# Review of General Government Expense

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| Presented To: | Audit Committee |
| Meeting Date: | January 28, 2025 |
| Type: | Managers' Reports |
| Prepared by: | Ron Foster<br>Auditor General |
| Recommended by: | Auditor General |

## Report Summary

This report provides a recommendation regarding the Review of General Government Expense.

## Resolution

THAT the City of Greater Sudbury approves the recommendations outlined in the report entitled “Review of General Government Expense” from the Auditor General, presented to the Audit Committee on January 28, 2025.

## Relationship to the Strategic Plan, Health Impact Assessment and Community Energy & Emissions Plan (CEEP)

This report supports the strategic goal of demonstrating innovation and cost-effective services delivery.

## Financial Implications

There are no financial implications associated with this report.

## Resources Cited

See page 59 of 2022 MBN Canada Performance Measurement Report at the City’s website page on Performance Monitoring at the following link: Performance Measurement

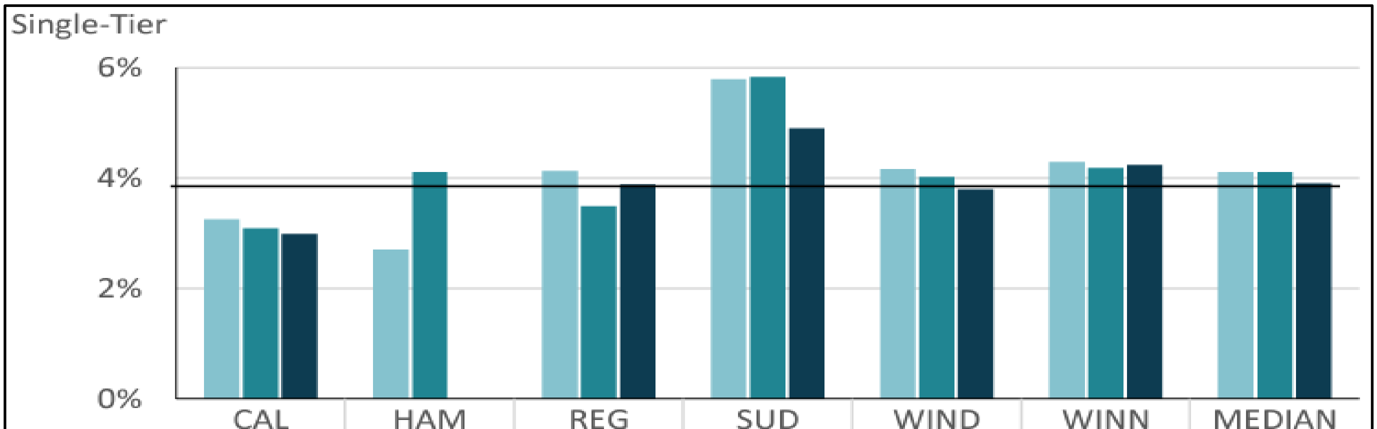
## OBJECTIVE

To review and assess the accuracy of the City's general government expenses as reported within recent MBNCan reports and to provide comments on the size of these expenses relative to our municipal peers.

## BACKGROUND

At the City Council meeting on October 10, 2023, a councillor expressed concern about the City's general government expense which was reported within the MBNCan report for 2022. As shown below, the expense for the City was higher than other cities that participated in the study for 2022.

**Table 1 - GENG301T - Total Cost for General Government Expense**




| | CAL | HAM | REG | SUD | WIND | WINN | MEDIAN |
|---|---|---|---|---|---|---|---|
| 2020 | 3.3% | 2.7% | 4.1% | 5.8% | 4.2% | 4.3% | 4.1% |
| 2021 | 3.1% | 4.1% | 3.5% | 5.8% | 4.0% | 4.2% | 4.1% |
| 2022 | 3.0% | | 3.9% | 4.9% | 3.8% | 4.2% | 3.9% |

## METHODOLOGY & SCOPE

This review included staff interviews, analysis of policies, processes, reports and data for 2020 to 2023.

## EXECUTIVE SUMMARY

This review indicated that the City's General Government Expenses are comparable to those in our closest municipal peers in Ontario. Nevertheless, this report recommended reporting separately on the City's General Government Expenses within annual budgets to improve budgetary controls over these expenses. It also provided recommendations on the City's future participation within annual benchmarking studies to ensure the City receives value-for-money from our participation in these studies.

## AUDIT STANDARDS

While we did not conduct an audit in accordance with Generally Accepted Government Auditing Standards, sufficient review and analysis were completed to obtain adequate and appropriate evidence to support our findings and conclusions. For further information regarding this report, please contact Ron Foster at the City of Greater Sudbury at 705-674-4455 extension 4402 or via email at ron.foster@greatersudbury.ca

## OBSERVATIONS AND ACTION PLANS

### A. Definition of General Government Expense

The General Government Expense includes expenses that are not related to direct services provided to the City's taxpayers. Expenses in this category include those from the following areas:

- Mayor's office
- Council expense
- Clerks
- Elections
- Real Estate
- CAO's office
- Communications
- Auditor General's Office
- Indigenous Relations
- Data Analytics

### B. Why was Our General Government Expense Higher than that Reported by Our Peers in 2021?

Most of the comparator municipalities in the MBNCan survey are large single-tier municipalities with three of these cities being outside the Province of Ontario. The larger municipalities would have the benefit of economies of scale. In addition, the western Canada cities are not responsible for the same services as Ontario municipalities (e.g. Social Services).

Secondly, In the Financial Information Return (FIR) to the Province, our City's COVID costs were contained in the General Government line. This was an error as these expenses were to be allocated to Emergency Services in accordance with the FIR instructions. MBNCan has also changed the calculation formula over time. With the COVID expenses removed, the table below reflects the appropriate results for GENG301T (General Government Expense), with the MBNCan restatements.

**Table 2 - GENG301T - 2021 Results with Restatements**

| | Original | Restate 1 | | Restate 2 | |
|---|---|---|---|---|---|
| **Numerator** | 31,250,005 | 31,250,005 | | 25,631,637 | **B** |
| **Denominator** | 617,779,886 | 537,659,188 | **A** | 535,689,990 | **C** |
| **Measure** | 5.1% | 5.8% | | 4.8% | |

**Notes**

**A** Restate denominator to remove amortization of approximately $80M (done by MBNCan for all municipalities) See Appendix 1

**B** Restate numerator to reclassification Covid-19 expenses of $5,618,368 and redistribute to Emergency Services

**C** Restated to match final 2021 FIR figures

## C. Inconsistent Reporting Practices

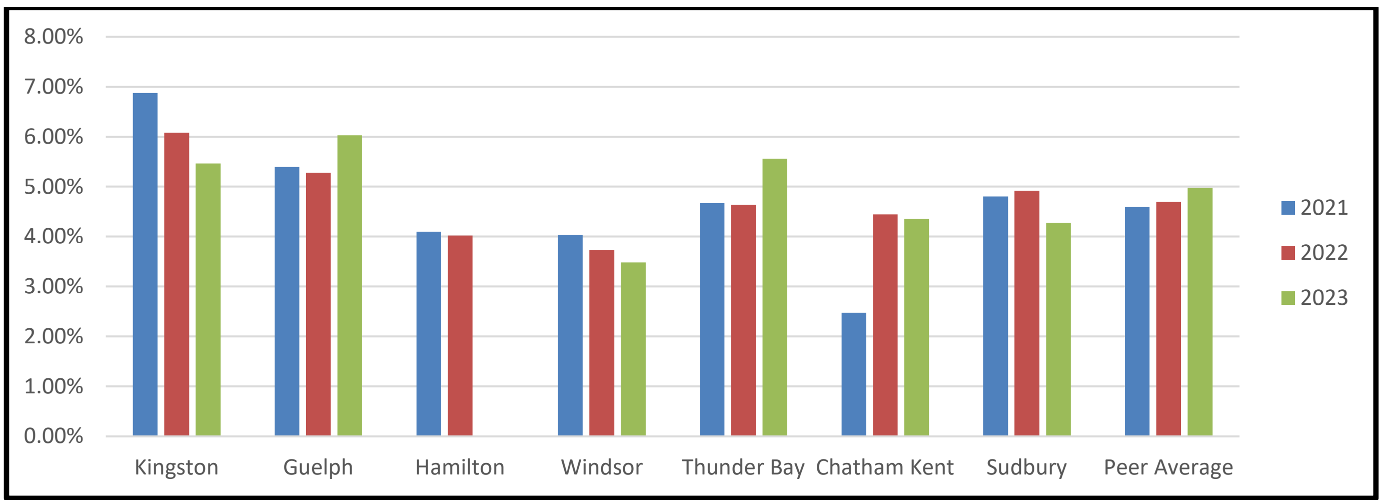
During the review of the GenG301T measure, inconsistencies were noted in the value of the KPI figure reported for Greater Sudbury from one year to the next, with no apparent changes in the underlying data. For instance, in the 2021 MBNCan report, the figure for GenG301T was reported as 5.1%. Then, in the 2022 report, the comparative figure for 2021 was restated to 5.8% (as shown in Table 1). Members of the current Council who were first elected in October 2022 would have only seen 5.8% for 2021 as part of the 2022 report. Similarly, the 2020 KPI figure was initially reported as 5.0% in both the 2020 and 2021 reports but was restated to 5.8% in the 2022 report.

While the MBNCan instructions for reporting expenses are set out in the data dictionary expense, allocations to General Government may not be the same for all municipalities. Different program delivery models and revisions to the MBNCan data dictionary for this expense create the potential for inaccurate data being included in the annual reports from MBNCan.

## D. Comparators for 2021 to 2023

As previously mentioned, most of the MBNCan single-tier comparators are much larger than the City of Greater Sudbury and not necessarily meaningful. For example, paramedic services and social services in Calgary are paid by the province of Alberta. As shown below in Table 3, relevant performance data is available within the Financial Information Returns of single-tier municipalities that are closer in size to Greater Sudbury.

**Table 3 - GENG301T - Results with Restatements and Comparators for 2021 to 2023**




| Year | Kingston | Guelph | Hamilton | Windsor | Thunder Bay | Chatham Kent | Sudbury | Peer Average |
|---|---|---|---|---|---|---|---|---|
| **2021** | 6.87% | 5.40% | 4.10% | 4.03% | 4.67% | 2.48% | 4.80% | 4.59% |
| **2022** | 6.08% | 5.28% | 4.02% | 3.73% | 4.64% | 4.44% | 4.92% | 4.70% |
| **2023** | 5.47% | 6.03% | N/A | 3.48% | 5.56% | 4.36% | 4.28% | 4.98% |

*Note- Hamilton has not filed its FIR for 2023 yet.*

The City of Greater Sudbury 2023 result is slightly elevated due to a cash infusion to the two sinking funds that support repayment of the City's bond issuance. Staff deemed it prudent to contribute $3 million to the sinking funds to ensure that the City continues to be in a surplus position in the event there is a severe reduction in interest rates that could affect the investments. This cash infusion was timed well as the investment in bonds received an attractive interest rate. The result of this $3 million investment is a 0.48% increase in the measure. Without this investment, the measure would have been just 3.8%.

**Recommendation D1:**

Perform annual benchmarking against similar municipalities in Ontario using data in the annual financial information returns.

***Management Response and Action Plan:***

*We acknowledge the recommendation to perform annual benchmarking against similar municipalities in Ontario using data from the Financial Information Returns (FIR). We use FIR data alongside other benchmarking metrics/programs to provide comparative performance analysis. While we recognize the value in identifying improvement opportunities, we also are cognizant of factors that may limit the attainment of the value we seek in exploring the approach recommended. For example, if we were to engage the cities of Toronto, Ottawa, Kingston, Thunder Bay, Chatham-Kent, Hamilton, Windsor and London (the single tier municipalities whose service mix most closely matches Greater Sudbury's) outside of a formal benchmarking initiative, we anticipate challenges with data timeliness and quality.*

*Municipalities submit their FIR data at different times throughout the year and it is likely the qualitative discussion about service characteristics would be more difficult outside a formal, committed benchmarking network. Greater Sudbury has been involved in MBNCan and its predecessor for many years and there is a risk that we would lose longitudinal data on important metrics Council and staff have relied upon in reports and budgets over time.*

## E. Projection for 2024

In consultation with members of Council, General Government Expenses were identified as an area for potential cost savings by the Auditor General's Office in June 2023 as this category of expenses receives less scrutiny in the annual budgeting process than expenditures that are directly tied to program delivery. Although comparisons with our peer group cannot be made for 2024 until the Financial Information Returns are filed in mid-to-late 2025, the General Government Expense for Greater Sudbury is likely to be higher in 2024 than 2023 due to the inclusion of the Data Analytics and Change division within this expense. This division was created in 2024 through the transfer of 16 Full-time staff from many other divisions within the City. These transfers were highlighted in the Organizational Summary tab of the 2024/25 Budget document.

**Recommendation E1:**

To improve budgetary controls over these expenses, report separately on budgeted and actual General Government Expenses within the budget package.

***Management Response and Action Plan:***

*A General Government section will be added to the budget document to further support Committee's understanding of the types of municipal expenditures that are included within this category. The section will define the municipal areas that are included, historical trend analysis on municipal spending related to General Government, as well as details related to significant changes in proposed budgets (for example, the addition of the Data, Analytics and Change Division). Where available, benchmark information from other municipalities can also be included.*

## F. Value of MBNCan Study Information

With the reduction of participation in the MBNCan study over the last few years, (leaving only 4 other cities including one in Ontario in the 2022 study), the value of this benchmarking information is questionable. Historically, the comparative measures within MBNCan have been added to the budget document with little follow up by staff on the data reported by other municipalities that participated in the study. Annual membership fees for participation in the MBNCan Study are $25,000, exclusive of staff time and travel.

**Recommendation F1:**

Staff should evaluate the costs and benefits of continuing to participate in the MBNCan Study relative to the minimal costs and substantial benefits associated with performing annual trend analysis with our own financial data and benchmarking against our closest municipal peers which are shown in Table 3 of this report.

***Management Response and Action Plan:***

*We acknowledge the recommendation to explore discontinuing participation in the Municipal Benchmarking Network Canada (MBNCan) study, particularly in light of the reduction in participation of comparators in the study. The network is undergoing a program review because many municipalities have left the network. Today, only York, Waterloo and Niagara Regions along with the cities of Winnipeg, Kelowna and Windsor remain in the network. Generally speaking, high performing organizations welcome and engage fully in competitive performance benchmarking. In the case of the MBNCan network, while there is a solid foundation of consistent measures and network infrastructure, the network has shrunk to 7 municipalities because members find the measures don't provide value in terms of service comparison. The program review that is underway is aimed at creating a more strategic set of municipal service measures that would allow for greater comparability of service levels and costs across municipalities.*

## G. Other Benchmarking Information – World Council City Data and BMA Municipal Study

The City is also involved with the World Council on City Data (WCCD) benchmarking group. This group has 31 Canadian municipalities and many international municipalities as members. Due to the large number of differences between the City and its international comparators, the relevance of this data is questionable. The annual fee for membership for this study is $23,000 USD excluding staff time.

Like most of our municipal peers in Ontario, Greater Sudbury also participates in the annual BMA benchmarking exercise which contains numerous benchmarks for revenues and expense as well as rates for property taxes, water and wastewater and tax ratios. This study also identifies key financial and economic indicators that should be considered as part of a comprehensive evaluation of a municipality's financial condition. This study is very relevant as it includes approximately 110 of Ontario's larger municipalities. The annual fee of $6,000 for participation is also very reasonable.

**Recommendations:**

G1. Staff should evaluate the costs and benefits of continuing to participate in the WCCD study.

G2. Staff should continue to participate in the annual BMA Study to evaluate the City's financial condition compared to those of our relevant municipal peers in Ontario.

***Management Response and Action Plan:***

*As above, the recommendation is acknowledged and we will undertake a review of our participation in the WCCD study. Unlike MBNCan, the WCCD network infrastructure is not as well developed but they make more strategic, service outcome measures available to us with a global scope of municipal comparators. Outcomes like overall quality of life indicators, crime statistics, community health indicators are much richer outcome measures than those available in the MBNCan dataset, yet the global comparison makes the service role of the municipality difficult to compare and their data collection and presentation infrastructure is cumbersome and difficult for municipalities.*

*We will absolutely continue to participate in the BMA study and explore, per recommendation D1 above, the use of Ontario based comparators using both FIR and BMA data as a foundation for comparison.*