensation and debt service is made. The impact of the indexation of other expenditures budgeted in the previous year is also estimated. Next, the monetary impact of decisions made during the year by elected officials on the next year's budget as well as the impact of new events and projects on the coming year's expenditures are calculated.

The fiscal framework is developed by aggregating the estimated variances in revenues and expenditures from the previous year's budget. The result, if positive, represents the potential room to manoeuvre and, if negative, represents the expected shortfall that must be made up.

The estimated variances in revenues and expenditures are presented in the preliminary fiscal framework under the broad categories shown in the following table.

TABLE 1

Preliminary Fiscal Framework Presentation Template

Main variances in expenditures and revenues	Projections	
	Expenditures	Revenues
<ul style="list-style-type: none"> • Local taxation: <ul style="list-style-type: none"> – Growth in the tax base – Tax increases 		xx
<ul style="list-style-type: none"> • Other: <ul style="list-style-type: none"> – Increase or decrease of quota shares – Increase or decrease in provisions 		xx
<ul style="list-style-type: none"> • Increase or decrease in provisions⁴ 		xx
<ul style="list-style-type: none"> • Growth in compensation and employer contributions (including increased pension costs) 	xx	
<ul style="list-style-type: none"> • Growth in other expenditures (other than the boroughs) 	xx	
<ul style="list-style-type: none"> • Growth in transfers to the boroughs 	xx	
<ul style="list-style-type: none"> • Increase in the contribution to public transit 	xx	
<ul style="list-style-type: none"> • Other adjustments to the fiscal framework: <ul style="list-style-type: none"> – Administration’s priorities – Strategic orientations (including debt service scenarios) 	xx	
<ul style="list-style-type: none"> • Other specific adjustments⁵ 	xx	
Imbalance as of xx		xx

Source: Information compiled by the Office of the Auditor General using the fiscal frameworks prepared by the Direction du budget.

As illustrated in the previous table, only the revenue and expenditure variances are presented by major category, which differs from the budget presentation. If there is no variance in revenue or expenditures, it is not reflected in the fiscal framework since only variances are shown. This presentation does not allow for an overview of the budget as a whole. Yet it is on this basis that the bodies make their decisions.

⁴ These adjustments include allocations of accumulated surpluses and anticipated declines in revenue, e.g., due to COVID-19.

⁵ This includes major works, contracts and program expenditures.

The preliminary fiscal framework is produced following the integration of all the information gathered. As a general rule, the first version of the fiscal framework shows a financial imbalance for each of the next five years, given that needs always exceed the limited financial resources. An analysis of the various possible solutions to reduce the imbalance is then carried out. Several scenarios are developed and studied by the administrative budget committee in order to present a balanced fiscal framework. Also, the main budget orientations are discussed.

The first version of the preliminary fiscal framework is usually presented to the political budget committee in May.⁶ The purpose of this first meeting is to inform the committee of the current situation, gather the requests of elected officials and study the various scenarios for increasing revenues and expenditures, or constraints and cuts in expenditures.

Following this first meeting, the preliminary fiscal framework is updated on an ongoing basis as decisions are made and new information becomes available. Although updates to the five-year framework are conducted, strategies are developed and decisions made almost exclusively on the basis of the budget being prepared. For subsequent years, however, the impact of indexing these decisions or of new information obtained at the rates forecast is indicated.

The administrative budget committee and the political budget committee may continue to meet until the political budget committee has endorsed the budget orientations, guidelines and constraints to be imposed that will guide the preparation of the next budget. The budget orientations and instructions are then finalized for the drafting of the budget.

Before the budget envelopes are sent to the business units, a summary document setting out the approved budget orientations, as well as the guidelines and constraints, is presented to the EC in camera. This document contains, in particular, the orientations adopted for the departments and boroughs, the annual growth in the form of a variance in tax expenses in relation to the annual growth in expenditures and other adjustments considered in the preliminary fiscal framework. It also outlines the resulting fiscal imbalance and various strategies proposed to address it.

A formal mechanism has therefore been put in place at the City so that the authorities can make strategic decisions, determine budget orientations and ensure compliance with the *Politique de l'équilibre budgétaire*. A fiscal framework is developed to present financial projections, and committees have been established to study different scenarios for achieving a balanced budget. However, whereas previously the revenue, expenditure and budget imbalance variances were presented over five years, only the current year has been presented to the EC since the 2019 budget.

 ⁶ See Appendix 5.3.

The fiscal framework therefore focuses only on the next year’s budget. Yet, according to the definition of the fiscal framework, it is intended to provide a snapshot of the nature of the budget challenges facing the municipal administration over the next five years. However, once the budget orientations have been tabled, decisions or changes to the fiscal framework are not projected over five years.

The five-year fiscal framework is used to make decisions in a broader perspective than the current year. In other words, the City needs to consider whether budget decisions in the first year of the plan are consistent with expected developments in subsequent years. Focusing only on the strategies and decisions of the budget being prepared can make it difficult to consider their implications on subsequent budgets. Simply adding an indexing factor to the first year’s budget assumes that everything is under control and will remain under control. This avoids showing the true situation and the uncertainties of the future.

As illustrated in the following table and Figure 1, the City’s expenditures are growing faster than its revenues, which in itself is already a concern for the future, and is not reflected in the fiscal framework. Indeed, the preliminary fiscal framework shows a significant annual budget imbalance, which demonstrates a structural deficit.

TABLE 2
Preliminary Fiscal Imbalances Since 2015

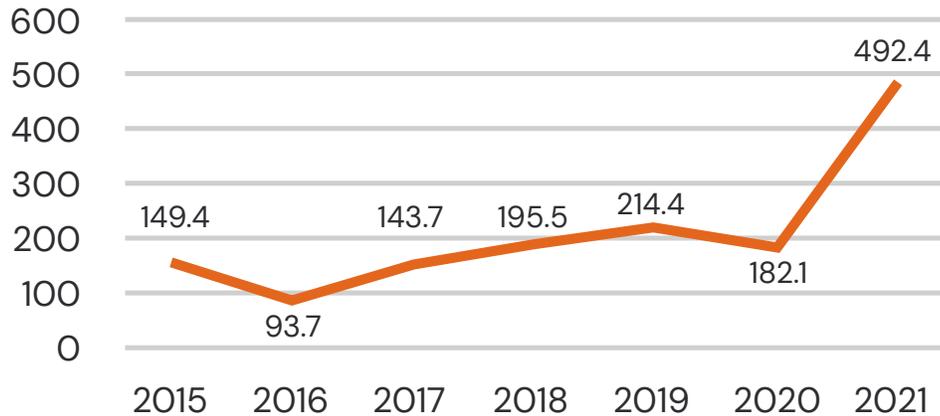
	Preliminary fiscal framework						
	Budget imbalance before the balancing strategies (in millions of dollars)						
	2015	2016	2017	2018	2019	2020	2021
Increased expenditures	250.4	182.8	263.6	325.1	285.1	358.5	566.5
Increased revenues	101.0	89.1	119.9	129.6	70.7	176.4	74.1
Preliminary imbalance	149.4	93.7	143.7	195.5	214.4	182.1	492.4 ⁷

Source: In camera presentation documents to the EC in June/July of each year.

⁷ In 2021, the significant increase in the preliminary fiscal imbalance can be explained in large part by an anticipated increase of \$155.4 million in the contribution to the Autorité régionale de transport métropolitain (ARTM) due to the pandemic.

GRAPHIC 1

Presentation of Preliminary Fiscal Imbalances Since 2015



Source: The data in Table 2.

Yet in April 2014, the municipal administration tabled and released an ambitious spending recovery plan for future years' budgets. An analysis of revenue and expenditure growth forecasts for the years 2015 to 2020 revealed that, to implement the municipal administration's priorities while limiting tax increases to inflation, the City would have to face an annual shortfall in the range of \$130 million to \$160 million.

In order to balance the budget and close this structural gap between revenues and expenditures, the municipal administration adopted a plan that provided for annual cuts of 3.6% to 4.4% applicable to the basic budgets of the departments, boroughs and administrative expenses. This was to be achieved through recurring annual reductions of 1% in the budget envelopes of the business units and administrative expenses after salary and step increases and contract indexation. A \$450 million reduction in the payroll over five years was planned, of which \$240 million would come from replacing one out of every two retiring employees.

However, despite the many measures and constraints imposed, we note that the structural budget imbalance is increasing and has not been resolved, requiring further measures and constraints to be imposed each year. The preliminary fiscal framework therefore appears to be used only to establish the constraints for the coming year. It is not followed by a balanced five-year fiscal framework that would address the risks and challenges of the current projections. The fiscal framework is an essential budget management instrument, a kind of early warning system that highlights positive and negative trends for the next five years. In order to use this tool effectively, such a fiscal framework should be prepared and published by the City as part of the annual budget.

The foregoing data clearly shows the growing difficulty that will continue in the coming years. One need only consider that the balance for 2021 has only been achieved in large part because of a significant grant from the Québec government and an adequate reduction in cash payments for capital assets. Despite the pandemic, these elements in themselves send negative signals for the future, but their consequences are not publicly discussed.

In addition, the *Politique de l'équilibre budgétaire*, issued in 2018 by the SF to guide the fiscal framework development process, states that accurate forecasting requires a good understanding of cost behaviour and that activity-based cost analyses should therefore be conducted. The current method of allocating budget envelopes to the business units does not take into account activity-based costing. Instead, it is based on managing the variances in revenues and expenditures from the budget adopted the previous year. As a result, the budget strategies favoured by the municipal administration and the resulting orientations are focused on achieving a balanced budget rather than on the optimal allocation of budgets in order to render the expected services and promote the achievement of the objectives pursued.

In addition, the decisions and orientations determined when the previous budgets are prepared are renewed without being updated or analyzed to ensure their relevance. For example, anticipated savings with respect to vacancies, assessed in 2017, are still being considered without being reassessed.

We also found that, contrary to the *Politique de l'équilibre budgétaire*, decisions are not always documented or supported by available analysis, such as the rate of indexation, and that no approved minutes are prepared to record the discussions and decisions made by the budget committees at this stage of the process.

Also, according to this *Politique de l'équilibre budgétaire*, the drafting of the budget must be in line with the strategic orientations, since the forecasts must respect the municipal administration's priorities. However, for the years covered by our audit, we observed that the City had not yet carried out a strategic planning process on which to base the drafting of the budget. We further found that the 2021 budget process was not part of an overall planning process. Each department has its own objectives and presents its budget requests in relation to its own activities and orientations. Some of them have even done their own strategic planning, with each department working independently.

The City's first strategic plan, *Montréal 2030*, was adopted by the EC on December 9, 2020, and tabled at CC on December 14, 2020. In our view, this represents an important step forward in the governance of the City. However, although the process is in its infancy, there is currently no plan to establish a link between the budget process and strategic planning.

3.1.1.A. Recommendation

We recommend that the Direction générale develop a balanced five-year fiscal framework that looks beyond the annual operating budget and identifies key risks and challenges ahead, and that it makes it public so that elected officials and citizens can better appreciate the significance of the tabled budget.

3.1.1.B. Recommendation

We recommend that the Direction générale pursue its efforts to implement the *Montréal 2030* strategic plan and develop operational and financial plans that can be integrated into the budget process and thus promote the achievement of the objectives pursued.

3.1.1.C. Recommendation

We recommend that the Direction générale record the meetings of the administrative budget committee and the political budget committee in approved minutes and document the decisions and orientations approved by them, in order to comply with the documentation practices recommended in the *Politique de l'équilibre budgétaire* and to inform decision-making.

3.1.1.D. Recommendation

We recommend that the Service des finances assess the measures that are carried forward from year to year in the fiscal framework and support them with recent, documented analyses based on historical results and the economic outlook, in order to comply with the documentation practices recommended in the *Politique de l'équilibre budgétaire* and to inform decision-making.

3.1.1.E. Recommendation

We recommend that the Service des finances establish a mechanism to track and review changes to the fiscal framework.

3.1.2. Forecasting Revenues and Expenses

In order to ensure the relevance of the budget as a management tool and to allow for proper accountability, drafting the budget requires the use of the most accurate estimates and assumptions possible.

This is a complex process, and occasional minor under- and over-estimates are inevitable. However, their magnitude and systematization could indicate some failure in the budget preparation process and distort the understanding of the City's actual situation.

While the City's actual results are marginally in excess of the initial \$6 billion budget, it is essential to analyze each of the revenue and expenditure line items to determine whether the data and methods used to develop the forecasts are appropriate and well documented.

In the following sections, we report on our analysis of selected revenue and expenditure budget processes, either by dollar amount or complexity.

As noted in section 1 of this report, responsibility for these processes is spread across several business units. While much of this is the responsibility of the SF, several business units have an important role to play in forecasting both revenues and expenditures.

3.1.2.1. Revenue Component

Taxation (Tax Revenues)

Revenues from taxes and payments in lieu of taxes represent \$4 billion (or 64.7%) of the \$6.17 billion in total budgeted revenues for 2021. The accuracy of the forecasts for these items is critical since a variance of plus or minus 1% in the forecasts represents approximately \$40 million in volatility. The following table shows the different forms of taxation and what they fund.

TABLE 3

Forms of Taxation and What They Fund

Form of taxation	What does the revenue fund?
1) General property tax	All services offered by the Ville de Montréal
2) Taxes for specific purposes	
- Water tax	Drinking water and wastewater treatment services
- Autorité régionale de transport métropolitain tax	Contribution paid to the Autorité régionale de transport métropolitain for public transit services
- Road tax	Road infrastructure
- Water pricing	Water management
- Service tax	General funding for all services offered by each borough
- Investment taxes	Capital expenditures of each borough

Source: Document titled *Montréal – 2021 Budget – 2021–2030 Ten-year capital works program*, page 21 (35/446 of the PDF).

Payments in lieu of taxes come mainly from tax subsidies on buildings that belong to the governments of Canada and Québec or corporations owned by them, as well as buildings of the health and education networks.

At the beginning of the fiscal year, the Direction du budget calculates two of the main tax-related adjustments in order to integrate them into the preliminary fiscal framework, namely the indexation of tax expenses according to projected inflation and the estimated revenues from real estate growth.

During the process, several variables must be estimated in order to refine the fiscal framework forecasts, including property growth and forecasts of loss of value stemming from challenged valuations. All forecast models are then prepared in Excel files. Scenarios are also prepared at the request of municipal authorities to assess the impact of changes in tax expenses, including rates.

Beginning in September, as budget orientations become more specific, the final models are updated using the property values contained in the assessment roll (approximately \$321 billion as of September 11, 2020, for approximately 418,000 units).

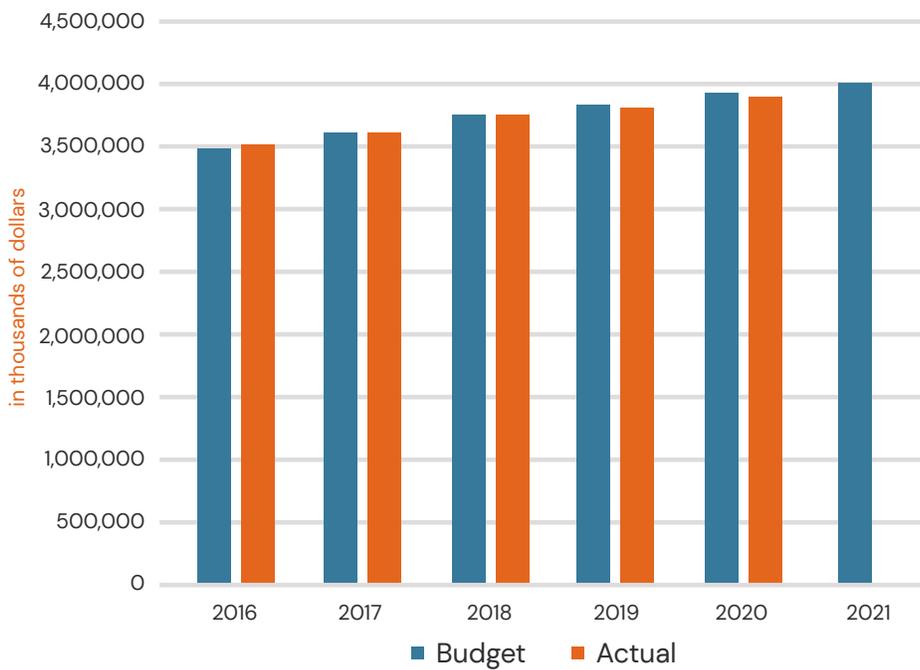
A first step in determining the forecast is to establish the tax rates and tariffs that will be applied for the fiscal year being planned, based on the guidelines for changes in the year's tax expenses. The second step is to forecast the revenues from each category of taxes, fees and compensations and to ensure that the budget target is met.

The majority of the budget processes related to tax revenues and payments in lieu of taxes have been documented for several years. Over the past two years, controls have been put in place to minimize the risk of errors, in particular the validation of work by a third party supported by audit trails.

Tax revenue forecasts have actually proven to be quite accurate in recent years. The following figure shows the forecast and actual tax revenues collected over the past five years.

GRAPHIC 2

Forecast and Historical Results – Taxes and Payments in Lieu of Taxes



Source: Data compiled by the Office of the Auditor General using the City's annual budget documents and financial reports.

Quota Revenue

As stated earlier, the powers to administer the City are divided into agglomeration and local powers. Thus, the City manages certain common facilities and provides services to all citizens of the island of Montréal, i.e., those of the City and those of the 15 reconstituted municipalities.

The quota revenues come from the reconstituted municipalities and serve to finance the net expenditures of the agglomeration established under the *Act respecting certain municipal powers in certain urban agglomerations* (CQLR, chapter E-20.001). These expenditures are to be distributed among the related municipalities in proportion to their respective fiscal capacity or according to other criteria determined by a bylaw of the UAC.

Quotas are divided into two main categories: general quotas and specific quotas used to fund specific activities. For the 2021 budget, the amount of net budgeted expenditures related to agglomeration powers totalled \$2.5 billion,⁸ of which \$437.6 million is billed back to the 15 reconstituted municipalities and presented as quota revenues.

At the very beginning of the process, for the preparation of the preliminary fiscal framework, a majority of the quotas are indexed to inflation only. Quota revenues can only be forecast at the end of the process, when the budgeted expenditures related to agglomeration powers and the amounts related to long-term debt financing are known.

Our analysis of the quota revenue forecasting process led us to conclude that improvements were needed. There is no documentation of the existing controls to demonstrate that they have been performed. In this context, forecasting errors could occur and go undetected.

⁸ Document titled *Montréal – 2021 Budget – 2021–2030 Ten-year capital works program*, page 205.

Transfer Revenues

Transfer revenues come from higher orders of government. These are subsidies intended for specific purposes and awarded following the signing of an agreement or the publication of a decree. An amount of \$411.7 million is budgeted for 2021. This amount covers, among other things, the 2020–2024 partnership agreement *For Stronger Municipalities and Regions* signed with the Québec government (\$14.2 million), transfer revenues related to the repayment of long-term debt following infrastructure work (\$21.4 million), the Réflexe Montréal agreement (\$127.1 million), Accès Logis (\$61.3 million), the Communauté métropolitaine de Montréal (CMM) (\$61.8 million) and waste management (\$43.3 million).

The transfer revenues entered in the fiscal framework are based on the budget adopted the previous year.

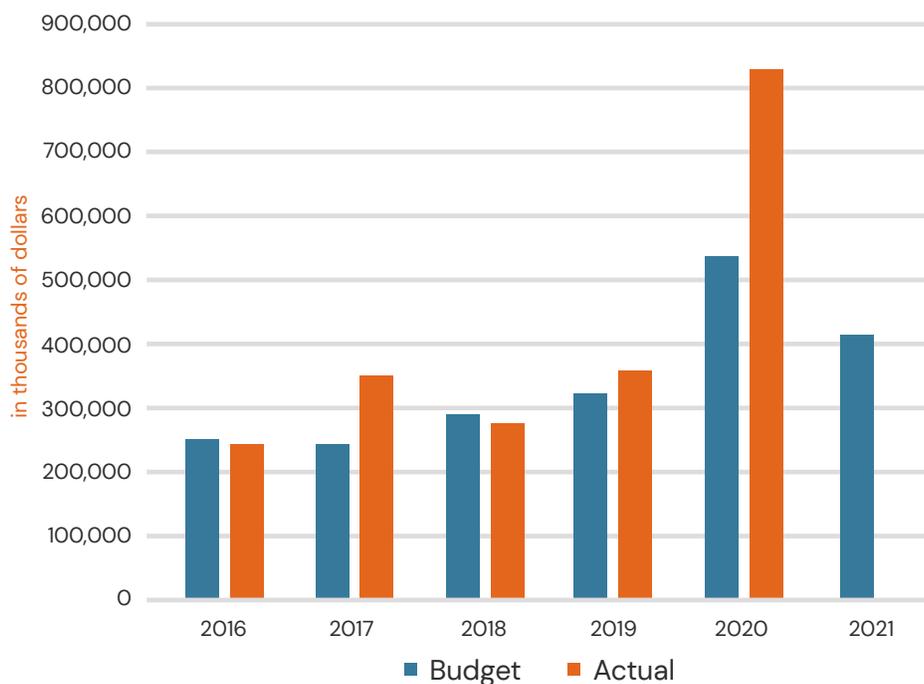
Given the majority of transfer revenues are the result of memoranda of understanding between the City and higher orders of government, they are reported in the RDD, which becomes the primary source of privileged information. The budgeted transfer revenues also include some significant impending agreements that were discussed by the budget committees. Considering that the responsibility for many transfer revenues and related expenses lies with the various central services, this information is included in their budget envelopes, thus making it possible to adjust the transfer revenue forecasts when the budget is prepared.

Our work showed that certain improvements could be made to this process, particularly with regard to the validations required to ensure the completeness of the transfers taken into account and to ensure that the forecasts are consistent with the accounting method determined for recording these revenues. This method is complex and requires particular attention when preparing the budget to ensure that the forecasts are realistic.

The following figure shows that the difference between transfer revenue forecasts and transfer revenues actually received is not significant, with the exception of 2020, when the City received a transfer related to the pandemic in the amount of \$263.5 million—a situation that was not foreseeable when the budget was prepared. This amount has been fully expensed as transfer revenue for fiscal year 2020 in accordance with accounting standards. A portion of the surplus, namely \$178.5 million unspent in 2020, has been allocated to fiscal year 2021. As this transfer is not recurrent, and as specific needs may arise in the future, it would be appropriate for the City to evaluate potential sources of funding to meet such needs without delay.

GRAPHIC 3

Forecast and Historical Results – Transfer Revenues



Source: Data compiled by the Office of the Auditor General using the City's annual budget documents and financial reports.

Fines and Penalties

The forecasts for fines and penalties consist mainly of traffic and parking tickets, as presented in the budget of the Service des affaires juridiques (SAJ). When the preliminary fiscal framework is drawn up, these revenues correspond to the previous year's budgeted revenues, indexed to inflation. The forecast of these revenues is then refined by the SAJ while it is preparing its budget in collaboration with the Service de police de la Ville de Montréal (SPVM) and the Agence de mobilité durable.

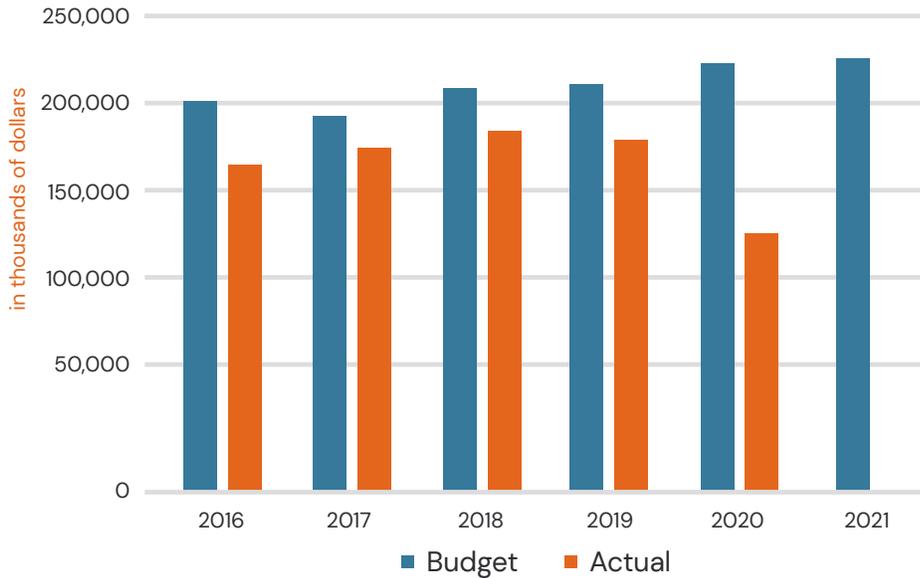
As the following figure shows, forecast fine and penalty revenues are overstated from year to year. The SAJ provides an analysis that indicates the need to reduce these estimates to reflect actual revenues received and therefore a more accurate budgeted amount.

However, the administrative budget committee and the political budget committee decided to maintain them following a review of the resources and related activities that will be implemented in 2021 and that should result in substantially increased revenues. However, while assumptions about the number of resources and the scale-up of activities are documented, this decision was not formally recorded. The SAJ was informed only at the end of the process, without being involved in the assessments and discussions. This does not promote budget accountability. Moreover, according to the financial data available as of March 31, 2021, it is possible that the budget target will not be met, as has been the case in recent years.

Note that a systematic overestimation of revenues can create false confidence and a fictitious margin of manoeuvre that cannot be relied upon when a surplus is needed.

GRAPHIC 4

Forecast and Historical Results – Fines and Penalties



Source: Data compiled by the Office of the Auditor General using the City’s annual budget documents and financial reports.

Imposition of Duties

The imposition of duties includes revenues from the transfers of immovables as well as revenues from licences and permits.

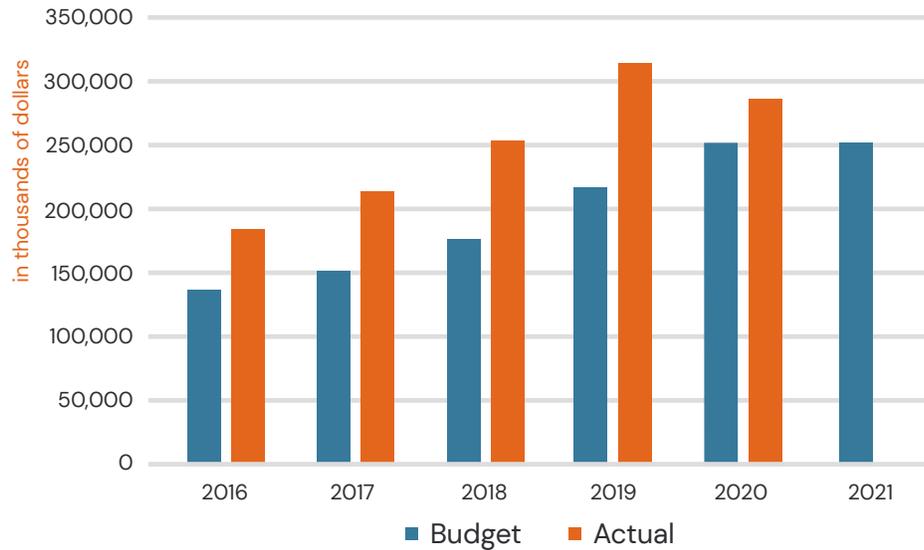
The assumption used to determine the forecasts relating to transfer duties is established in two parts, by considering the variation in property values first and the variation in the number of transactions second. In this regard, the main parameters analyzed are recent transactions, the results of the previous two years and the economic situation. Within this revenue stream, the City advocates for a conservative budget on the grounds that the market is currently not following normal real estate cycles.

During the year, a watch is set up to monitor quarterly budget changes and assess whether the budget target has been reached. For the 2021 budget, further reflection was undertaken and led to the decision to maintain the previous year’s budget given the pandemic. We found that the process, assumptions made and final decision were not formally documented.

The following figure shows that the forecast duties on transfers of immovables are understated by an average of 33.3%—or \$61 million per year—between 2016 and 2020.

GRAPHIC 5

Forecast and Historical Results – Duties on Transfers of Immovables



Source: Data compiled by the Office of the Auditor General using the City's annual budget documents and financial reports.

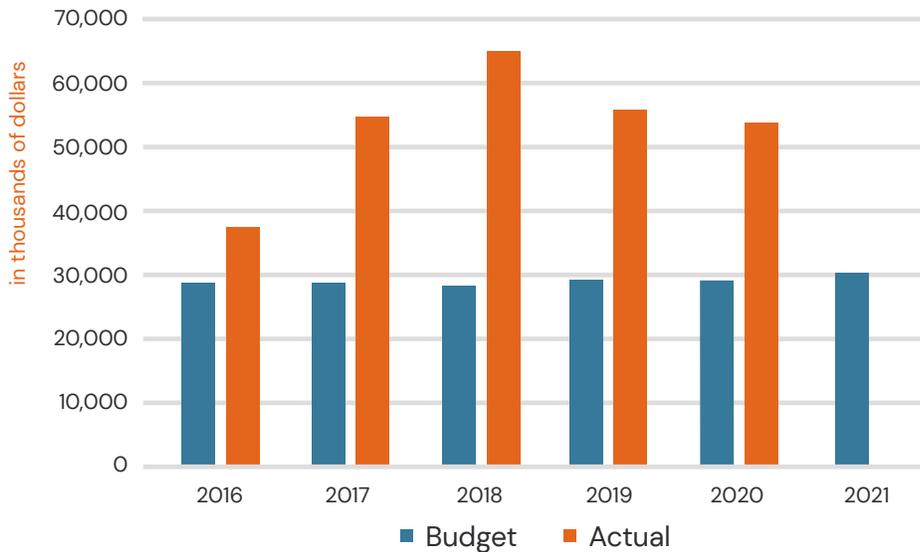
As this underestimation is systematic and of a significant magnitude, the current method used to establish these forecasts must be revised because it is excessively cautious and does not result in forecasts that are representative of reality.

With respect to revenues generated by the issue of construction and renovation licences and permits, the actual results show that they also are understated at the forecasting stage. This forecast is largely based on a budget determined in 2014, when the Borough Financing Plan Reform (BFPR) was introduced, and has not been revised since. Permit revenues, previously managed by the boroughs, are now centralized at the City. Section 3.2.2. of this report, which deals with drafting borough budgets, specifies the changes made and their impact on the operating budget.

Based on the 2016–2019 results, we observe an average understatement of \$24 million per year or 84% of the budgeted amount. In 2020, the City also collected \$24 million more than budgeted (+81%) despite the pandemic. The following figure demonstrates this very significant underestimation.

GRAPHIC 6

Forecast and Historical Results – Permit Revenues



Source: Data compiled by the Office of the Auditor General using the City’s annual budget documents and financial reports.

3.1.2.2. Expenditure Component

Compensation and Employer Contributions

In 2021, the City budgeted \$2.5 billion in total compensation. This represents the City’s largest expense. This item includes expenses related to the payroll of employees and elected officials as well as employer contributions to payroll taxes, pension plans and various government plans.

The responsibility for preparing the compensation budget lies with the Direction du budget. It is a very complex process that requires the use of large quantities of data, many files, different databases, and a host of controls to ensure the accuracy of the forecasts.

The process is spread over a five-month period, from January to May, and involves several steps, including indexing compensation based on the rates provided in the collective agreements, adjustments to reflect administrative decisions as well as a validation with the job structure of the various business units.

This is a laborious exercise given the number of collective agreements in force and the fact that certain job categories have specific characteristics that must be properly dealt with, including union leaves, sick leave banks, vacancies and positions budgeted in the form of hour banks for blue-collar workers.

The same is true for employer contribution rates. When rates are not available, simulations are required to establish the average increase in recent years. They come from several sources: Bureau des régimes de retraite, SRH and the websites of government agencies (e.g., Régie des rentes du Québec, Parental Insurance Plan and Employment Insurance Plan).

Considering the complexity and manipulation of the data, several validation reports (36 distinct reports) are used during the process to corroborate the different data items obtained. The aim is to ensure that all data regarding structures, positions, salaries and assignments is as up to date as possible before calculating the budget envelopes.

It is only in June that the final calculation of compensation and employer contributions for each business unit can be made. This amount is used to prepare the budget envelopes, and the data from the forecasting application is then transferred to the SBA application manually. That is where the business units will enter their budgets once completed.

The use of multiple systems or applications brings an additional challenge in terms of the structure of the data required to establish forecasts, which may differ from one system to another. This is because an employee can be posted to different budget items from one application to another. This situation makes comparisons between actual results and the budget unreliable during budget monitoring exercises, makes the process more cumbersome and increases the risk of error. During our work, we noted that the final compensation budgeted in the SBA application by all of the business units is not reconciled with the job register, and it may be difficult to do so with reasonable effort.

We found that some of the assumptions used are not supported by documentary evidence. Such is the case when it comes to establishing the savings that result from not filling vacancies. In 2017, as a strategy to reduce payroll, the business units' compensation budgets were reduced by 2.5% to reflect savings due to vacancies for sick leave, departures or retirements. This percentage has never been revised and does not correspond to the reality observed by some of the business units we met during our audit. In 2021, the amount of "savings" budgeted as a reduction in total compensation totals almost \$35 million. We found that no accountability is required and no audit is performed to ensure that the business unit has in fact achieved the expected savings.

In addition, the *Politique de gestion des dépenses* states that the City must develop or update a workforce plan and submit it to the EC for approval as part of the budget process. While this practice is followed and the workforce plan is presented in the budget document, we found that the plan does not accurately represent the number of person-years in light of the compensation forecasts for the reasons stated below.

The number of person-years, as defined in the budget document glossary, is calculated by dividing the number of hours worked by the number of hours normally contained in a work year according to the job group. We noted that the person-year calculation presented in the budget does not include overtime, which amounts to \$84.3 million (including employer contributions) in the 2021 budget. This could correspond to almost 530 additional person-years, or more than 2.4% of budgeted person-years.

We also noted in a data validation report that person-years are being removed from the workforce profile presented in the budget document without a corresponding reduction in the compensation budget. This situation dates back several years and has not been resolved to this day.

We further noted that the audited boroughs use their surplus allocations to fund compensation expenses. As a result, the compensation budget is skewed and does not reflect the actual number of person-years.

In addition, there is no reconciliation between the person-years presented in the budget document, the person-years actually paid and the authorized workforce plan. For comparison purposes, the number of paid person-years should be calculated to assess the plausibility of the number of person-years initially budgeted.

The above findings lead us to conclude that the workforce figures presented in the budget document are understated.

Finally, we found that the documentation relating to the process of preparing the total compensation budget is well initiated in terms of describing the steps to be taken. However, it does not contain the validation and approval steps essential for monitoring and control purposes. We also noted the lack of senior or third-party validation, as the work is performed by a single person. The addition of these steps would also facilitate understanding of the process by other members of the budget team and eventual successors.

According to the following table and figure, overall, the forecast compensation expenditures are lower than the actual expenditures, and the average budget variance over the last five years is \$57 million or 2.5%. This variance is due in particular to an underbudgeting of overtime hours.

TABLE 4

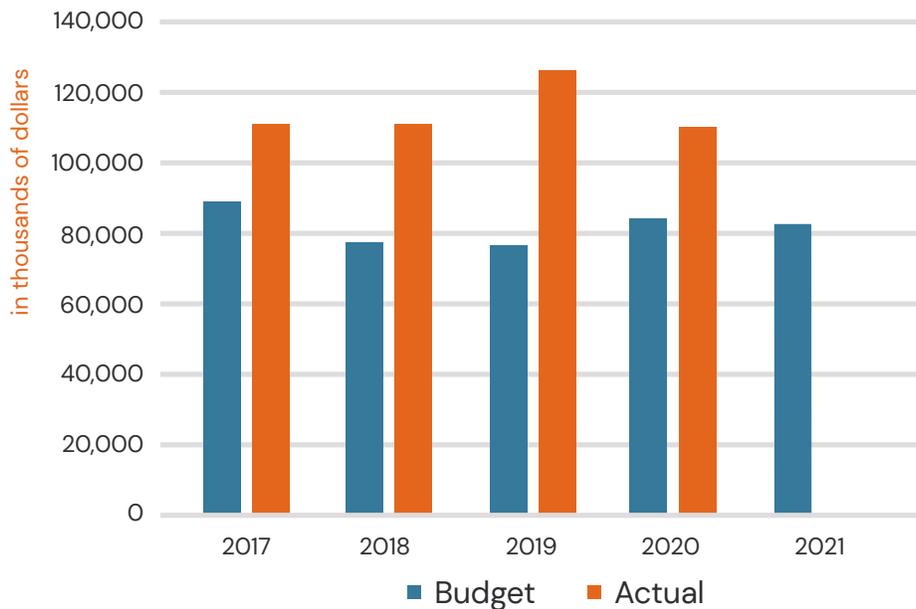
Total Compensation Gap

Year	Budget (in thousands of dollars)	Actual (in thousands of dollars)	Variance (in thousands of dollars)	Variance
2016	\$2,350,816	\$2,367,691	(\$16,875)	-0.7%
2017	\$2,299,293	\$2,412,359	(\$113,066)	-4.9%
2018	\$2,330,561	\$2,365,334	(\$34,773)	-1.5%
2019	\$2,295,297	\$2,347,059	(\$51,762)	-2.3%
2020	\$2,378,749	\$2,449,340	(\$70,591)	-3.0%
2021	\$2,522,481			

Source: Data compiled by the Office of the Auditor General using the City’s annual budget documents and financial reports.

GRAPHIC 7

Forecast and Historical Results – Overtime Compensation



Source: Data compiled by the Office of the Auditor General using the City’s financial reports and IT systems.

We also observed some differences between the different job categories and business units. Some have significant unfavourable variances due in particular to underbudgeted overtime, while others have favourable variances due in particular to the difficulty of filling vacancies. These differences are not apparent since they cancel each other out when considered globally. This can be risky, however, as unfavourable differences may not be offset by favourable ones.

Debt Service

The calculation of the debt service budget involves a large number of assumptions and data as well as the incorporation of forecasts for the completion of the many works and projects provided for in the *2021–2030 Ten-year capital works program*. This process is the responsibility of the Direction du financement, placement et trésorerie of the Service des finances.

According to the financial statements for the year ended December 31, 2019, the gross debt was \$9.9 billion. Nearly \$1.1 billion is allocated to projected gross debt service in the 2021 operating budget. This amount is made up of \$423 million in financing costs, \$575 million in repayment of long-term debt and nearly \$65 million presented in this budget item as an allocation for the repayment of capital.⁹ The corporate debt service portion amounts to \$879 million in the 2021 budget. The difference of \$184.3 million represents the debt service included in the budgets of the business units.

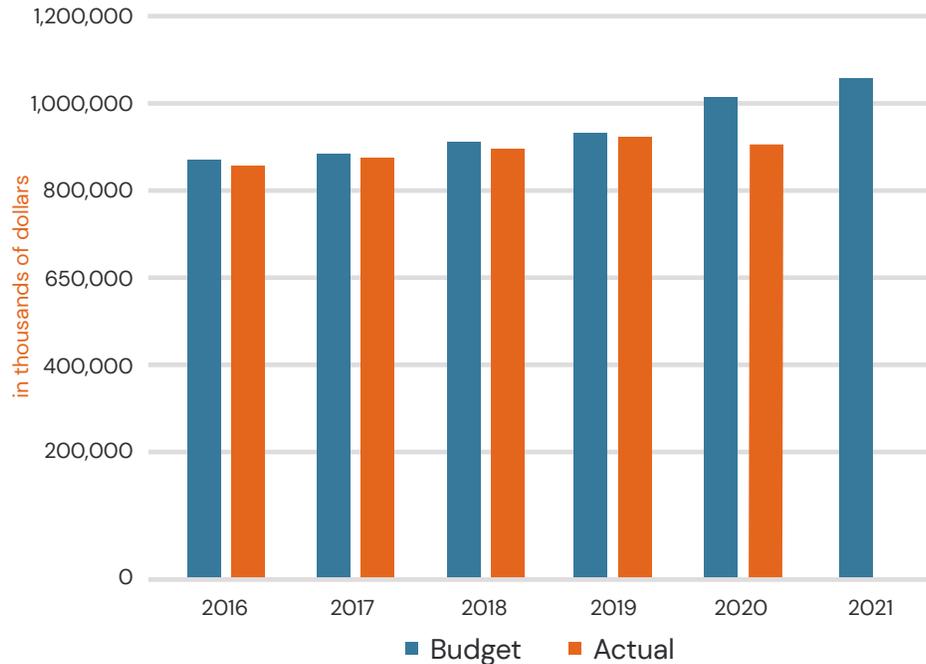
We found that, as with the other processes examined, the debt service budget is largely calculated using Excel files, which increases the time required to produce it and the risk of errors. In addition, there is no formal review or approval of the assumptions used. Moreover, the controls are not documented and there is no record that they were performed.

The following figure shows the budgeted and actual debt servicing since 2016. There is a difference in 2020 due to a slowdown in completing of some work as a result of the pandemic.

⁹ This allocation represents the contribution to the financial reserve set up to accelerate debt repayment (Document titled *Montréal – 2021 Budget – 2021–2030 Ten-year capital works program*, table 43, page 147).

GRAPHIC 8

Forecast and Historical Results – Gross Debt Service



Source: Data compiled by the Office of the Auditor General using the City's annual budget documents and financial reports.

Contribution Expenditures

In 2021, contribution expenditures represent \$1.1 billion in the City's budget. They include all the budgets necessary for the financial support granted to organizations, including those made to the organizations included in the reporting entity, as well as the share paid to the ARTM and to the CMM.

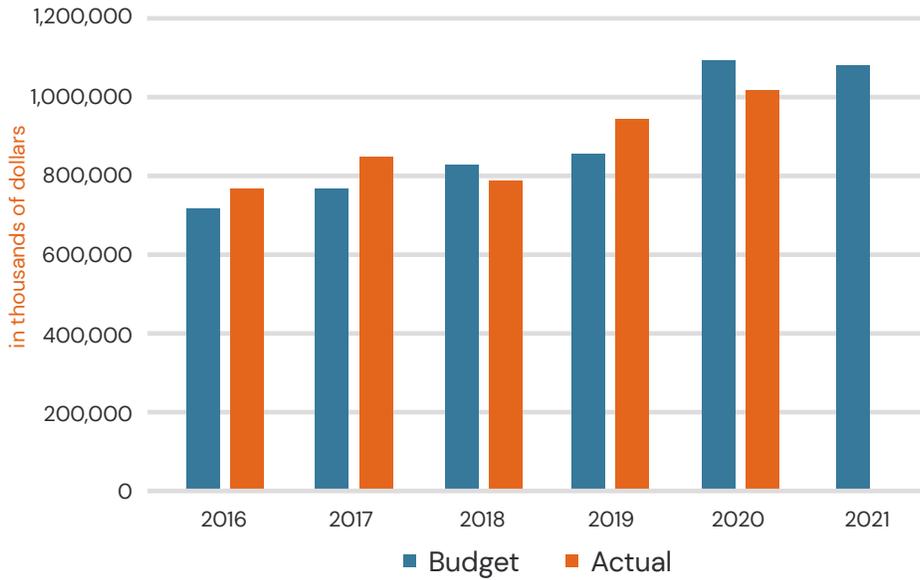
Planned contributions for these two organizations, including a provision for the implementation of public transit fare measures, totalled \$676 million, or 63% of contribution expenditures, compared with \$549 million, or 76%, in 2016. As these contributions are determined by these organizations, they are not the responsibility of the City and the forecasts are based on the information available at the time the budget is prepared.

The budgets required to meet the commitments and obligations of the central city with respect to financial support for the organizations under its jurisdiction totalled \$406 million in 2021, compared with \$171 million in 2016.

The following figure shows the forecast and actual total contributions since 2016.

GRAPHIC 9

Forecast and Historical Results – Contribution Expenditures



Source: Data compiled by the Office of the Auditor General using the City’s annual budget documents and financial reports.

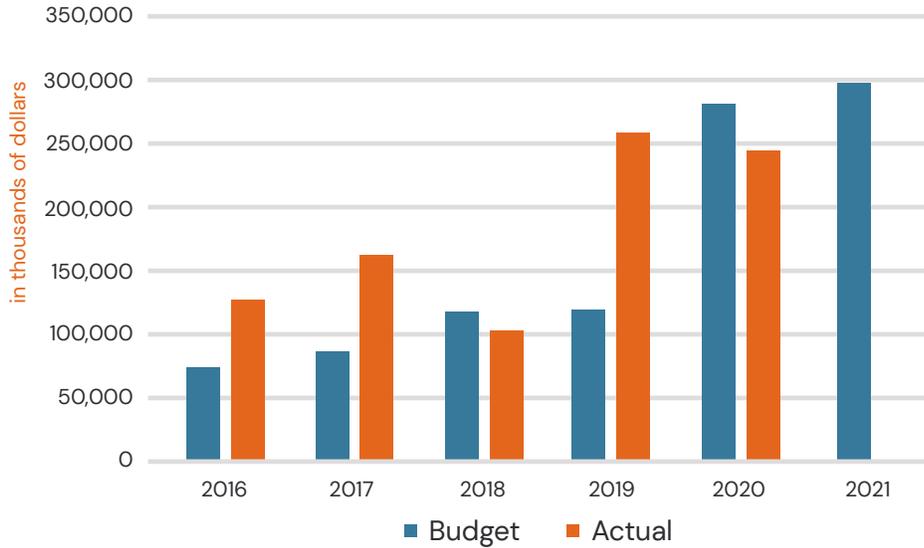
Several business units contribute to the forecasting process, since the contributions granted to the various organizations are either under the responsibility of the departments and boroughs or under that of the Direction du budget.

In addition to validation and documentation deficiencies, the segregation of duties is inadequate since those responsible for contribution budgets not only track contributions in the Excel files provided for this purpose but also enter the data in the SBA application without any third-party review.

With regard to the contributions granted by the departments and boroughs, we noted that they are presented as a whole in each department’s budget. In 2021, they total \$296.5 million in the departments’ budgets and \$32.4 million in the boroughs’ budgets. The following figures show the budgeted and actual contributions since 2016. We note that for the boroughs, expenditures have been growing since 2019 and are still higher than forecast (see Figure 11).

GRAPHIC 10

**Forecast and Historical Results –
Departments' Contribution Expenditures**

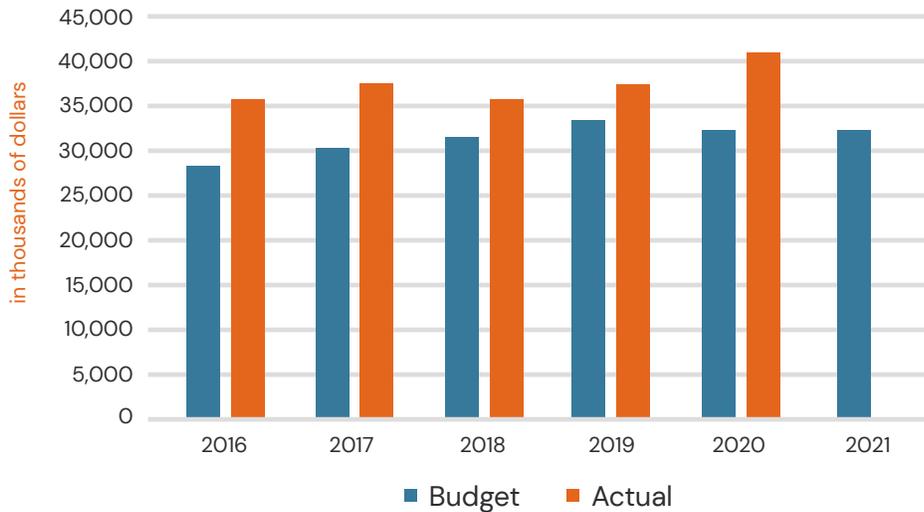


Source: Data compiled by the Office of the Auditor General using data collected in the City's information systems.

NB: The significant variance in 2019 is primarily related to a reclassification of the housing and economic development departments' grant and assistance programs of \$113.4 million initially budgeted in other objects of expenditure.

GRAPHIC 11

**Forecast and Historical Results –
Boroughs' Contribution Expenditures**



Source: Data compiled by the Office of the Auditor General using data collected in the City's information systems.

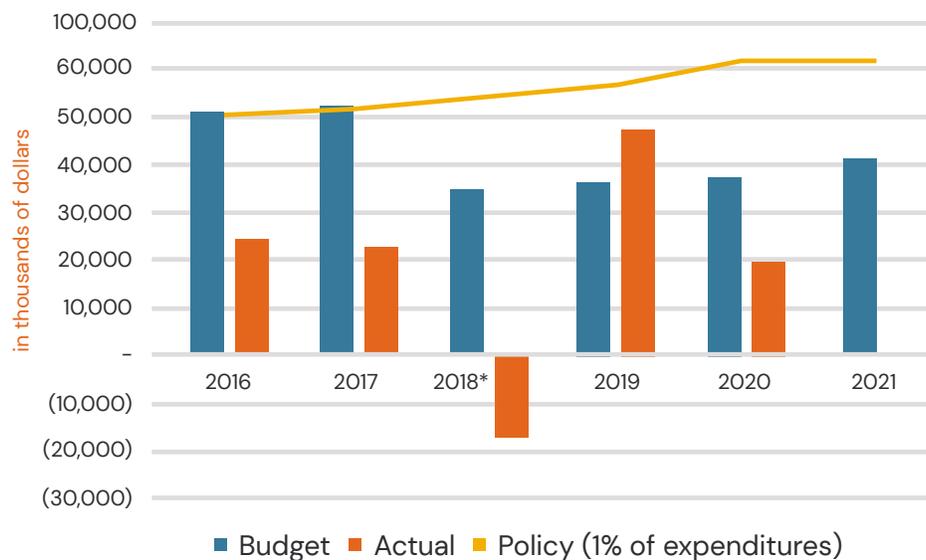
Common Expenditures

Various budget items of a corporate nature that cannot be allocated to the central city's departments or to the boroughs, such as the cost of pension plans for past service, constitute common expenditures. Two items caught our attention, namely the appropriations for contingent expenditures and anticipated savings in compensation costs not reflected in the compensation budget, which is reflected in the "other" budget item.

The City budgets an amount annually as a reserve for contingency expenditures. According to the *Politique de l'équilibre budgétaire*, the amount of the reserve should be at least 1% of total budgeted expenditures to cover minor contingencies in the current year, claims settlements as well as payments of court awards. However, the reserve planned for 2021 is \$41.8 million, including the boroughs' reserves, which represents only 0.68% of the budget. The following figure illustrates the history of appropriations for planned and actual contingent expenditures compared with the set target.

GRAPHIC 12

Forecasts and Historical Results of Contingency Expenditure Appropriations Compared with the Threshold Set Out in the *Politique de l'équilibre budgétaire*



Source: Data compiled by the Office of the Auditor General using the City's annual budget documents and financial reports.

* In the 2018 financial report, the favourable variance in appropriations for contingency expenditures is explained primarily by a downward revision in the provision for pending legal cases against the City, expenditures in business units where budgets were transferred to complete one-time projects, and litigation settlements for claims filed against the City.

We see a decrease in the reserve, which we feel is unwise in a very tight context of a growing structural deficit—a context that forces the City to impose multiple cuts to balance the budget. In addition, the City does not comply with its *Politique de l'équilibre budgétaire*.

With respect to the anticipated savings in compensation, we found that the \$4.1 million budgeted in 2015 is rolled over year after year whereas the saving has never been realized. This amount is still included in the 2021 budget and is presented as a decrease in common expenditures. This item, although of lesser value, is in addition to our findings on past decisions that were renewed without proper analysis.

Allocation of Accumulated Surpluses

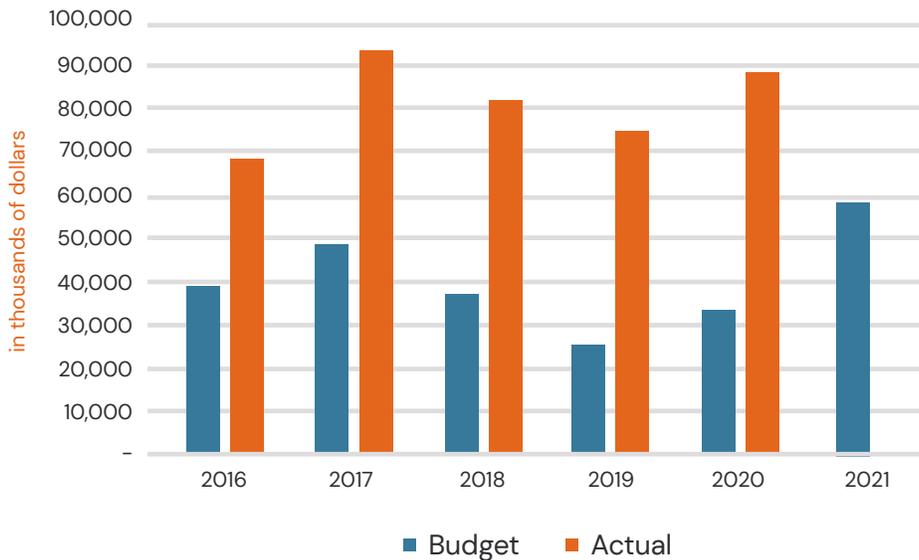
In order to achieve a balanced budget, the City uses a portion of the operating surpluses it has accumulated over the years. These allocations of the operating surplus are provided for in the budget as they help fund various services or activities to be carried out during the next fiscal year. Other sources of funding are earmarked, such as funds from other agencies or financial reserves established to fund specific activities.

We noted that these allocation estimates are presented with the City's revenues in the budget document. Such a presentation is not ideal as it does not allow the reader to clearly note the gap between the revenue and expenditure forecasts and to assess the magnitude and trend of the allocations required to close this gap. In addition, it does not allow for proper comparisons with the financial statements.

We also observed that the annually forecast allocations of the accumulated operating surplus have been growing since 2019 and that there exists a significant gap between these forecasts and the actual allocations. The following figure shows the allocations that were budgeted and realized since 2016.

GRAPHIC 13

Allocation of the Accumulated Operating Surplus



Source: Data compiled by the Office of the Auditor General using the City's annual budget documents and financial reports.

Our analysis of the processes leading to the forecasting of revenues and expenditures shows that they are complex and that some of them require a large amount of data in order to produce the relevant information. Despite best efforts, however, our comparisons of forecasts with actual results revealed systematic over- and under-estimating, sometimes of significant magnitude, for some revenue and expenditure categories. This creates a kind of structural bias that prevents having a clear view of the budget, whereas it could be otherwise if the information available and the analyses produced were used more consistently to make budget decisions.

Finally, although these processes are well structured, they should be better and more formally documented in order to limit the risk of losing expertise when specialized employees leave—employees who, in most cases, are the only ones who have mastered the methods used to establish forecasts. Also, controls are insufficient and need to be improved to include, in particular, a review and approval of forecasts by someone other than the person who prepared them, in order to limit the risk of errors and demonstrate that the risks are limited.

3.1.2.2.A. Recommendation

We recommend that the Direction générale consider revising revenue and expenditure forecasts that are over- or under-estimated from year to year as part of the budgeting process, so that the budget more clearly presents the sources of funding and the planned expenditures.

3.1.2.2.B. Recommendation

We recommend that the Service des finances improve documentation and controls to demonstrate that the assumptions used as well as the revenues and expenditures forecast are based on a rigorous process.

3.1.2.2.C. Recommendation

We recommend that the Service des finances implement validation mechanisms to ensure that the workforce plan represents the number of person-years as defined and that each business unit's compensation expenditure forecasts adequately reflect this plan.

3.1.2.2.D. Recommendation

We recommend that the Direction générale ensure that the Ville de Montréal's overall operating budget include a reserve for contingencies, as stipulated in the *Politique de l'équilibre budgétaire*.

3.1.2.2.E. Recommendation

We recommend that the Direction générale assess the extent of the structural gap between revenues and expenditures to determine sources of funding to address it and to limit the use of unallocated accumulated surpluses to balance the budget.

3.1.3. Preparing Budget Envelopes

The Direction du budget is responsible for establishing and transmitting budget envelopes as well for determining the budget orientations that will be communicated to the business units. The process of preparing budget envelopes for the central city's departments is different from that of the boroughs' budget envelopes. In addition, two separate teams are assigned to the various processes described below.

3.1.3.1. Budget Envelopes of the Central City's Departments

In order to determine the amount of the budget that will be allocated to the departments, the Direction du budget must monitor all the items that may influence the amount of their respective budget envelopes. An Excel file detailing all of the budget envelopes for the departments is used to follow each of the stages in preparing the budget envelopes.

For each department, this file indicates:

- the amount of the previous year's budget;
- the amount of the increase (indexation and adjustments) in compensation for the coming year;
- the amounts transferred from one business unit to another;
- the amounts for expenditures that are self-financed by equivalent revenue;
- the amounts for indexation of expenditures other than compensation;
- the amounts imposed in budget constraints and the decisions of the administrative budget committee and the political budget committee.

The accumulation of the above items corresponds to the amount of the budget envelope that will be granted for the next year. A validation is made between the budget tracking file and the preliminary fiscal framework to ensure that the budget envelopes reflect the amount provided for in the fiscal framework.

The Direction du budget sends out the budget envelopes along with the budget guidelines and instructions. They are sent to the department managers as well as to the DCSF staff assigned to them. Although the major budget orientations are presented by the Direction du budget to the DCSF, the latter would benefit from being informed a few days in advance of the specific orientations planned for the departments' envelopes, so that it can prepare to answer their questions.

The following is a summary of the key 2021 operating budget orientations for the central city's departments:

- Expenditures other than compensation were indexed by 1.9%;
- An effort equivalent to 50% of previous indexations (compensation and other expenditures) was deducted from the budget envelopes as a contribution to balancing the budget;
- The departments' additional needs will have to be funded by equivalent reductions in other department expenditures, as no additional requests will be accepted or analyzed once the budget envelopes have been sent out;
- The departments need to review the pricing of the services they provide so that their revenues generate a 1.9% increase that has already been considered for the purpose of balancing the 2021 budget. This increase cannot be used to increase their expenditures or to compensate for a decrease in another source of revenue.

At the end of the departments' budget preparation period, the total revenue and expenditure amounts entered in the SBA application are validated to ensure they correspond to the total revenue and expenditure amounts entered in their respective budget envelopes. If a discrepancy is identified, the department responsible is advised to correct the situation to ensure compliance with the guidelines.

Although the DCSF and the Direction du budget are responsible for preparing the budgetary evolution of the departments and for consolidating the financial information during the year (with the actual information), the earnings forecast for the year is not taken into account for the purpose of establishing the budget orientations and envelopes under development.

The audited departments also feel that the historical results of the last few years should be taken into account, as well as the trends observed in the earnings forecast for the current year. In their view, the method currently used to establish the budget envelopes does not reflect their actual situation.

Although meetings are held between departments and their respective DDGs to discuss and present their budgets, they feel that they should be formally consulted in establishing issues, priorities and budget orientations before the final budget envelopes are established.

3.1.3.1.A. Recommendation

We recommend that the Direction générale consult with departments to consider the level of service expected and take into account their historical results before determining budget orientations and envelopes, and that it inform all those involved in the preparation of the budgets of the central city's departments.

3.1.3.2. Budget Envelopes (Transfers from the Central City) for the Boroughs

The transfers from the central city reflect the share of the City transferred to the boroughs to constitute their respective budgets, thereby enabling the boroughs to assume all of the responsibilities arising from their local powers as well as the powers delegated to them by the central city or subdelegated to them by the UAC.

This is a major source of funding for the boroughs, representing 73% of their revenue budget in 2021. The remaining 27% of projected revenues are derived from local taxation, local revenues and surplus allocations.

The current process leading to the determination of the amount of these transfers is based on a reflection undertaken by the City in 2012 in the context where the boroughs felt they lacked the means to fulfill their obligations. The objective of this approach was to develop a funding model that would ensure greater equity among the boroughs and a better understanding of the basis on which their transfers from the City are determined. This strategic operating budget reallocation exercise was led by the SF, in collaboration with the CIRANO,¹⁰ and was guided by the following principles¹¹:

- Respect for the taxpayers' ability to pay;
- Quality services provided to citizens;
- The City's coherent vision: service and taxation levels;
- Stable and predictable funding;
- Fairness;
- The search for performance (best practices/best costs/economies of scale).

The BFPR also included a review of the governance and sharing of powers, respecting the boroughs' autonomy and accountability, as well as setting allocation parameters and standards (if required) for each activity. A review of the operating budgets of 12 activities was carried out, and a working group was set up for each activity. These groups were made up of experts from the boroughs, central city departments, representatives of the SF and the Service de concertation des arrondissements (SCA) and material resources. A steering committee was also formed and mandated to review the work of the various working groups and to formulate structuring recommendations within a global and coherent vision.

¹⁰ Centre interuniversitaire de recherche en analyse des organisations.

¹¹ Principles set out at a press conference held on July 8, 2014, on the Borough Financing Plan Reform.

In 2014, it was recommended that the established BFPR be applied during the work performed and to proceed with a gradual implementation of this reform, which involved reducing the transfers to nine boroughs (by between \$0.4 million and \$11.8 million per borough) and increasing those to the other ten (by between \$0.9 million and \$9.5 million per borough). Thus, the increases were planned to be spread over five years and the reductions over ten years, involving an overall increase in the boroughs' budgets of \$3.7 million per year, or \$18.6 million over 5 years,¹² from 2015 to 2019.

It also recommended harmonizing the fee structure for building and renovation permits and repatriating the authority over fees to the central city. It was therefore agreed with the boroughs to increase their transfers to replace their 2014 revenue budget and to return to them at the end of the year the surplus monies collected. Transfers to the boroughs increased by \$23.6 million in 2015 to reflect this decision.

Section 186 of Schedule C of the Charter states the following:

"186. The city council may, in its internal management by-law, on the terms and conditions it determines, delegate the following powers to a borough council:

(1) the passage and application of any by-law the city council determines;

(2) any power related to the exercise of a jurisdiction of the city council for which appropriations are provided in the annual allotment provided for in section 143 of this Charter.

143. The city shall determine the annual allotment to be made to each borough council according to a formula it determines that establishes, among other things, elements of equalization among the boroughs."

Since 2016, adjustments have been made annually to the amounts transferred, such as to index them and reflect the updated parameters established during the reform. Also, changes made in 2017 resulted in a significant reduction in transfers to the boroughs, namely the centralization by the central city of the management of snow removal (-\$60.7 million) and rolling stock (-\$66.3 million) contracts. The established parameters were reviewed again to distribute the impact of these changes fairly.

Other adjustments included a reduction since 2018 to reflect the boroughs' participation in the pension plan funding effort and additions for the maintenance of new infrastructure. Transfers between business units or the revision of the central city departments' business model also affected the amounts of the annual transfers. In addition, following a review of the parameters used for three sectors of activity (libraries, snow removal, parks) in 2019, a \$13.1 million bonus was granted and spread over a period of two years, for the 2020 and 2021 budgets.

¹² At the time of the BFPR, the total amount of the boroughs' budgets was \$990.1 million (including transfers from the central city), and this was to increase to \$1,008.7 million in 2019, without taking indexation into account.

The transfers to the boroughs to be included in the annual operating budget are calculated at the very beginning of the budget process. Information is collected from the central city's departments and other sources (e.g., the annual decree of the population published by the Québec government) and entered into an Excel file template. Subsequently, the resulting increase over the previous budget is incorporated into the preliminary fiscal framework used to determine budget orientations. For 2021, those retained for transfers by the central city to the boroughs were as follows:

- The indexation of transfers by 1%;
- The update of the parameters established during the BFPR;
- Increased transfers for snow removal, parks and libraries (the 2nd instalment, indexed by 1%);
- The participation of the boroughs in the permanent and recurring funding effort related to the abolition, in the 2018 budget, of the transitional measures pertaining to the pension plans (from 2018 to 2021, \$4 million annually for a total of \$16 million).

We found that the amounts transferred to the boroughs are primarily based on the 2014 budget and on the criteria, parameters and indicators established during the BFPR. However, although adjustments have been made over time to reflect various changes resulting from the centralization of activities and their evolution, these transfers have not been re-evaluated, as a whole, to determine whether they properly reflect the boroughs' current needs and whether the parameters used are still appropriate. A revision of the parametric model was planned after five years but was not carried out.

Consequently, changes are made to the document, particularly when questions are raised by the boroughs regarding the relevance of certain parameters. For example, the parameters used to determine library-related transfers (e.g., book loans and returns) were changed to reflect the growing demand for digital documents. Therefore, it is a library's surface area that is now taken into consideration, which has resulted in increases granted to this sector of activity in 2020 and 2021.

We also found that the budget cuts recommended at the time of the BFPR to correct overbudgeting ceased in 2020, although they were to be maintained for ten years, i.e., until 2024. Thus, the annual reduction in transfers by \$3.7 million, divided among nine boroughs, is no longer a reality and means that the objective of equity among the boroughs set in 2014 has only been partially achieved.

Moreover, there has been no analysis to determine whether the transfers are representative of the powers devolved to the boroughs and the services provided to citizens or whether they correspond to their fair share of the taxes collected by the central city for these services. According to the information obtained, the amounts transferred by the central city are increasingly insufficient to meet the needs of the boroughs, given the constraints imposed in recent years. Indeed, the indexation percentage of the transfers is lower than the percentage of expenditures necessary to meet the requirements in terms of service level and quality. For example, an audited borough's compensation expenditures will increase by 3.41% in 2021, while the amount of the transfer is indexed by 1%.

Also, according to the audited boroughs, the constraints imposed since 2017, including those concerning the management of vacant positions, fly in the face of reality, historical results and foreseeable events, with the following consequences:

- Use of surpluses and reserves to balance the budget (one-time solution that cannot be recurrent in the long term);
- Increase in the fees charged to citizens and/or outsourcing of activities to maintain the level of service (e.g., recreational activities);
- Depletion of the workforce.

The following table shows that transfers by the central city to the boroughs have decreased since 2014, as a proportion of their budgets, and that this decrease varies from borough to borough. It should be noted that the boroughs have the authority to make decisions regarding the level of local revenues to be collected to balance their budget, which may slightly influence the percentage of the transfers by the central city in relation to the budget.

TABLE 5

Evolution of Transfers by the Central City to the Boroughs

Borough	Percentage of the budget							
	2014	2015 ^[b]	2016	2017 ^[c]	2018	2019	2020	2021
19 boroughs	77.8	80.7	79.4	75.2	74.5	73.5	73.0	73.0
Mercier–Hochelaga–Maisonneuve borough	79.8	83.9	84.0	80.7	81.0	80.2	79.3	79.4
Saint-Laurent borough	76.9	80.0	78.3	74.4	74.3	74.2	74.0	74.1
Ville-Marie borough ^[a]	62.7	68.7	67.0	58.8	55.7	50.7	49.5	49.1

^[a] This borough collects a large portion of local revenue, which explains the lower proportions than the other boroughs.

^[b] The increase in the proportion of transfers by the central city in 2015 is mainly due to the inclusion of building permit revenues and the amendment made to them.

^[c] The decrease in the proportion of transfers by the central city is explained by the centralization of activities by the central city (e.g., management of snow removal, rolling stock and telephony contracts).

Source: Data compiled by the Office of the Auditor General using information presented in the City’s annual budget documents.

Also, regarding the amount of the transfers per capita since 2017, corresponding to the centralization of some activities by the central city, we note a slight decrease in 2021 and an overall increase of 3.5%. However, this increase is less than the growth in the expenditure budget, particularly the growth in the per capita compensation budget (+8.9% over the same period). Furthermore, as the following table shows, these variations differ from one borough to another.

TABLE 6

Evolution of the Transfers by the Central City and of the Compensation Budget per Capita

Borough	2017	2018	2019	2020	2021	Variation
	\$ transferred per capita					
19 boroughs	370	372	374	384	383	3.51%
Mercier–Hochelaga–Maisonneuve borough	342	352	361	373	370	8.19%
Saint-Laurent borough	498	507	505	522	519	4.22%
Ville-Marie ^[a] borough	558	547	521	513	498	-10.75%
	\$ compensation per capita					
19 boroughs	326	332	336	353	355	8.90%
Mercier–Hochelaga–Maisonneuve borough	293	296	295	329	331	12.97%
Saint-Laurent borough	443	449	451	475	474	7.00%
Ville-Marie ^[a] borough	581	591	579	590	584	0.52%

^[a] This borough collects a large portion of local revenue, which explains the lower proportions than the other boroughs.

Source: Data compiled by the Office of the Auditor General using information presented in the City’s annual budget documents and information systems.

The audited boroughs also informed us of a major issue for the coming years related to the financing of operating and maintenance expenditures for infrastructure, both new and under construction. According to the information obtained, although amounts have been identified for this purpose in the *2021–2030 Ten-year capital works program* and are presented in the fiscal framework for the 2021–2025 period, the boroughs do not have any information concerning the sources of funding they will dispose of to meet these expenditures.

Moreover, the boroughs are not formally consulted before the budget guidelines are established and their transfer amounts are determined. In addition, the information provided to them in this regard could be improved, as they must make specific requests to the SF in order to understand the nature of certain adjustments and ensure that previously approved decisions and all relevant changes are taken into consideration.

Finally, the controls that ensure the accuracy of the transfers granted to each borough could be improved since one borough pointed out to us that it had detected errors. For example, for the 2021 budget, additional appropriations authorized for the performance of certain maintenance activities for new infrastructure had been omitted, and the amount of the transfer therefore had to be corrected. According to the information obtained, the data identified by the SF to determine the amounts of the transfers is not validated to ensure its completeness and the amounts are neither reviewed nor approved before being sent to the boroughs.

3.1.3.2.A. Recommendation

We recommend that the Direction générale review the method used to distribute the transfers by the central city to the boroughs in order to make sure that it still ensures budgets are allocated in a fair manner, according to the powers that have been devolved to the boroughs, and that Ville de Montréal requirements are still met in terms of quality and level of services to citizens.

3.1.3.2.B. Recommendation

We recommend that the Service des finances improve the information sent to the boroughs, as well as the controls, so that they have the assurance that the transfers by the central city accurately reflect the decisions made and the changes that occurred during the previous year.

3.2. Budget Preparation

The budget envelopes, together with the guidelines, instructions and budget forms, are usually sent to the business units in June, and the business units prepare their budgets during the summer. To do this, the central city's departments are assisted by the DCSF, while the boroughs have their own financial support teams.

Once the central city departments and boroughs have completed their budget estimates, they must explain the variances with the previous year's budget in a schedule using the format prescribed by the SF.

The budget data for each department or borough, prepared in Excel, must be entered manually into the SBA application. The budget documentation for each business unit is kept in each borough or department and/or at the DCSF.

3.2.1. Preparation of the Budgets of the Central City's Departments

Over the years, each department has developed its own budget process with the help of its team of DCSF advisors. In each department, all divisions are involved in preparing the budget. As a general rule, following receipt of the budget envelope and the target amount for the total budget, an initial assessment of the department's budget is conducted by the DCSF's team. For several years, the target has meant cuts in the budgets of most departments.

The management of each department then sets out the budget orientations and objectives in order to respect the budget envelope, and guidelines are sent to the managers responsible (directors, heads of divisions, heads of sections). Throughout the process, frequent follow-up meetings are held between the DCSF and the department's management. Once the branches and divisions have completed their respective budgets, if the budget is unbalanced, the head of the DCSF prepares different reduction scenarios and submits them to the department's director and the management committee. The final decisions are always made by the department's director.

Supporting documents are kept at the DCSF. Nevertheless, no verification is made to ensure that the orientations and guidelines have been followed, with the exception of compliance with the total amount of the budget envelope.

As part of our audit, we examined the budget preparation process of three departments: the SPVM, the SE and the SCA. Overall findings are set out below, as well as specific findings for each of these departments.

Overall, we saw that the budget envelopes are calculated from the previous year's budget to which the budget guidelines are applied in a consistent manner. Contrary to the City's *Politique de l'équilibre budgétaire*, the budget allocation is not based on an analysis of historical results, the level of service or activity required, or an analysis of emerging issues that the departments will face.

As stated earlier, departments must ensure that their total budget matches the amount set by the SF and shown in their budget envelope. However, they must respect their contractual and legal obligations as stipulated in the specific orientations. This amount is derived from adjustments made to the previous year's budget, which in turn is derived from the amount of the adjusted budget of the year prior to that one.

We also found that financial policies are not disseminated to staff members involved in preparing the budget and that there is no reference to them in the budget orientations and instructions. We validated with the audited departments whether they were aware of these policies, and the majority of them said they were not aware of them. In addition, some DCSF representatives were aware only of the *Politique de capitalisation et d'amortissement des dépenses en immobilisation*.

During our audit, we noted that the roles and responsibilities of the various stakeholders involved in the budget process, at both department and DCSF levels, are not known and are not clearly defined or documented. We also noted that they can vary from department to department depending on the strengths and needs of each, and that this seems to work for most of them. This balance is maintained by current staff members and could collapse following a change in personnel. Documenting the roles and responsibilities would help to avoid potential conflict situations.

Also, none of the budget processes of the audited departments included control and approval mechanisms to ensure the quality of the information.

The basic principle underlying the management practices outlined in the City's policies, as set out in part 1.2, is that managers must respect a balanced budget. We have seen, however, that some departments are in deficit from year to year and that this was already foreseeable when the budget was being prepared. This goes against the principle in the *Politique de l'équilibre budgétaire* that the assumptions on which revenue and expenditure forecasts are based must be realistic and prudent.

Management practices, as set out in the *Politique de l'équilibre budgétaire*, also indicate that managers are accountable for the budgets allocated to them. During our audit, we observed that no remedial action was imposed or even requested from departments that were forecasting an in-year deficit. Recurrent deficits are the result of systematic underestimation of costs and inappropriate management (lack of adequate control). This means that managers are not really accountable for meeting the budget targets given to them anyway, since they know that their deficits will be compensated.

While some departments have taken the initiative to create systems that allow them to track the costs of some of their activities, the practice has not been extended to all departments and is not a requirement of the municipal administration or the City's policies. In this context, the City is not in a position to assess what quantity and/or quality of service or activity should be provided by the budgeted expenditure amounts. This is one of the main criticisms made by the departments we consulted. In the absence of guidelines with respect to the level of service and the cost per activity, the accountability of the departments is compromised in terms of budget compliance.

Operational plans to implement the orientations and objectives should be made in each department. These plans should clearly identify the level of service and activities to be provided. Measurement indicators should be adopted so that the measurement of these results is regularly reported in addition to the "traditional" reporting that only aims to present and briefly explain variances between budgeted amounts and actual amounts.

Our work revealed specific findings for the selected central city departments. These findings are discussed in the following sections.

Service de l'eau

The budget adopted for 2021 for this department totals \$274 million. An amount of \$83 million was budgeted for total compensation, corresponding to 30.4% of the operating budget. A unique feature of this department's budget is that it shows financing costs and long-term debt repayment (debt service) related to water infrastructure of \$102 million for 2021. This represents 37.3% of the department's budget.

Debt service expenses have increased significantly over the past three years and the SE has no control over them. As shown in the following table, there are large discrepancies between the budgeted and actual amounts for this budget item, due mainly to the debt service allocation method that was established in 2006 and that has not been revised since. This budget allocation does not take into account, in particular, the major investments in infrastructure rehabilitation over the past few years, whereas the actual debt service takes into account the financing of this infrastructure. These unfavourable variances generate deficits for the SE.

The following table shows the impact on the department's surplus/deficit if the debt service expense is excluded from the results. It is noted that the SE still ended 2019 with a deficit and 2020 with a small surplus.

TABLE 7

Analysis of the Surplus/Deficit for the Service de l'eau

Year	Debt service included	Debt service deficit	Debt service excluded
	Budget/actual variance Surplus (deficit) In thousands of dollars	Budget/actual variance Surplus (deficit) In thousands of dollars	Budget/actual variance Surplus (deficit) In thousands of dollars
2017	(\$161)	(\$3,433)	\$3,272
2018	\$3,588	(\$490)	\$4,078
2019	(\$8,076)	(\$5,555)	(\$2,521)
2020	(\$4,747)	(\$5,223)	\$476

Source: Data compiled by the Office of the Auditor General using information presented in the City's financial reports and information systems.

During our audit, we found that the SE's budget includes a \$10 million cut without cutting any activities or reduction in service levels. This negative amount of \$10 million—presented separately as a decrease of the budget—has been included since 2017 in anticipation, in the overall budget, of the surpluses generally generated by the SE in its year-end results.

The level of this cut was established in a past budgetary context that no longer exists, and surpluses are no longer at the level of those previously observed. This cut is difficult for the SE to achieve, as shown above. It is risky to budget for a cut “without cutting any activities.” Since the cut is not incorporated directly into the SE's operating budget, the SE can still spend the budget appropriation and incur a deficit.

The result for 2019 illustrates the risk of budgeting for a cut “without cutting any activities.” Since the cut is not incorporated directly into the SE's operating budget, the SE can still spend the budget appropriation and incur a deficit.

This \$10 million cut, which has been imposed on the SE for years, prevents managers from fully assuming their management role and preparing a budget that truly represents a service level in line with the means they are given. This is not good from an accountability standpoint.

The SE believes that the current budget envelope does not allow for an aggressive scoping strategy to improve asset knowledge, investment readiness and governance structures required by the scale of certain major projects.

Considering the major capital investments made in recent years and those to be made in the short and medium terms, and considering the budget cuts of recent years, the SE is struggling to find the budget it requires to maintain new equipment. In addition, the SE is concerned that it will not be able to keep up with rising operating costs or slow the growth of the asset maintenance deficit in the coming years.

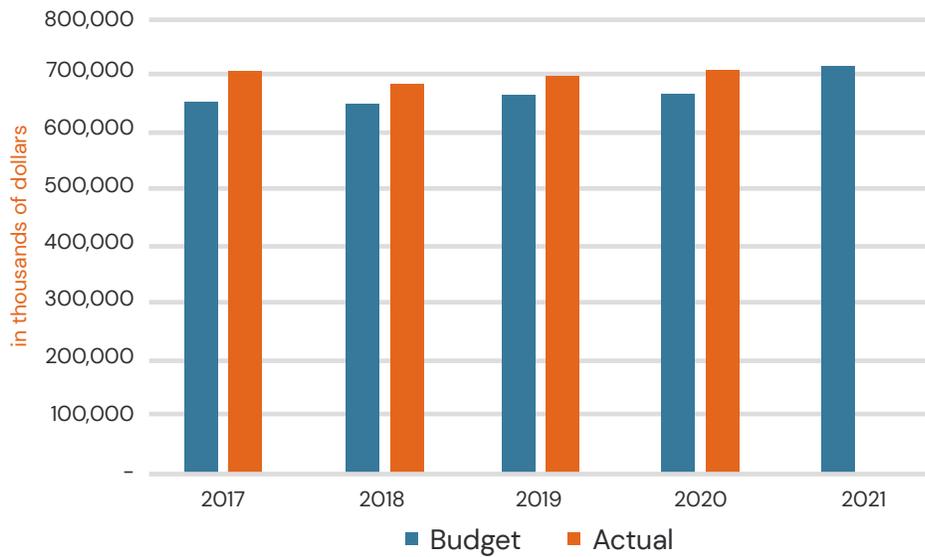
Service de Police de la Ville de Montréal

For 2021, the SPVM has an operating budget of \$679 million. To achieve the SPVM's mission, 5,903 person-years have been budgeted in the 2021 budget document. Total compensation, including employer contributions, amounts to \$655 million, which represents 96.5% of the adopted budget in 2021.

As illustrated in the following figure, since 2017, the SPVM has significantly overspent its annual budget, to the tune of \$49 million in 2017, \$35.7 million in 2018, \$33.3 million in 2019 and \$43.7 million in 2020.

GRAPHIC 14

Forecast and Historical Results – Service de Police de la Ville de Montréal (Total Expenditures)



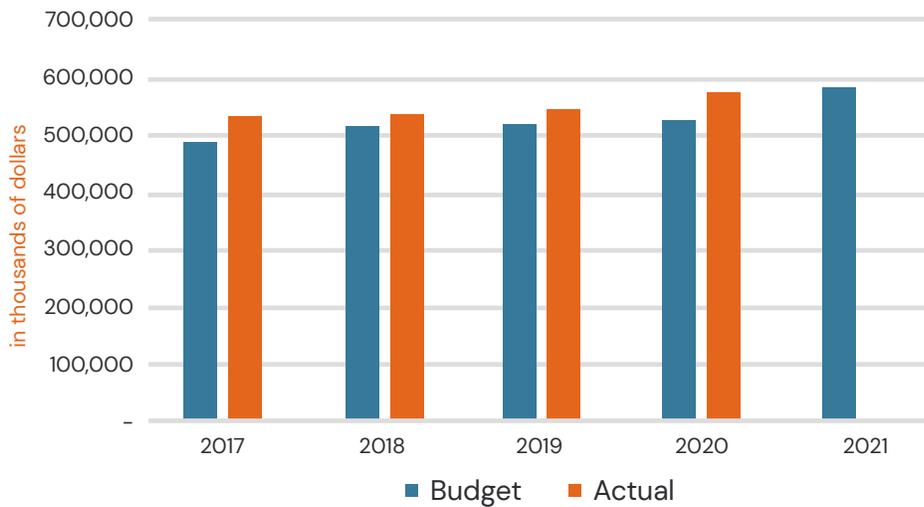
Source: Data compiled by the Office of the Auditor General using information presented in the City’s annual budget documents and financial reports.

In terms of total workforce compensation, excluding overtime and civilian employees, the following figure illustrates the gap between the budget and the actual expenditures observed annually.

GRAPHIC 15

Forecast and Historical Results – Service de Police de la Ville de Montréal

(Total Compensation for the Service de Police de la Ville de Montréal (Excluding Civilian Employees) – Regular Time)



Source: Data compiled by the Office of the Auditor General using data from the City's information systems.

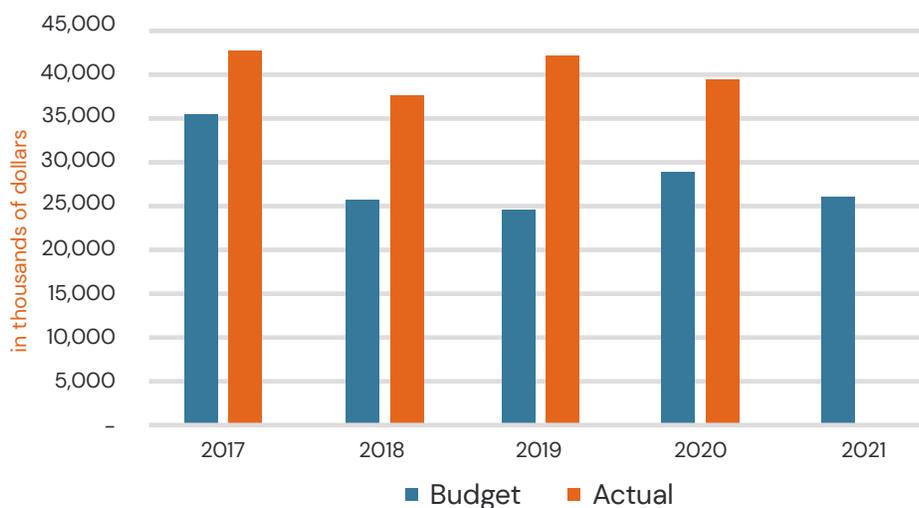
As shown in the previous figure, the allocated budget was insufficient to cover the total compensation costs—without even accounting for overtime hours. Again, there are major variances of \$45 million in 2017, \$23 million in 2018, \$25 million in 2019 and \$43 million in 2020, respectively. The increase allocated in the 2021 budget is primarily related to an increase in pension costs.

Furthermore, the analysis of overtime hours reveals that, year after year, this budget item is underbudgeted, as the next figure shows.

GRAPHIC 16

Forecast and Historical Results – Service de Police de la Ville de Montréal

(Total Compensation for the Service de Police de la Ville de Montréal (Excluding Civilian Employees) – Overtime)



Source: Data compiled by the Office of the Auditor General using data from the City's information systems.

Amounts of \$7 million in 2017, \$12 million in 2018, \$17 million in 2019 and \$11 million in 2020 were spent in excess of the adopted budgets.

Amounts saved in budget items related to civilian personnel and expendable goods offset some of the annual shortfalls.

According to those responsible for the SPVM's budget, the SPVM's budget allocation is not sufficient to cover the obligations related to the authorized staffing structure and the parameters of the collective agreement or the orientations pursued by the municipal administration. As a result, the *Politique de l'équilibre budgétaire* cannot be met without a significant reorganization of resources and the elimination of some police officer positions.

In the 2021 budget technical preparation guide, the following orientation is provided:

1. [TRANSLATION] Specific Orientations

The business units, in conjunction with their respective financial resource representatives, must plan for 2021 to provide the necessary funds to meet their contractual and legal obligations. This will allow the treasurer to proceed with the issuance of the certificate of finance and the business units to maximize their commitments related to their respective business plans and, consequently, to that of the City.

The general orientation remains that the envelope granted in July must be respected.

The SPVM is an example of a business unit with a recurring deficit relative to its allocated budget. Its overall budget is systematically underfunded, due to the undervaluation of compensation. The continuation of this situation over time leads to a lack of interest on the part of managers in balancing the budget, which does not take into account the unit's operational reality. They feel less and less concerned about the practical necessity of remaining within their budget. For the City, this is a major problem. How can the City make them accountable for a budget that ignores operational requirements?

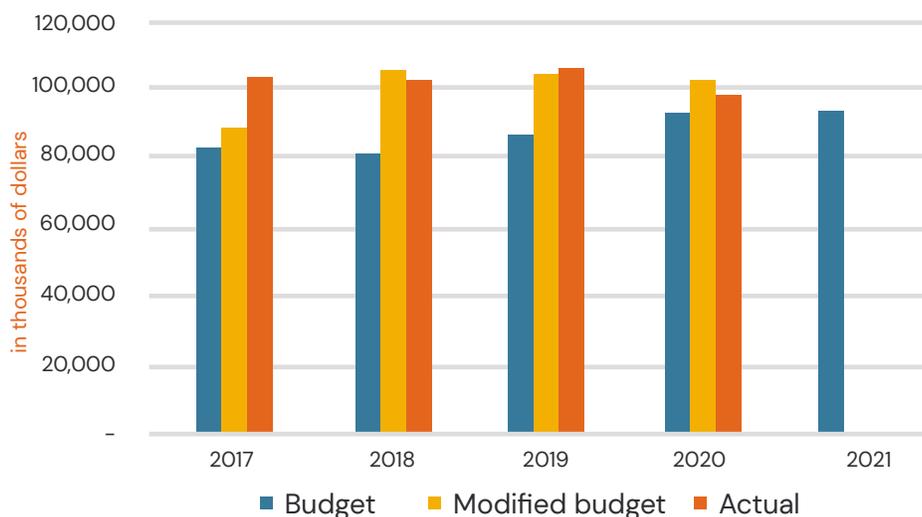
Service de concertation des arrondissements

The SCA has a budget of \$93 million in 2021, of which \$81 million (87%) is allocated to the technical services budget item. This item consists mainly of snow removal contract costs.

The following figure illustrates the comparison between the budget granted, the budget modified following a request to the municipal authorities to increase the budget and the results achieved from 2017 to 2020.

GRAPHIC 17

Forecast and Historical Results – Service de concertation des arrondissements (Total Expenditures)



Source: Data compiled by the Office of the Auditor General using information presented in the City's annual budget documents and financial reports.

The original budget does not reflect the actual financial situation of the SCA and the level of activity and service expected by elected officials and citizens when it comes to snow removal. The SCA has to apply annually for a replenishment of its budget via the snow removal appropriation reserve. Time after time, the replenishment is granted by the authorities. In addition to increasing the bureaucracy surrounding an event that is already predictable, this can unfortunately have the effect of disempowering and demotivating managers, since they know from the start that their budget is insufficient.

In conclusion, the results of the audit of the three selected departments show that it is imperative to review the process of allocating budget envelopes, which are not allocated on the basis of an expected level of service but instead on the basis of the previous year's budget without regard to actual results.

The global cuts and the lack of consideration of actual results make it difficult, if not impossible, to hold department directors accountable. In addition, the lack of funds allocated to certain departments forces the municipal administration to carry out parallel management of anticipated variances from the start of the fiscal year to ensure that the City will not be in deficit at the end of the year.

3.2.1.A. Recommendation

We recommend that the Service des finances improve the information and instruction dissemination process to ensure that stakeholders are aware of the orientations and guidelines, including current policies, and the descriptions of the roles and responsibilities of each stakeholder.

3.2.1.B. Recommendation

We recommend that the Service des finances implement documentation criteria deemed adequate, as recommended in the *Politique de l'équilibre budgétaire*, and a validation and approval process that ensures the quality of the information and compliance with the business units' guidelines and directives.

3.2.1.C. Recommendation

We recommend that the Direction générale review the budget process to:

- respect its *Politique de l'équilibre budgétaire*, which requires that budgets be based on realistic and prudent revenue and expenditure forecasts and that the budgets granted to the departments allow managers to respect fiscal balance and thus promote their accountability;
- implement recovery plans in the event that budgets do not meet forecasts;
- establish a budget and financial system that allows for budgeting according to the expected level of service or activities, as well as clearly defined operational plans that allow for the monitoring of indicators to measure the achievement of results

3.2.2. Preparation of Borough Budgets

The boroughs receive instructions from the SF concerning the preparation of their operating budget. For the 2021 budget, these were presented by the Direction du budget in the *Guide technique de préparation*. This guide contains, among other things, the specific orientations, the budget parameters, the list of schedules to be completed and the timetable for the important steps in the budget process.

Each borough has its own process. Important steps are defined in a document or schedule, approved by the director of the borough, including the following activities:

- updating work files;
- holding meetings to obtain orientations from elected officials;
- sending instructions and directives to the branches;
- holding meetings with branch managers;
- preparing the budget, done by the directorates;
- compiling data and requests;
- analyzing requests and presenting them to elected officials;
- transmitting preliminary forecasts;
- preparing the public budget document;
- approving the budget, done by the BC.

Compensation and employer contributions account for the largest share of the boroughs' expenses, 71%, 67.7% and 57.6% for the three audited boroughs. Estimates in this regard are based on the rates of pay by position calculated by the SF and on the projected staffing levels based on decisions made by the boroughs (e.g., creation, abolition, transfer of positions). Information provided in the context of updating the job register under the responsibility of the SRH is also considered. Compensation related to vacancies is specifically appropriated in the budget and the anticipated savings in this respect should be reflected, as well as savings related to specific positions or other savings related to compensation in general.

Other expenditures consist mainly of professional services (e.g., specialists, technicians and others), rental, maintenance and repair costs, non-durable goods and contributions to organizations. They are reviewed by the managers of the boroughs' directorates and divisions to determine whether there are any increases or decreases relative to the previous year's budget.

The boroughs also plan activities that are the responsibility of central city departments, such as water management activities. This planning allows for the evaluation of the required budgets and must be based on the history of the activities carried out as well as on anticipated needs. The budget needs must be balanced with or less than the budget envelope of the previous year, indexed by 1% in 2021. Also, some activities under the responsibility of the UAC or CC can be delegated or sub-delegated to the boroughs by way of a bylaw. The associated budgets, also indexed by 1% in 2021, are incorporated into the boroughs' budgets and the boroughs must keep separate accounts for them. These delegated activities concern:

- maintenance of water and sewer systems;
- removal and transportation of residual materials (e.g., monitoring of contract operations, complaint management, local communications, management of work in progress);
- snow removal¹³;
- expenditures for Mont-Royal park and other major parks under the jurisdiction of CC.

In order to achieve a balanced budget, different scenarios and assumptions are developed to determine the expenditure and revenue forecasts. For example, indexation percentages are used for tax and local revenue forecasts as well as for other categories of expenditures. Other than the transfers from the central city, the main sources of revenue for the boroughs are local taxes and service fees. The boroughs may also levy a special tax on advertising signs. Amounts from accumulated surpluses may further be used to balance the budget.

In addition to the revenue and expenditure forecasts submitted to the SF, the boroughs record the additional information requested by the SF in schedules. For the 2021 operating budget, these schedules included variances between the 2020 expenditure budget and the proposed 2021 budget and variances in projected revenues, as well as explanations for the variances.

Other supplementary schedules accompany the boroughs' budgets (e.g., the budget envelopes intended for the boroughs for the Fonds de l'eau and activities related to residual materials) or may be required depending on their distinctive characteristics (e.g., the budget forecast for the special tax levied on advertising signs).

We observed that the processes supporting the preparation of the operating budgets of the three audited boroughs are structured. According to these boroughs, the roles and responsibilities are clear, as are those of other City stakeholders. The same applies to the budgeting instructions that are sent to them. However, some of the people we met were not aware of the City's financial policies, which could compromise the effectiveness of the process.

¹³ The "Snow Removal" activity is managed by the SCA, incorporated in the City, but the operation of the sites is delegated to the boroughs.

In terms of control, measures are provided for in the budget instructions to validate the integrity of the data entered into the centralized budget system. The reports provided for this purpose are to be used by the boroughs. We observed that they validate that the data entered in the SBA application corresponds to their budget. We also made sure that the budget document presented by the City reflects the budgets prepared by the audited boroughs; minimal variances were observed, and these only concerned the distribution between two revenue categories.

The central city's orientations and priorities are taken into consideration by the boroughs when preparing the budget. However, the boroughs are entitled to make their own budget choices. The representatives of the audited boroughs that we met stated that they had been informed of the strategic alignment communicated by the Direction générale at the end of 2019 and that they had participated in the process aimed at developing the Montréal 2030 strategic plan. The orientations and priorities contained in this plan, as well as the City's vision, therefore served as the backdrop for preparing their 2021 budget. However, as stated in the following paragraphs, improvements need to be made to the budget process of the audited boroughs.

There is no formal mechanism to document the central city's orientations and priorities, as well as those of the borough's elected officials, and to ensure that they are reflected in the operating budget. The same applies to strategic decisions made by the borough's management and elected officials. These are found in presentation documents used at meetings or in the files used to prepare the budget, but they are not recorded in formally approved minutes. In addition, controls to ensure that the budget reflects decisions made and instructions received are not documented.

Also, the budget process is not formally documented. Procedures were established as well as timelines containing the main steps and deadlines to be met in order to comply with the deadlines set by the SF. In this regard, the boroughs consider that they do not dispose of adequate time to prepare their budgets. In this context, and considering that the work takes place during the summer vacation period, they have to determine assumptions and start preparing the budget before receiving confirmation of the amount of their transfers and the budget guidelines and instructions. This situation is not conducive to an efficient process.

The three audited boroughs take into consideration historical results in order to establish their forecasts, but as in the case of the financial framework and the central city's forecasts, the budget is established on the basis of variances between it and the previous year's. This operating mode leaves the boroughs little leeway to take into account actual results and foreseeable events and to determine assumptions based on them. Moreover, the boroughs do not have to provide information about their assumptions, whereas, according to good practices, the people in charge of the City's budget should have access to all of the assumptions determined by the managers in order to ensure that the forecasts are consistent and to be able to validate them.

As previously stated, it is increasingly difficult for the boroughs to balance their operating budgets in a context where the amount of the transfers from the central city is not indexed at the same rate as expenditures increase. To achieve this, they must increase other sources of funding, including the use of accumulated surpluses. In this regard, we have noticed that unbudgeted money is being distributed to the boroughs.

In fact, at the end of each fiscal year, the SF compiles the amounts collected by the central city for the benefit of the boroughs in order to remit these amounts to the boroughs by making adjustments to the operating surplus for the fiscal year rather than as revenues. These include, for example, revenues from building or renovation permits that are collected in excess of the set budget determined at the time of the BFPR and a portion of the net gain from the sale of land. Also, other amounts collected or reserved for specific purposes are allocated to the boroughs as allocations or adjustments of their surplus. These include the reimbursement of non-capitalizable expenditures incurred under the Plan d'action canopée and amounts related to waste management and additional snow loading operations.

In addition, there has been a reduction in the boroughs' annual operating surplus since 2018 relating to pension plan transitional measures, plus a recurring reduction of \$4 million in transfers from the central city since 2019.

The following table shows the adjustments made to the boroughs' operating surpluses from 2016 to 2020.

TABLE 8

Distribution of the Boroughs' Operating Surpluses

	2016	2017	2018	2019	2020
	In thousands of dollars				
Building and renovation permit surplus revenues	\$9,751.1	\$24,303.9	\$35,478.1	\$25,811.6	\$25,795.6
Application review surplus revenues	\$1,150.8	-\$	-\$	-\$	-\$
Reimbursement of expenditures incurred pursuant to the <i>Plan d'action canopée</i>	\$1,938.7	\$2,297.9	\$2,980.8	\$4,738.7	\$6,268.0
Borough tax	\$2,089.2	\$285.4	\$820.7	\$1,113.7	(\$172.7)
20% remittal of the accounting gain on the sale of land	\$489.5	\$4,392.0	\$2,010.5	\$1,805.1	\$5,132.4
Accountability of the actual OHS expenditure	\$1,085.2	(\$4,320.1)	(\$1,561.2)	(\$1,559.5)	\$3,207.8
Reimbursement of union leaves	\$589.8	\$319.6	\$447.3	\$500.3	\$512.0
Residual materials	(\$581.8)	\$739.8	\$1,927.6	\$2,730.2	\$4,492.6
Pension plan (expected savings, unrealized)	-\$	\$9,948.0	\$2,927.4	-\$	-\$
Transitional measures relating to pension plans	-\$	-\$	(\$4,008.4)	(\$4,008.4)	(\$4,008.4)
Reimbursement for additional snow loading operations	-\$	-\$	\$1,400.3	\$4,449.9	\$326.9
Day camp reimbursements	-\$	-\$	-\$	-\$	\$3,492.2
Subsidy for the acquisition of books	\$1,751.6	\$1,423.2	\$145.0	-\$	-\$
Other adjustments	\$945.9	\$638.7	\$64.2	\$435.7	(\$1,692.8)
Total	\$19,210.0	\$40,028.4	\$42,632.3	\$36,017.3	\$43,353.5

Source: Data compiled by the Office of the Auditor General using documents provided by the SF.

Although these adjustments to surpluses comply with the *Politique d'attribution, d'utilisation et de renflouement des surplus de gestion* and are approved by the authorities, this approach does not promote budget transparency or the optimal allocation of resources when preparing the budget. This is the case for the revenue budget, particularly relating to permits, which is underestimated and incorporated into the overall amounts transferred. As previously stated, these excess revenues are also not presented in the central city's revenue budget, as the forecast for permit revenues has not been adjusted since 2014. Moreover, this approach leads to systematic underestimates of the boroughs' budgets and to the changes made to them during the year.

Moreover, operating expenses funded using accumulated surpluses have increased, as borough surplus allocations increased from \$24.2 million in 2016 to \$54.3 million in 2020 (+124.2%). These allocations represented about 6.2% of actual spending in 2020 (2.5% in 2016) compared with the 2.4% budgeted. We noted that these allocations fund recurring expenditures, such as the renewal of temporary positions, which is a departure from the management practices stated for CC and the UAC.¹⁴

These adjustments also ensure that the boroughs' accumulated surpluses increase from year to year. They increased by 24% between 2016 and 2020, from \$190.5 million to \$236.5 million, and varied from one borough to another (for example, 27% in the case of Mercier–Hochelaga–Maisonneuve borough and 69% for Saint-Laurent borough).

It should be noted that these surpluses contain amounts earmarked for contingencies¹⁵ in addition to the reserves for contingencies provided for in certain boroughs' operating budgets. Also, neither of these is presented in the budget or in the annual financial statements. In addition, the boroughs' accumulated surpluses are not disclosed separately in the annual financial statements.

The following tables and graphs present the differences between the budgeted surplus allocations and those actually made, as well as the surpluses accumulated by the boroughs over the past five years.

¹⁴ The *Politique de gestion des excédents de fonctionnement (surplus affectés et non affectés)* states that unrestricted surpluses of the CC and the UAC should be used to fund non-recurring expenditures or to make expenditures at their discretion.

¹⁵ In its *Politique d'attribution, d'utilisation et de renflouement des surplus de gestion* for fiscal year 2019, the City proposes that the amounts from the surplus be used to replenish the contingency reserve, up to a maximum of 1.5% of the borough's annual budget, before any balance of the operating surplus is considered as a surplus that can be spent at will.

TABLE 9

Accumulated Surpluses and Allocations of the Boroughs over the Last Five Years

	2016	2017	2018	2019	2020
In thousands of dollars					
19 Boroughs					
Allocations in the initial budget	\$9,291.8	\$10,541.1	\$13,732.1	\$20,701.0	\$21,129.8
Actual allocations	\$24,216.4	\$31,479.9	\$35,274.4	\$46,926.0	\$54,304.8
Variance	\$14,924.6	\$20,938.8	\$21,542.3	\$26,225.0	\$33,175.0
Accumulated surpluses	\$190,489.0	\$192,253.2	\$205,253.0	\$226,117.3	\$236,405.2
Mercier–Hochelaga–Maisonneuve borough					
Allocations in the initial budget	\$296.0	-\$	-\$	-\$	\$369.4
Actual allocations	\$2,042.0	\$2,623.1	\$2,167.8	\$1,946.1	\$3,130.0
Variance	\$1,746.0	\$2,623.1	\$2,167.8	\$1,946.1	\$2,760.6
Accumulated surpluses	\$8,745.5	\$8,391.4	\$9,506.0	\$11,790.1	\$11,107.5
Saint-Laurent borough					
Allocations in the initial budget	\$850.1	\$921.3	-\$	-\$	\$382.8
Actual allocations	(\$196.4)	\$747.5	(\$416.5)	(\$387.2)	\$40.6
Variance	(\$1,046.5)	(\$173.8)	(\$416.5)	(\$387.2)	(\$342.2)
Accumulated surpluses¹⁶	\$12,957.1	\$10,234.4	\$17,021.0	\$27,291.8	\$31,755.9

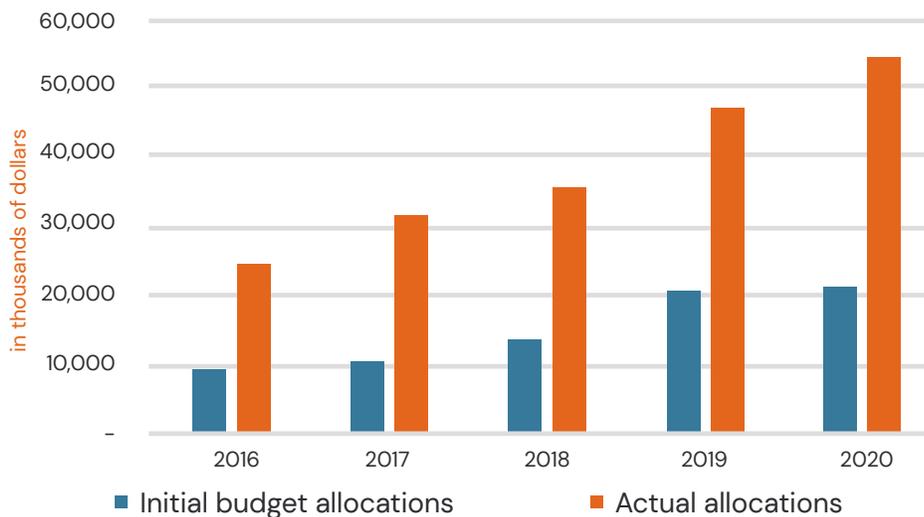
¹⁶ This borough's accumulated surpluses include amounts transferred from the central city after 2017, totalling \$9.9 million earmarked for specific purposes. They were excluded to determine the percentage increase in the borough's accumulated surpluses between 2016 and 2020.

	2016	2017	2018	2019	2020
In thousands of dollars					
Ville-Marie borough					
Allocations in the initial budget	\$910.5	\$909.1	\$3,281.2	\$8,450.7	\$9,016.2
Actual allocations	\$6,532.1	\$7,260.3	\$10,886.3	\$13,612.3	\$15,339.3
Variance	\$5,621.6	\$6,351.2	\$7,605.1	\$5,161.6	\$6,323.1
Accumulated surpluses	\$32,618.5	\$32,924.1	\$38,020.0	\$47,439.2	\$45,974.7

Source: Data compiled by the Office of the Auditor General using the City's annual budget documents and financial reports as well as information systems.

GRAPHIC 18

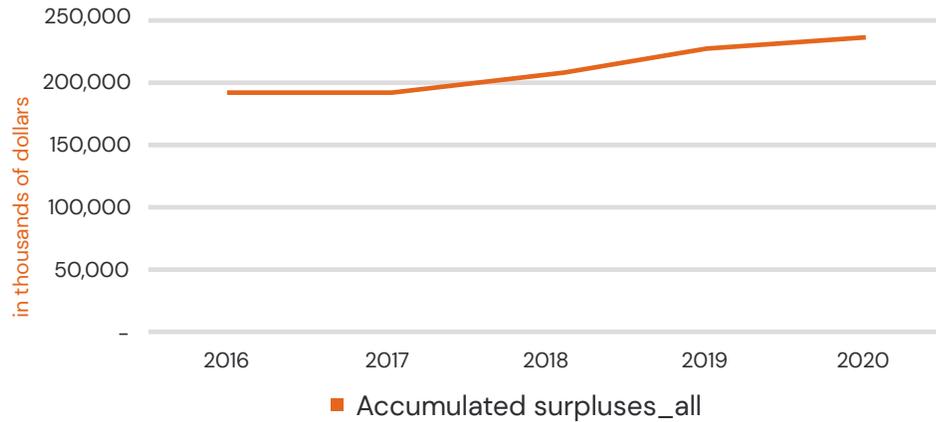
Forecast and Historical Results – Evolution of the Use of the Allocations – 19 Boroughs



Source: Data in Table 9.

GRAPHIC 19

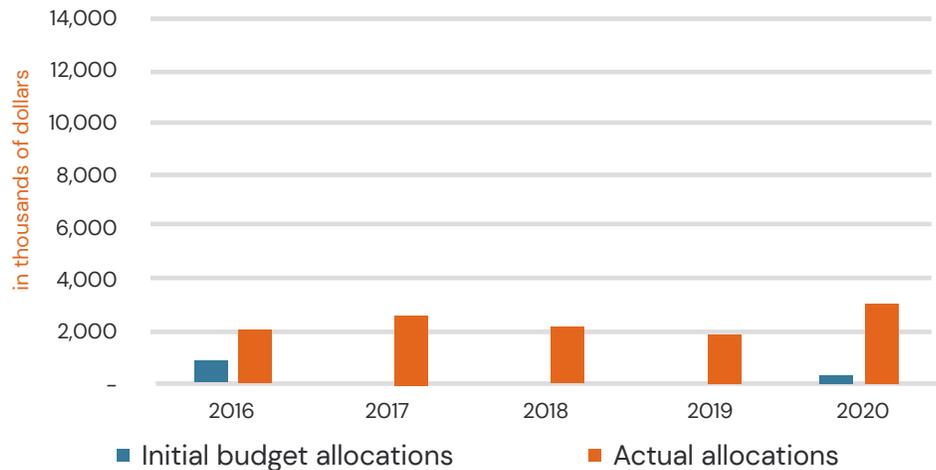
Evolution of the Accumulated Surplus – 19 Boroughs



Source: Data in Table 9.

GRAPHIC 20

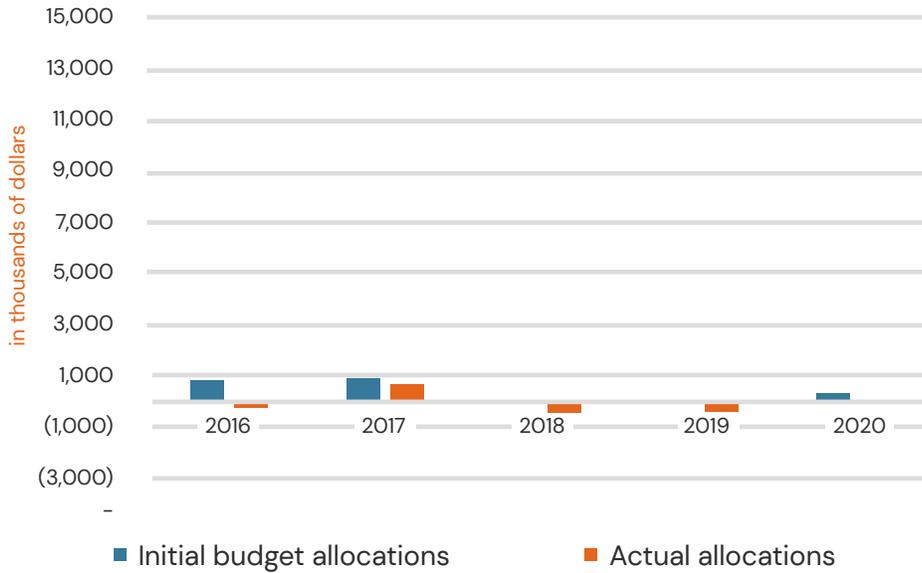
Forecast and Historical Results – Evolution of the Use of the Allocations – Mercier–Hochelaga–Maisonnette Borough



Source: Data in Table 9.

GRAPHIC 21

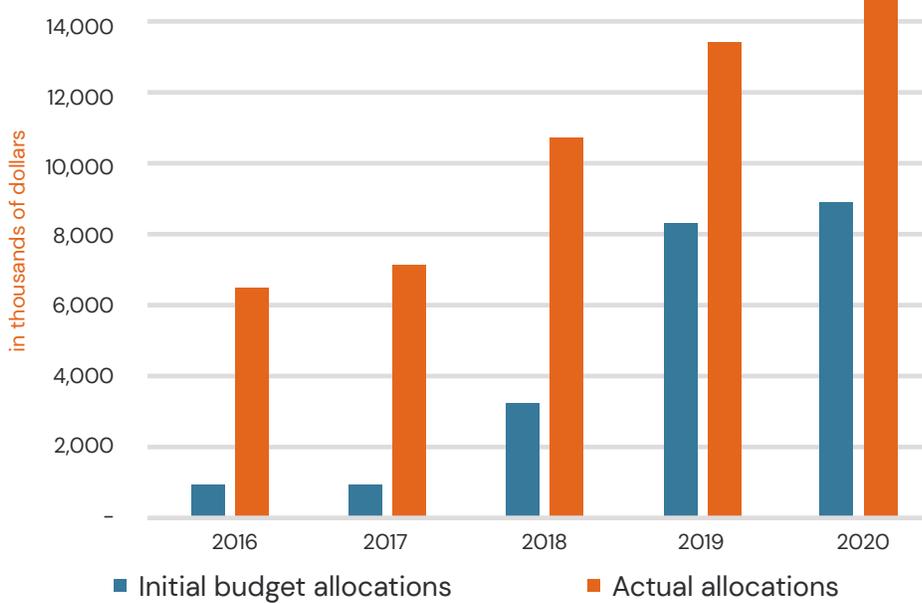
Forecast and Historical Results – Evolution of the Use of the Allocations – Saint-Laurent Borough



Source: Data in Table 9.

GRAPHIC 22

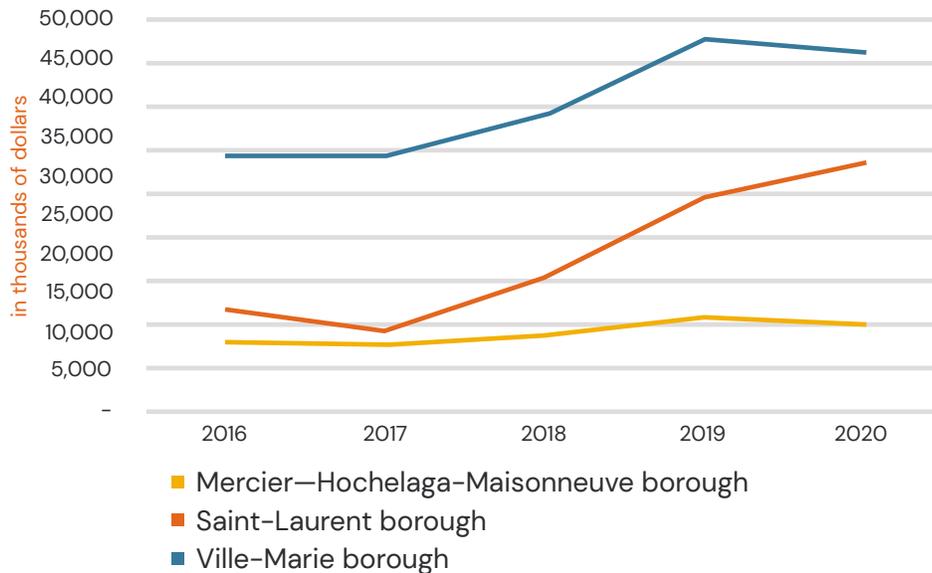
Forecast and Historical Results – Evolution of the Use of the Allocations – Ville-Marie Borough



Source: Data in Table 9.

GRAPHIC 23

Evolution of the Accumulated Surpluses of the Three Boroughs Combined



Source: Data in Table 9.

NB: This borough's accumulated surpluses include amounts transferred from the central city after 2017, totalling \$9.9 million, that are earmarked for specific purposes. .

This data shows that the forecasts reflect less and less accurately the reality and that the boroughs count on their surpluses to provide services, even though this is not represented in their budget. They also show that the different boroughs have different ways of doing things. Changes must therefore be made to the method used by the boroughs to prepare their budget estimates in order to standardize them and improve their accuracy. Both authorities and citizens will then be better informed about funding sources and planned expenditures for the next year's activities and services.

3.2.2.A. Recommendation

We recommend that the Direction générale, in collaboration with the Service des finances, ensure that the foreseeable revenues and expenditures contained in the adjustment of the boroughs' operating surpluses be included in the budget by taking into account the historical results rather than being added to the operating surpluses accumulated at year-end.

3.2.2.B. Recommendation

We recommend that the Service des finances include in its policies measures to harmonize the boroughs' forecasts and budget allocations, particularly those relating to the allocation of accumulated surpluses.

3.2.2.C. Recommendation

We recommend that the Mercier–Hochelaga–Maisonneuve and Saint–Laurent boroughs budget for all the operating expenses planned for the coming year, as well as for the surplus allocations required to fund them.

3.2.2.D. Recommendation

We recommend that the Mercier–Hochelaga–Maisonneuve, Saint–Laurent and Ville–Marie boroughs improve the documentation of their budget process, particularly to take into account the Ville de Montréal's priorities, the borough orientations and strategies, the description of the important steps in the process and the controls carried out to ensure that the budget reflects the decisions and instructions received.

3.3. Budget Consolidation and Adjudication

As described above, the Direction du budget ensures that the total budget of each department and each borough is balanced. Failing this, the business unit must rebalance it according to the instructions received.

At the beginning of September, a new version of the fiscal framework is updated to include the amounts of the business units' budgets as well as the new information received during the summer. This is the consolidation stage.

For the preparation of the 2020 and 2021 budgets, the municipal administration had excluded any additional requests from the business units and eliminated the usual process in place to handle them. However, requests considered as "issues" were still submitted and the municipal administration agreed to analyze them. The departments were asked to prepare a business case to present each such request.

Most department directors met with the administrative budget committee to present and justify their issues. Following these meetings, the administrative budget committee arbitrated and prepared its recommendations for acceptance or rejection and presented them to the political budget committee.

Once the political budget committee has made its decision, the Direction du budget prepares amended budget envelopes for the business units that have been partially or fully allocated the additional amounts related to their issues. The business units concerned are then notified of the change to be appropriately reflected in the budget system.

Since there was still an imbalance at this stage, the administrative budget committee also prepared new reduction scenarios to be presented to the political budget committee. This iterative process may occur a few times during the months of September and October. The administrative budget committee and the political budget committee analyze the new information and proceed with the final arbitration to achieve a balanced budget for the next fiscal year. The fiscal framework file is always used to monitor the budget until the end of the process.

According to our observations and discussions with the people responsible, there are no formal prioritization criteria to support the decision-making process for accepting new budget requests or for making cuts to the operating budget. Normally, during budget adjudication, requests should be judged first on the basis of the City's priorities, whether the request is directly related to these priorities and whether its budgetary impact does not create a major imbalance. Then, requests that lead to productivity improvements and savings in the short to medium term should also be acceptable.

We found that the decisions made during the final adjudication to determine the business units' budgets are not adequately documented. A table for monitoring the issues is completed, but it does not provide the justifications for approving or rejecting them. As stated in the section on orientations, there are no formally approved minutes of the administrative budget committee and the political budget committee.

Regardless of the terminology used to refer to additional requests or issues, they must be supported by a process that minimizes the risk of errors and omissions and presents the right costs to decision makers so that they can make informed decisions. Yet there is no mechanism in place to monitor and revise changes to the fiscal framework.

Throughout the budget process, the municipal administration focuses its efforts on managing financial flexibility to ensure that the budget is balanced. As explained previously, the financial leeway or imbalance represents the difference between the expected increase in revenues and the expected increase in expenditures. For several years, the municipal administration has had to deal with a shortfall in revenues. It is on the basis of this shortfall that budget orientations and guidelines are issued. For the sake of fairness and convenience, the same guidelines and budget constraints are generally imposed on all of the business units.

While the municipal administration manages the process globally based on the evolution of the revenue shortfall, the business units must apply these guidelines and budget constraints to the activities and services they provide to the public. Given that, for several years, restrictions and budget constraints have been imposed on the business units, without reducing the level of service or the quantity and quality of their operations, some of them are struggling to meet their objectives and have operating deficits.

The municipal administration uses a traditional approach to manage its budget process. It manages the allocated budget amounts, not the level of service required or the quality and quantity of activities to be performed. Although the Service de la performance organisationnelle was created and *[TRANSLATION]* “works to assist the municipal administration in identifying avenues of improvement in order to generate both monetary and time savings and to make recommendations on the best ways of doing things in terms of organizational performance,”¹⁷ this approach is not extended to all of the business units and is not incorporated into the budget process.

3.3.A. Recommendation

We recommend that the Direction générale identify criteria for assessing and prioritizing additional requests in order to make informed decisions and that it document this assessment.

3.4. Approval of the Budget by the Authorities

During the month of October, the borough budgets are presented to their BC, which then submits them to the EC.

The City’s overall budget, on the other hand, is presented to the EC, examined by the CFA and finally adopted by CC and the UAC in November and December.

In this respect, CC and the UAC mandate the CFA to study the budget (both the “central city” and “agglomeration” components) to enable them to make informed decisions. Following its study, the CFA recommends whether or not to adopt the budget, including specific recommendations.

¹⁷ City’s website, Service de la performance organisationnelle, March 8, 2021.

Several presentations are made to the CFA, including a presentation of the overall budget by the SF and presentations for each department's budget. A template has been developed to standardize the content of these presentations. The operating budget includes, among other things, the current year's objectives and achievements, the evolution of the budget during the current year, indicators, objectives for the next year as well as data related to the budget presented:

- the revenue and expenditure budget by jurisdiction and major variances compared with the previous budget;
- the revenue and expenditure budget by object and the explanation of the main differences between the budget presented and the previous year's budget;
- expenditures by job category and changes in staffing levels.

We found that the data presented on revenues and expenditures by object included actual results for the last few years but without the corresponding budget being presented. It contains the current year's budget and corresponding revenue and expenditure projections, without any information provided on past budget variances and trends. Some of the data and certain trends are sometimes presented for specific expenditures, but they do not cover the entire budget. The CFA's assessment of the departments' capacity to achieve the budget envelopes granted proves difficult.

The following is an example of the data presented to CFA for the review of a department's 2021 budget. This is followed by a table and figure showing the discrepancies that could be observed if this data were accompanied by previous years' budgets, which show that the budget is consistently underestimated.

TABLE 10

2021 Budget Presentation – Revenues and Expenditures by Object to the Commission des finances et de l'administration

Revenue by object (in thousands of dollars)	2016		2017		2018		2019		2020		2021	
	actual comparative	comparative forecast	comparative budget	comparative forecast	Budget							
Other services rendered	38,582.0	31,253.7	39,715.1	43,531.4					34,635.9	37,390.8		42,198.8
Other revenue	3,128.9	3,517.2	4,430.8	2,004.5					1,178.9	3,094.9		1,640.0
Transfers	8,633.5	9,504.6	8,126.0	14,277.0					16,194.8	14,487.5		17,283.9
Total	50,344.4	41,275.5	52,271.9	59,812.9					52,009.6	55,773.2		61,122.7
Expenditures by object												
(in thousands of dollars)	2016		2017		2018		2019		2020		2021	
	actual comparative	comparative forecast	comparative budget	comparative forecast	Budget							
Compensation and employer contributions	610,822.1	645,548.9	645,292.1	657,669.7					667,819.3	636,579.6		655,234.0
Transportation and communications	1,546.5	2,483.5	2,055.3	2,233.1					2,356.0	2,901.6		2,600.7
Professional services	706.9	841.5	801.7	976.0					1,542.9	1,845.6		1,073.9
Technical and other services	4,471.8	3,777.1	3,433.2	4,763.4					4,314.0	4,502.5		3,852.1
Rentals, maintenance and repairs	2,697.4	1,306.7	2,332.0	2,099.8					2,441.0	2,685.3		2,744.5
Non-durable goods	6,814.8	7,177.8	7,014.8	8,165.3					8,577.8	9,290.4		7,746.2
Durable goods	3,775.3	1,961.9	1,890.9	1,430.6					2,049.3	1,805.4		1,089.2
Contributions to organizations	4,200.4	4,258.1	4,161.9	4,647.8					4,850.1	4,850.1		4,769.6
Other objects	(171.1)	(978.2)	(1.7)	(1,045.7)					-	-		-
Total	634,864.1	666,377.3	666,980.2	680,440.0					688,950.4	664,460.5		679,110.2

Source: Presentation to the CFA during the public review of the 2021 budget.

TABLE 11**Presentation of Variances between Comparative Budgets and Actual Expenditures by Department Reporting**

Reporting table (in thousands of dollars)			
Year	Budget	Actual	Variance
2016	\$680,442	\$691,020	(\$10,578)
2017	\$652,076	\$701,159	(\$49,083)
2018	\$647,311	\$683,014	(\$35,703)
2019	\$662,206	\$695,509	(\$33,303)
2020	\$665,264	\$709,077	(\$43,813)

Source: Data compiled by the Office of the Auditor General using information presented in the City's annual budget documents and financial reports.

While this comparison is not perfect due to restructuring over time and changes in the responsibilities of some departments, this information would be more meaningful and would make it possible to more effectively assess the various departments' budgets. It would also allow the CFA to judge whether or not budgets are being met, to observe trends and to ask questions about them.

In addition, although the objectives for the coming year are presented, no link is made between these and the budget. It is therefore also not possible to assess the extent to which the budget will support achieving these objectives.

We also found that the projected results for the current year, presented for comparison with the current year's budget, are understated. Indeed, an analysis of the projections contained in the department's budget for the last few years shows discrepancies, some of them significant.

TABLE 12**Analysis of the Projections**

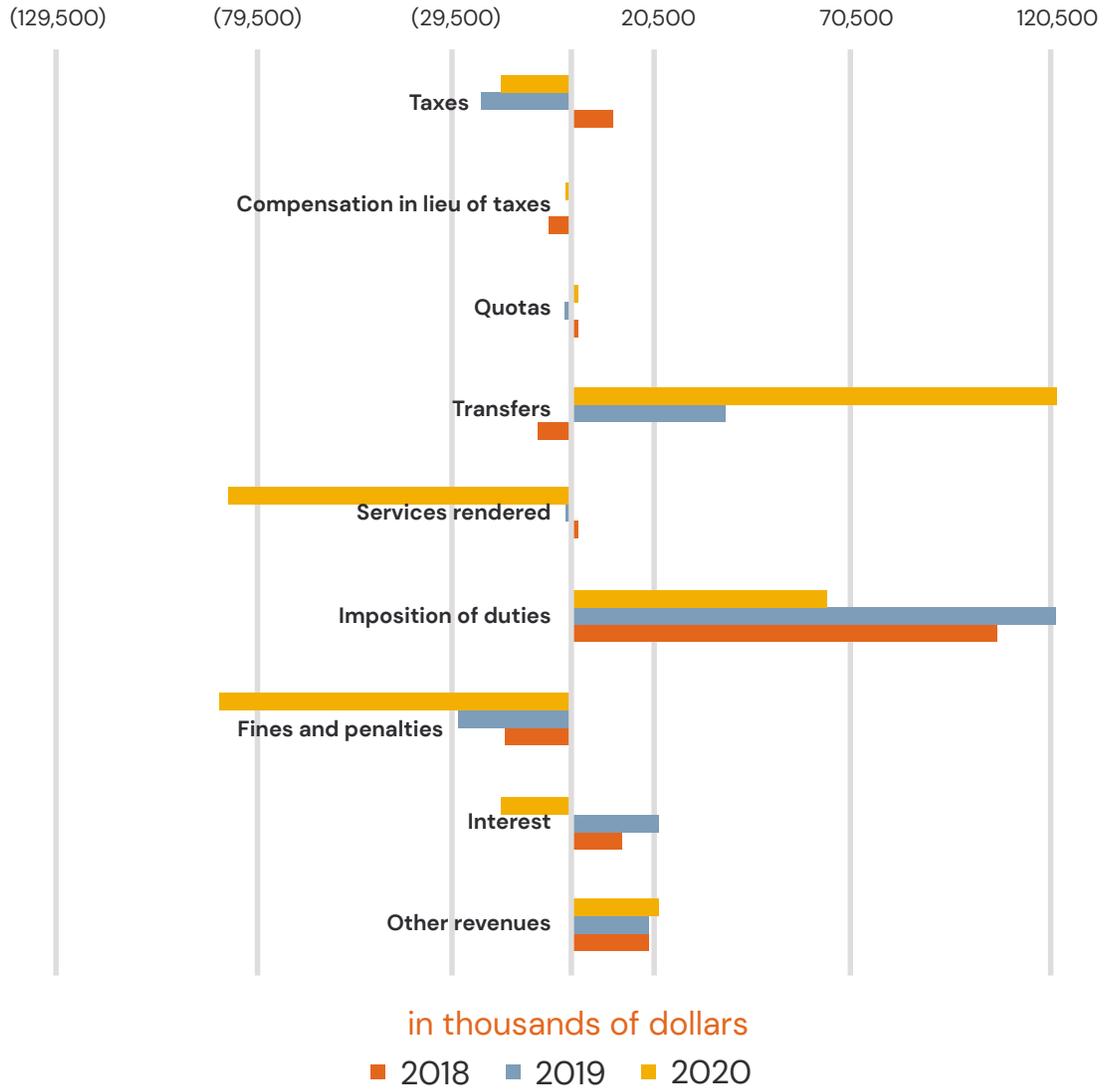
Year	Projections to the budget document	Actual at the time of accountability	Variance
	In thousands of dollars		
2016	\$669,000	\$691,020	(\$22,020)
2017	\$652,439	\$701,159	(\$48,720)
2018	\$659,524	\$683,015	(\$23,491)
2019	\$685,456	\$695,509	(\$10,053)
2020	\$688,950	\$708,952	(\$20,002)

Source: Data compiled by the Office of the Auditor General using information presented in the City's annual budget documents and financial reports.

In addition, the overall budget presentation does not provide information on trends in variances between the revenue and expenditure budget by object and actual results, nor on budget variances by department. Only the variances between the proposed budget and the previous year's budget are presented. The following tables and figures present variances and trends that may be useful to know when reviewing the budget.

GRAPHIC 24

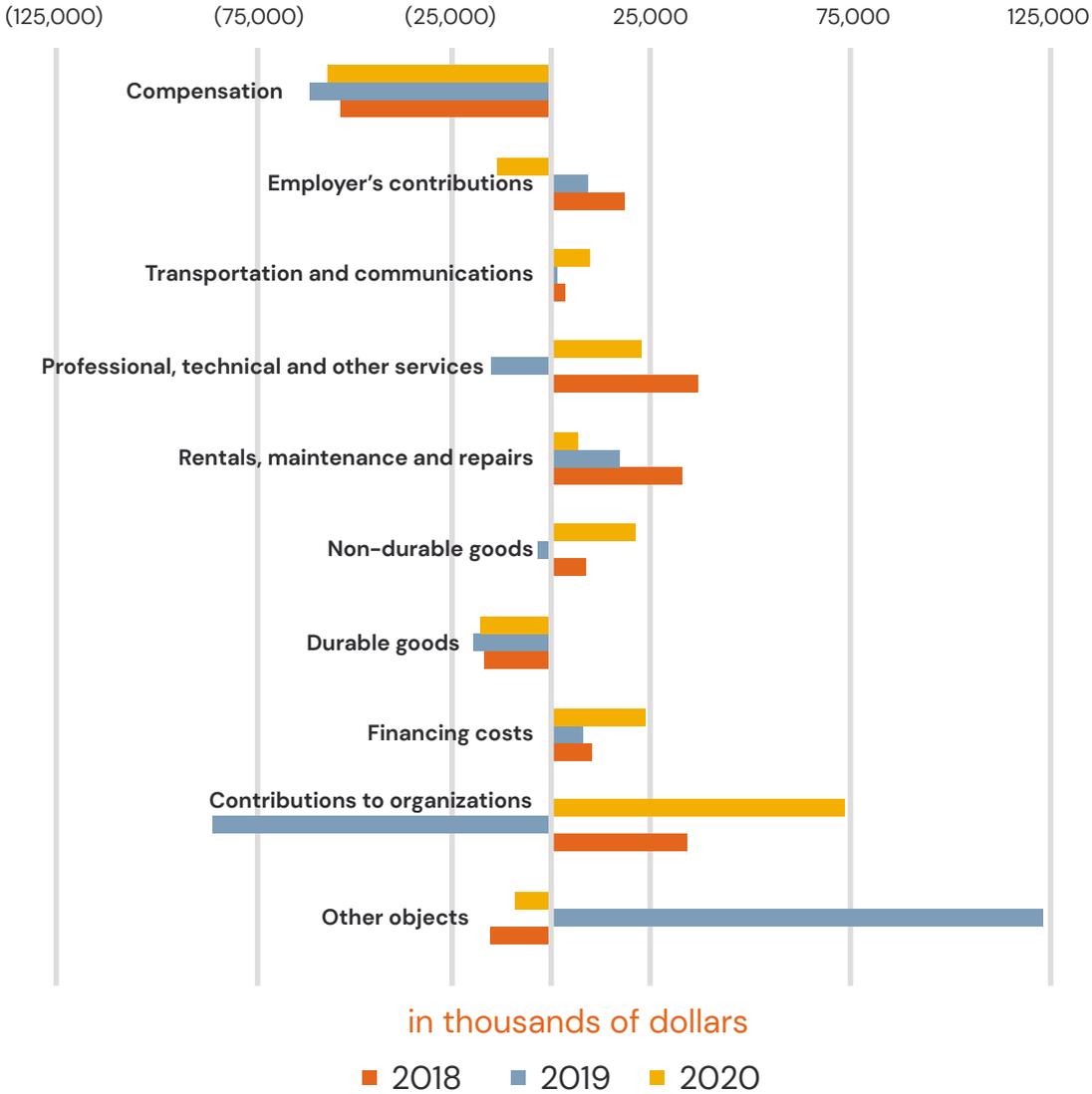
Budget/Actual Revenue Variance According to Reporting



Source: Data compiled by the Office of the Auditor General using information presented in the City's annual budget documents and financial reports.

GRAPHIC 25

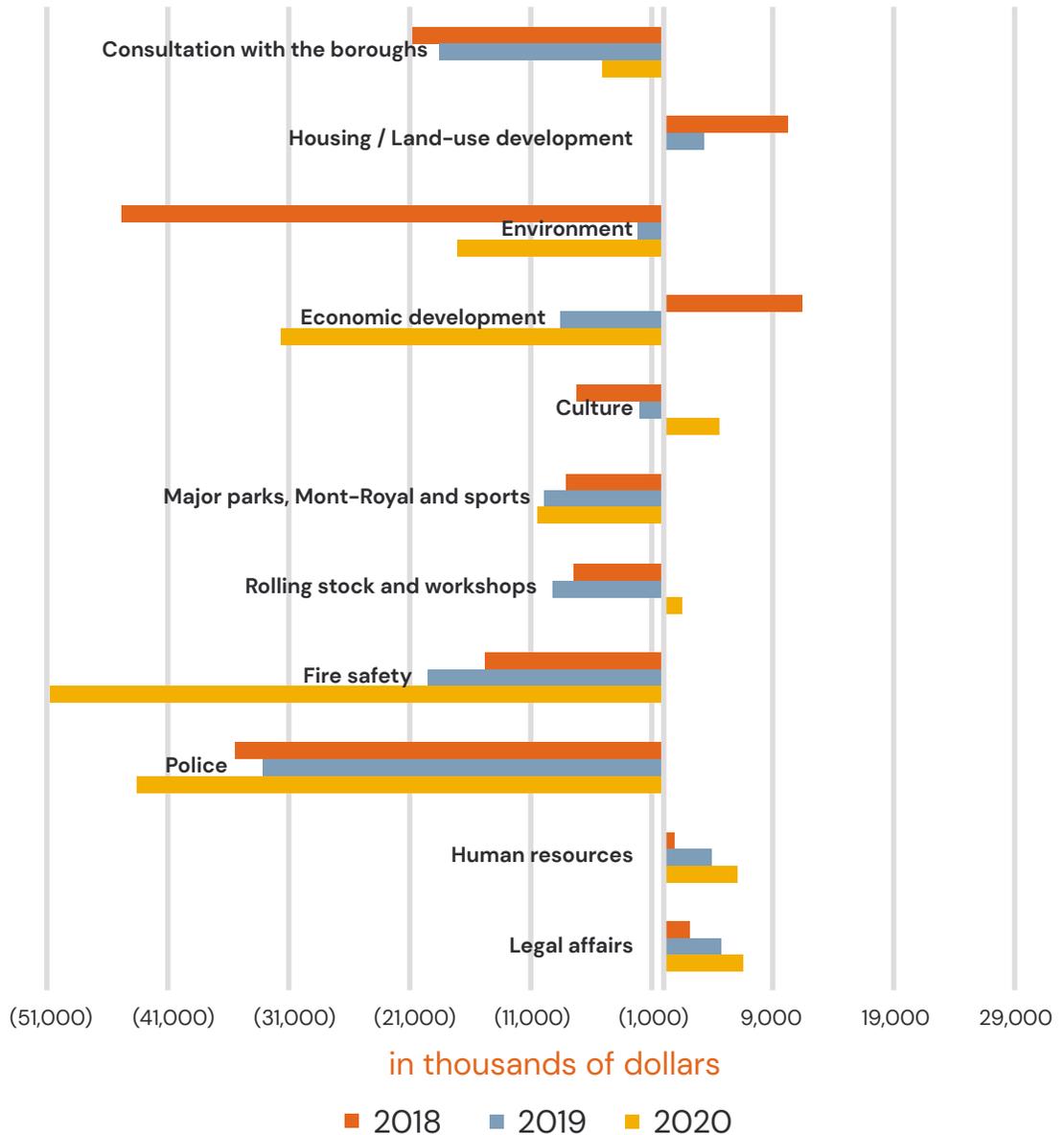
Budget/Actual Variance in Operating Expenses by Object According to Accountability Reporting



Source: Data compiled by the Office of the Auditor General using information presented in the City's annual budget documents and financial reports.

GRAPHIC 26

Budget/Actual Variance by Department According to Accountability Reporting



Source: Data compiled by the Office of the Auditor General using information presented in the City's annual budget documents and financial accountability reports.

NB: In order to simplify the presentation, only the departments with discrepancies in the same direction over the three years and the departments with significant discrepancies are presented as examples.

Currently, there is no document that can serve to assess the City's budget performance. Annual reporting is done to present the results of each fiscal year compared with the budget, but there is insufficient information to make this assessment since it covers a period of only one year.

We believe that the presentation of past budget data in comparison with actual results would provide the CFA with a more accurate picture of the situation, so it would be aware of the trends and thus be able to more completely assess the forecasts presented in the budget.

The CFA recommended that the municipal administration explain certain budget projections that revealed a significant difference between the results forecast for 2020 and the forecasts for 2021, in order to ensure the City's ability to achieve a balanced budget in a context where particular vigilance is required given the instability caused by the pandemic.

Lastly, regarding the budgets of the audited boroughs, we observed that the documents—published at the time of their presentation to the BCs—contained insufficient and, in some cases, very summary information. In particular, they provide little comparative data on the budget and actual expenditures for previous years. Also, the fact that the expenditure forecasts of the Mercier–Hochelaga–Maisonneuve and Saint-Laurent boroughs are presented by activity, while the City's overall budget presents them by object, makes it difficult for the authorities and citizens to establish a connection between these two types of information in order to appreciate the budget as well as the nature and evolution of expenditures.

3.4.A. Recommendation

We recommend that the Service des finances validate with the Commission sur les finances et l'administration whether it wishes to have information on past results and trends so that budget performance can be evaluated during the review of the budget before recommending its adoption to city council and the urban agglomeration council.

3.4.B. Recommendation

We recommend that the Mercier–Hochelaga–Maisonneuve and Saint-Laurent boroughs review the content of the budget documents presented to their borough councils so that these councils and the citizens have relevant and complete information on the budget, enabling them to evaluate it in light of historical financial results and of the information presented in the document titled *Montréal – 2021 Budget – 2021–2030 Ten-year capital works program* of the Ville de Montréal.

3.4.C. Recommendation

We recommend that the Ville-Marie borough improve the content of the budget documents presented to the borough council at the special meeting, so that it can be evaluated in light of historical financial results.

3.5. Tools and Human Resources Involved in Budget Preparation

3.5.1. Systems and Tools Used to Prepare the Budget

The SBA is the primary application used to prepare the City's operating budget. This application and most of the other systems used in the budget process were implemented in the 1990s and 2000s and are no longer supported by their vendors. These systems, which were in place long before the mergers, demergers and creation of the agglomeration, have been tinkered with by the SF and the Service des technologies de l'information (STI) in order to be able to produce budgets. When this was not possible, users within the SF created parallel applications managed using Excel or Access files, gateways and various other tools to fulfill their obligations. In turn, the various business units did the same, increasing the risk of errors and requiring compensating controls to mitigate the risk.

Already in 2009, a study conducted by a consulting firm pointed out the urgency of replacing these outdated systems, considering their inefficiency in delivering relevant, timely and error-free information. Following this study, a project team made up of SF and STI stakeholders worked on the project to implement an integrated budget management system. However, the project was postponed for several years, as the human and financial resources required to acquire and implement the system were not available.

In 2015, a criticality analysis revealed that most of the budget systems in use had reached high or critical operational risk levels in terms of their reliability and agility or the availability of technical support should problems arise. The risk of malfunction was considered critical for each of the systems analyzed since they are all essential to the process. Following this warning, a new project under way in 2016 had to be abandoned due to financial considerations.

Despite the recommendations made by experts, the City has not yet developed an effective integrated budgeting system. The following table illustrates the main systems used, the year they were implemented and whether they are still supported by the vendor or the STI.

TABLE 13

Description of Main Systems and Applications Contributing to the Budget Process

Name of the system (or application)	Use	Year of implementation	Support
Job register	Workforce management system	1990	Yes
SBA	Budget system used to prepare the operating budget	IBM internal development 1993	Programming only
RIP	Data warehouse	1993	Programming only
Comparative data	Production of comparisons – Budget (Access base)	1994	No
VISION II	Consolidation tool of budget, commitment and actual data	2002	DBA only
Allocation tool	Allocation tool according to the MAMH_IBM accounting manual	2002	Programming only
SIMON	Integrated management system for accounting, human resources, payroll and procurement	2005	Oracle
INTERSBA	Excel concordance table	2006	No
INTERSEGMENT	Oracle integrity control	2006	Yes
AGGL	Excel-based aggro-local distribution tool		
Excel files	Input panel for the production of budget documents and budget developments	2006	No
PRÉVIS	System for updating and calculating projected compensation (Access base)	2013	No
Access files	Various control and calculation files	1995 – 2015	No

Source: Information compiled by the Office of the Auditor General from information obtained from the SF, the SRH, the STI and the central city’s departments.

As illustrated in this table and in Appendix 5.4, a multitude of systems, applications, function tables, interfaces, gateways and files have been developed to overcome the inefficiencies of the current systems. These tools, most of which were developed in-house, were designed and are frequently used by a single person. In addition, many of them are no longer supported by the vendor or the STI's team.

These systems—which are not integrated and therefore require multiple manipulations and revalidations—add to the burden of the budget process. A large number of manual operations are required to balance the data between the systems. The information from the departments recorded in the Excel files must be reentered into the SBA application because the system is too outdated to serve as a gateway. A lot of time and information are required to enter each transaction; it is impossible for business units to export massive amounts of data in the SBA application. All of these manual entries carry the risk of errors or omissions. There is also a high risk of errors when programming calculations in the Excel files.

Since there is no corporate budgeting system that allows them to prepare their budgets, the business units use Excel files developed according to their needs. The audited departments, with the assistance of the DCSF, have all developed their own applications to prepare their overall annual budget or to prepare specific expenditure forecasts. For example, in order to forecast and manage compensation, which represents 96.5% of the SPVM's budget, the DCSF, in collaboration with the SPVM, has developed Excel tools for monitoring the civilian and police payroll, time banks and overtime hours. These tools make it possible to make projections using several indicators. An Excel file is therefore used to monitor the budget and prepare the accountability reports for the compensation totalling \$655 million in 2021.

The boroughs have also developed their own budget preparation tools since the current information systems do not meet their needs. Several years ago, Saint-Laurent borough developed an application that allowed it to prepare and monitor its entire budget. Although it now has to prepare its budget using Excel files according to the instructions received and enter all its data into the SBA application since 2016, it still uses its own application in parallel to meet its information and monitoring needs. A dozen other boroughs are doing the same and using the application it designed.

The SBA application has other limitations since it only allows access to static data, i.e., the data contained in the original budget. Obtaining information requires waiting until the next day to generate reports. In addition, as stated in a recent audit report we produced on the management of this application,¹⁸ several functionalities are missing due to its obsolescence, including automated data entry and automated interfaces with other systems. We also observed the lack of formally documented procedures for change management and backup management, which could impact the integrity and availability of the application and its data.

¹⁸ Management of the SBA application, audit report addressed to the City's SF and STI and published in section 4.2 (chapter 4) of this annual report.

Other applications also have weaknesses. For example, there are no controls in the RDD to limit access to the Excel file to the person responsible for these forecasts. Also, there are no documented controls to demonstrate that the amounts entered in the SBA application correspond to those in the VISION II system.

The PRÉVIS application, based on Access, is used to prepare compensation forecasts. It was developed in 2013 to overcome the obsolescence of the SBA application implemented in 1993. Originally, this application was to be used for only a few years, since a new corporate budgeting system was to be implemented in the short term. Given this did not happen and the SBA application is still in use, the PRÉVIS application is still used and is essential to calculating total compensation amounts. The person responsible has also developed a multitude of tools in the form of files and tables used to calculate, compile, validate and verify the compensation budget. This application is not supported by STI as it was developed internally by the SF. There is no external support available in case of problems.

Given the large number of assumptions and the vast quantity of data used, as well as the magnitude of the debt and its expenditure projections, better tools or systems should be implemented to improve the efficiency and effectiveness of the budget process. We were informed during our work that a project is under way to this effect. There are also difficulties in preparing the budget document, as the current systems make the process of amending the document cumbersome when changes are required in the tables in the document. Indeed, due to the lack of an integrated information system, several independent files sometimes have to be modified and delays occur in loading data between them and the budget document. This situation requires additional efforts on the part of the teams involved, especially when last-minute decisions are made.

In short, preparing the City's \$6.17 billion operating budget is largely dependent on a multitude of Excel files and obsolete applications. We therefore see the urgency of the situation and the importance of replacing these tools and information systems. According to the most recent capital works plan, the *2021–2030 Ten-year capital works program*,¹⁹ the budget system project is not scheduled to begin until 2024. We believe that this work should begin earlier to mitigate risk and improve the effectiveness and efficiency of the budget process.

3.5.2. Human Resources

In addition to the deficiencies noted above, the obsolescence of the tools and systems also has an impact on human resources. In fact, the resources assigned to budget preparation and monitoring spend a large part of their time on clerical research and data reconciliation tasks rather than on planning and analysis. This directly increases the risk of errors and omissions, as well as the inefficiency of the process.

¹⁹ The *2021–2030 Ten-year capital works program* calls for investments of \$2.3 million in 2024 and 2025 and \$3.1 million for the 2026–2030 period.

The preparation of the budget mobilizes hundreds of people within the SF, the central city's departments and the City's boroughs. Although there is no data on the number of person-years dedicated to the preparation of the budget, we identified the following information, as an indication, regarding the people involved in the process:

- 32 people within the Direction du budget;
- 106 people within the DCSF (in addition to a few people involved in the central city's departments);
- 15 people within the 3 boroughs audited.

In the context of today's information systems, the budget process is complex and represents a huge amount of work that extends throughout the year. In addition, it requires appropriate documentation and specific knowledge to perform certain tasks or to carry out the analyses required for certain forecasts, such as those relating to compensation. We found that documentation is inadequate and that key steps in the process are left to a single person.

In addition, while succession plans are in place for retirements, including measures to ensure the transfer of knowledge, there are no succession plans to address the risk of SF employees leaving for reasons other than retirement.

Furthermore, the audited boroughs consider that the human resources available to them are sufficient and that they have the required knowledge and expertise. However, although measures are planned to maintain this expertise over the next few years, one of the audited boroughs informed us of a certain weakness in this respect: given that this expertise is concentrated among a few people, the borough has difficulty hiring when positions become vacant. Human and technical sustainability issues were also observed during our audit of the SBA application. These issues can lead to a loss of knowledge and control of the application.

An additional vulnerability, related to human resources, therefore further adds to the risks previously exposed due to the obsolescence and complexity of current information systems. It is therefore imperative to accelerate updating and integrating technological tools, to improve the documentation of the process and to ensure appropriate succession and knowledge transfer for important or complex steps in the process.

3.5.2.A. Recommendation

We recommend that the Direction générale reactivate the project, implement an integrated information and budget management system and include it in the 2022–2031 Ten-year capital works plan as early as 2021.

3.5.2.B. Recommendation

We recommend that the Service des finances ensure that its human resources succession plan covers all key positions in the budget process and that it includes measures to ensure the training of staff and the transfer of knowledge required for its smooth operation.

3.5.2.C. Recommendation

We recommend that the Service des finances take appropriate steps to protect the integrity of the information in the numerous Microsoft Excel and Access files used by its staff and that of the central city's departments and the boroughs.

4. Conclusion

The budget process of the Ville de Montréal (the City) is complex. It requires the participation of a large number of people and business units in the particular governance context of the City, which is composed of the central city, 19 boroughs and 15 other cities related to the agglomeration of Montréal. These three jurisdictional levels must be taken into account when forecasting revenues and expenditures in order to allocate resources in an optimal manner. That requires the implementation of an efficient and rigorous process.

Although the City has developed a specific management framework for the budget process and formal decision-making mechanisms for the orientations established to table a balanced budget, our work leads us to conclude that the current process has several shortcomings

Indeed, we found that the fiscal framework developed to present five-year fiscal projections and inform decision-making is focused on the next year's budget. This preliminary fiscal framework is therefore primarily used to establish annual constraints to achieve a balanced budget and is not followed by a balanced five-year fiscal framework that would outline the risks and challenges of the current projections. A fiscal framework highlights both positive and negative trends. It is therefore an essential tool for budget management, particularly in the context of the City's growing structural budget imbalance.

Also, the budget process is not part of an overall planning process. The City recently completed its first strategic plan, but there is still no plan to link the budget process to strategic planning. Organizational priorities communicated by the Direction générale are used as a backdrop, but the business units' budgets are not necessarily based on these priorities, their activities or service levels.

With respect to the development of revenue and expense forecasts, structured processes have been put in place to collect and analyze relevant data. However, improvements must be made, particularly in terms of documentation and controls, in order to limit the loss of expertise related to the departure of specialized employees and the risk of errors. In addition, the forecasting methodology needs to be revised to make it more representative of reality. Our work revealed the existence of over- and under-estimates—sometimes of great magnitude—from year to year for certain categories of revenue and expenditure, which creates a kind of structural bias that makes it impossible to obtain a clear picture of the budget.

Also, historical results and current-year projections are not taken into account when establishing the business units' orientations and budget envelopes. Furthermore, the amount of the envelopes allocated to the departments is derived from adjustments made to the previous year's budget, which in turn is derived from the amounts of earlier budgets. In the absence of assessment and guidance on the level of service or activity related to budgeted expenditures, the accountability of the departments is compromised, and their budget shortfall must be made up by anticipated variances in other business units or budget items.

Moreover, as far as the boroughs are concerned, the amounts transferred to them by the central city have not been re-evaluated to determine whether they accurately reflect the boroughs' current needs and whether the parameters used are still appropriate. A review of the parametric model determined in 2014 during the Borough Financing Plan Reform (BFPR) was scheduled after five years but was not completed.

We also noted that, at the same time, amounts are distributed to the boroughs or reduced from their transfers, even though they are not budgeted. They come from activities and revenues centralized at the level of the City and are transferred directly to the boroughs' operating surpluses. This way of doing things does not promote budget transparency or the optimal allocation of resources during the preparation of the budget, since these amounts contribute to financing operating expenses and to the growth of the boroughs' accumulated surpluses without being disclosed.

During the consolidation of the business units' budgets, there are no formal prioritization criteria to support the decision-making process for accepting new budget requests or for making cuts to the operating budget. In addition, the decisions made during the final budget adjudication are not adequately documented. The justifications were not presented in the documents we consulted and there are no records of decisions approved by the administrative budget committee and the political budget committee.

During the review of the budget by the Commission sur les finances et l'administration (CFA), the data presented on the departments' revenues and expenditures included actual results for the past few years without presenting the corresponding budget. It is therefore difficult for the CFA to assess the departments' capacity to achieve the budget envelopes granted. Also, the presentation of the overall budget does not contain information on trends in variances between the revenue and expenditure budget by object. This information would provide the CFA with a more accurate picture of the situation and thus a more complete assessment of the estimates presented in the budget.

Currently, there is no record of the City's budget performance. Annual reporting is done to present the results of each fiscal year compared with the budget, but there is insufficient information to make this assessment since it covers a period of only one year. Regarding the budgets of the audited boroughs, the documents published at the time of their presentation to the borough councils (BCs) contained insufficient and, in some cases, very summary information. Also, the fact that two boroughs present the expenditure forecasts by activity, while the City's overall budget presents them by object, makes it difficult for the authorities and citizens to establish a link between these two types of information in order to appreciate the budget, as well as the nature and evolution of expenditures.

Finally, most of the systems used in the budget process are outdated and no longer supported by their respective vendors. These systems, which were in place long before the mergers, demergers and creation of the agglomeration, have been tinkered with by the Service des finances (SF) and the Service des technologies de l'information (STI) in order to be able to produce budgets. Users within the SF have created parallel applications managed using Excel or Access files, gateways and various other tools to fulfill their obligations. In turn, the various business units have done the same, increasing the risk of errors and requiring compensating controls to mitigate the risk. The City's \$6.17 billion operating budget relies heavily on a multitude of Excel files and applications that are obsolete.

Several studies conducted over the years have revealed that most of the budget systems in use have reached high or critical operational risk levels in terms of their reliability and agility or the availability of technical support should problems arise. Despite the recommendations made by experts, the City has not yet developed an effective integrated budgeting system and does not intend to do so before 2024.

Based on these findings, we have recommended that the City:

- develop a balanced five-year fiscal framework that looks beyond the annual operating budget and identifies key risks and challenges ahead, and that it makes it public so that elected officials and citizens can better appreciate the significance of the tabled budget;
- continue its efforts to implement the Montréal 2030 strategic plan and develop operational and financial plans that can be integrated into the budget process and thus promote the achievement of the objectives;
- revise the process for determining revenue and expenditure forecasts that are over- or under-estimated from year to year, so that the budget more clearly presents the sources of funding and the planned expenditures;
- assess the extent of the structural gap between revenues and expenditures to determine sources of funding to address this gap and to limit the use of unallocated accumulated surpluses to balance the budget;
- consult with departments to take into account their historical results before determining budget orientations and envelopes and inform all those involved in the preparation of the budgets of the central city's departments;
- review the method used to distribute the transfers by the central city to the boroughs in order to make sure that it still makes it possible to allocate the budgets in a fair manner, according to the powers that have been devolved to the boroughs, and to meet the requirements of the City of in terms of quality and level of services to citizens;
- review the budget process in order to establish a budget and financial system that allows for budgeting according to the level of service or activities expected, as well as clearly defined operational plans that allow for the monitoring of indicators to measure the achievement of results;

- ensure that the foreseeable revenues and expenditures contained in the adjustment of the boroughs' operating surpluses be included in the budget by taking into consideration the historical results rather than being added to the operating surpluses accumulated at the end of the year;
- identify criteria for assessing and prioritizing additional requests in order to make informed decisions and document this assessment;
- validate with the CFA whether it wishes to have information on past results and trends so that budget performance can be evaluated during the review of the budget before recommending its adoption to city council (CC) and the urban agglomeration council (UAC);
- reactivate the project to implement an integrated information and budget management system and include it in the 2020–2030 Ten-year capital works plan as early as 2021;
- ensure that the SF's human resources succession plan covers all key positions in the budget process and that it includes measures to ensure the training of staff and the transfer of knowledge necessary for the process to run smoothly;
- take the appropriate steps to protect the integrity of the information in the numerous Microsoft Excel and Access files used by its staff and that of the central city's departments and the boroughs to determine the budget envelopes and forecast revenues and expenditures.

We also recommend that Mercier–Hochelaga–Maisonneuve and Saint–Laurent boroughs budget for all the operating expenses planned for the coming year, as well as for the surplus allocations required to fund them. In addition, we recommend that these two boroughs and Ville–Marie borough improve the documentation of their budget process and review the content of the budget documents presented to their BCs so that the councils and the citizens have relevant and complete information on the budget, enabling them to evaluate it in light of historical financial results and of the information presented in the City's budget document.

It is imperative that the City revisit its budget process and develop effective budget and financial systems. The challenges it will face in the coming years make it critical to do so. These challenges include the growing structural budget imbalance, the massive investment required for the rehabilitation of existing infrastructure, and the funding of operating and maintenance expenses for its new infrastructure.

5. Appendices

5.1. Objective and Evaluation Criteria

Objective

To ensure that the process supporting the preparation of the Ville de Montréal's (the City's) operating budget is efficient and rigorous.

Evaluation Criteria

- A formal mechanism is put in place to enable the authorities to make informed decisions on the strategies and orientations identified to achieve a balanced budget. These decisions are clearly documented, consistent with organizational priorities, and monitored to ensure that they are reflected in the budget.
- There are clear budget orientations, policies and a specific management framework for the budget process. This framework is up to date, formally approved and distributed to stakeholders.
- The roles and responsibilities of the stakeholders are clearly defined, documented and communicated.
- Each phase of the budget process is approved by the appropriate authority, and effective controls are in place to ensure the quality of the information produced.
- Procedures, guides, tools and systems have been developed to ensure the reliability and consistency of the information produced to prepare the budget. These tools are sufficient and formally disseminated to the stakeholders.
- The data and methods used to determine the assumptions and forecasts of revenues and expenditures are relevant, complete and documented.

- The process for producing budget envelopes for business units (e.g., central city departments and boroughs) is rigorous and these budget envelopes reflect the City's current financial situation, that of the business units and the budget orientations. This process namely includes:
 - clear and sufficient instructions;
 - relevant methods and criteria to support the optimal allocation of resources;
 - mechanisms to track budget allocations and additional requests;
 - appropriate mechanisms to consolidate information from the business units.

- The business units' budgets are based on a rigorous process and reflect the orientations and instructions received, the budget envelopes granted, and the orientations determined by the business units.

5.3. Decision-Making Process Leading to the Adoption of the Budget

Authority (or committee)	Composition	Role
Urban agglomeration council	<ul style="list-style-type: none"> • Mayor; • 15 elected municipal officials; • 15 representatives of the reconstituted municipalities. 	<ul style="list-style-type: none"> • Adopts the agglomeration's budget, i.e., the expenses related to services common to the entire territory of the island of Montreal.
City council	<ul style="list-style-type: none"> • Mayor; • 18 borough mayors; • 46 city councillors. 	<ul style="list-style-type: none"> • Adopts the budget of the Ville de Montréal.
Commission sur les finances et l'administration	<ul style="list-style-type: none"> • 12 members appointed from among the elected officials of the Ville de Montréal, the boroughs and the reconstituted municipalities. 	<ul style="list-style-type: none"> • Reviews the operating budget of the Ville de Montréal in order to inform the decisions made by the elected officials who sit on city council and the urban agglomeration council.
Executive committee	<ul style="list-style-type: none"> • Elected representatives of the majority; • Mayor; • Chair. 	<ul style="list-style-type: none"> • Decision-making body responsible for all of the budget orientations of the Ville de Montréal; • Through the chair of the executive committee, policy directions are passed on and discussed at the political budget committee.
Political budget committee	<ul style="list-style-type: none"> • Chair of the executive committee; • Member of his/her cabinet and the mayor's cabinet; • Direction générale; • Representatives of the following departments and directorates: <ul style="list-style-type: none"> – Service des finances; – Service des ressources humaines; – Direction du budget et de la planification financière et fiscale. 	<ul style="list-style-type: none"> • Provides the liaison between policy decisions and administrative implementation.

Authority (or committee)	Composition	Role
Administrative budget committee	<ul style="list-style-type: none"> • Director general; • Representatives of the following departments and directorates: <ul style="list-style-type: none"> – Service des finances; – Direction du budget et de la planification financière et fiscale; – Direction du conseil et du soutien financier; – Service des ressources humaines; – Bureau des projets et programmes d'immobilisations; – Bureau des relations intergouvernementales et municipales. 	<ul style="list-style-type: none"> • Makes proposals to the political budget committee; • Ensures that all budget decisions and orientations are reflected in the business units' budgets.

Source: Project charter – budget process and the City's website.



