



Budget and Financial Controls Policy

Scope

1. This policy applies to all Town departments, boards, committees, and other organizations falling within the reporting requirements of the Town of Parry Sound.

Definitions

2. The following definitions pertain throughout this policy:
 - a) "**Base Level Budget**" means that the base level for the budget for the current year will be the prior year's cost of providing all of the services approved in the prior year budget except for one time projects. The base level is set by taking the inputs approved in the prior year's budget and costing them, adjusting them for annualized costs, capital impacts on operations (growth), and inflation where inflation increases;
 - b) "**Annualized Costs**" means any costs approved in the prior year's budget that were included for only part of the year are converted to a twelve month period and included in the Base Level Budget. Annualized costs would normally apply to personnel and related costs and those costs related to municipal service contracts that had price escalations part way through the year or any that began part way through the year. These costs must be clearly identified in the Base Level Budget;
 - c) "**Pro Forma**" refers to budget requests that have one or more assumptions or hypothetical conditions built into the data. In business terms, pro forma financial statements and reports are prepared in advance of planned transactions and model the anticipated results of the transaction(s). The emphasis is on the projected cash flows, net revenues, and, for taxable entities, taxes. Pro Forma



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figures should be clearly labeled as such and the assumptions and hypothetical conditions should be clearly explained;

- d) "**Multi-Year Budget**" refers to a budget that covers more than one fiscal year;
- e) "**Capital Impacts**" means the additional operating costs that relate to operating or maintaining a capital project that has been completed and is now "in use". This term is used synonymously with Growth Adjustment;
- f) "**Growth Adjustment**" allows for growth that will occur in the Town in the current year. For example, new roads completed in the prior year will require upkeep in the current year and will form part of the growth adjustment. In order to obtain new growth dollars, there must be a comprehensive business plan and program or service level justification report including an exit strategy if the program or service enhancement does not meet the goals established for a successful outcome;
- g) "**Treasurer**" means The Director of Finance and POA Court Services, or any person appointed by the Corporation to fulfill the statutory requirements of the Treasurer under the Municipal Act, 2001.

Municipal Policy - Operating Budget

Operating Budget and Business Plan Preparation

- 3. Each Director shall prepare and submit annually to the Treasurer their Operating Budget Requests on the forms and format prescribed by the Treasurer.
- 4. Direction in terms of corporate wide assumptions and conditions will be defined in the "Budget Guidelines Report" prepared by the Treasurer.

Operating Budget Process

- 5. All Operating budget estimates will be reviewed and approved for presentation to Council as follows:



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- a) Guidelines are set by Council based on staff recommendations in a report prepared by the Treasurer and the Senior Leadership Team;
- b) Finance staff shall prepare detailed instructions to be followed in the preparation of all operating estimates;
- c) Departments shall prepare budget estimates to identify the Base Level Budget requirements at **existing** service levels;
- d) Departments shall identify new programs and/or service levels and provide costs and justifications for the changes;
- e) Departments shall provide estimates of the number of full-time equivalent requirements and provide costs and justification for any increases from the Base Level;
- f) Departments shall identify goals and objectives for the upcoming year that integrate the operating and capital budget request with the Strategic Plan and other studies/reports adopted by Council;
- g) Revenues/Expenditures are to be calculated based on known commodity trends, approved studies/reports including user fee reports/by-laws and master plan reports, etc;
- h) The CAO and the Treasurer will meet with each department to verify timing, costs (including review of the source documents that formed the basis for the cost estimates), and identify external funding sources: grants and subsidies, fundraising, and donations;
- i) The Senior Leadership Team shall evaluate each new program and/or service enhancement on the basis of immediacy and need in the following order:
 - o Legislative requirement;
 - o Capital impacts;
 - o Growth adjustments;
 - o Cost savings or inherent efficiencies;
 - o Identified need with self-sustaining revenues available; and
 - o Identified need with no corresponding revenue possibilities.



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- j) The Senior Leadership Team shall review all program and or service levels for potential cuts or rationalization;
- k) Finance staff will compile appropriate operating budgets and summaries to be incorporated into the budget document;
- l) The Senior Leadership Team will review the compiled operating budget and supplementary information for accuracy, completeness, and adherence to Budget Guidelines;
- m) Operating budgets will be presented to Council for approval with their associated capital estimates and business plans.

Operating Budget Spending Before Budget Approval

- 6. Departments are authorized to expend funds at the previous year's service levels, unless specifically directed otherwise by Council until the current year's operating budget has been approved.
- 7. No new programs or service enhancements are to be initiated before the operating budget is established without the prior approval of Council.

Emergency Spending

- 8. In accordance with the Town's Procurement Policy, where authority has not been given in the Operating Budget for a particular expenditure or line item, no department shall expend funds unless:
 - a) Approval was granted by Council through a report outside the budget process prepared by the Director requiring the expenditure;
 - b) An emergency occurs requiring immediate spending and the CAO and Senior Leadership Team approved such emergency spending in accordance with the Town's Procurement Policy.



Operating Budget Reporting

9. A quarterly financial detail of the operating budget will be provided to Council beginning in the second quarter (June 30) which shall include a variance analysis for accounts in a format prescribed by the Treasurer.
10. A detailed current monthly financial statement for the Operating Budget be provided to all Department, no later than the second Friday of the following month.
11. The Treasurer will review financial statements quarterly with all Departments and provide assistance in analysis of accounts and preparing forecast changes to the budget as required.

Authority for Budget Changes

12. Where authority has been given in the Operating Budget and an increase to the approved amount is needed the approval amount is authorized as detailed below:
 - a) Any such increase is to be offset by a corresponding decrease(s) in other line items or through enhanced revenues to be realized from the additional expenditure;
 - b) The Treasurer may approve, including the source of financing:
 - o Up to \$1,000 for line items budgeted under \$10,000;
 - o Up to \$1,500 for line items budgeted \$10,000 to \$19,999;
 - o Up to \$2,500 for line items budgeted \$20,000 to \$29,999; or
 - o Greater of 5% or \$2,500 for line items over \$30,000;
 - c) The Chief Administrative Officer may approve, including the source of financing, up to \$25,000 for any line items budgeted
13. A summary of budget changes to the approved amount, in accordance with section 12 above, will be provided to Council with the quarterly variance report.
14. Exceptions to the above approvals will occur when Section 275 of the Municipal Act regarding Restricted Acts after nomination day is in effect. The upper limit for any approvals shall be as stated in the Act.



Operating Budget Principals

15. The principles for operating, planning and funding are:

- a) The operating budget will be balanced as per the legislative requirements outlined in the Municipal Act. Any shortfall in budgeted revenues versus expenditures for a budget period will be offset by tax levies equal to the shortfall thereby resulting in a balanced budget.
- b) The Town shall not utilize one-time revenues for ongoing expenditures. However, one-time revenues may be used to fund non-recurring expenditures or services that can be completed within a specific amount of time without significant disruption to the Town provided it is duly approved by Council. At year-end, unallocated one-time revenues will form part of the Town's surplus and be allocated per the Town's Operating Surplus/Deficit Policy.
- c) One-time revenues include, but are not limited to: grants or subsidies from other levels of government or municipalities that are not legislated to recur annually, transfers from Reserves and Reserve Funds, and proceeds on sale of property.
- d) Certain municipal revenues can be termed "unpredictable" as they fluctuate year to year and are not under the direct control of the Town. The budget amount for unpredictable revenues shall be conservative in nature and represents management's "best" estimate at the time of the budget.

Municipal Policy - Capital Budget

Capital Expenditure

16. A capital expenditure is defined as a significant expenditure incurred for the improvement, acquisition or major rehabilitation of buildings, equipment, rolling stock and infrastructure used in providing municipal services (including studies undertaken related to such expenditure).



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17. A capital expenditure includes Capital Assets as defined and detailed in the Town's Tangible Capital Asset Policy.
18. A capital expenditure will have benefits lasting beyond one year and have a minimum threshold of \$5,000 or as otherwise stipulated in the Town's Tangible Capital Asset Policy.
19. A repair or maintenance expenditure designed to maintain an asset in its original state is not a capital expenditure, unless it will extend the useful life of the asset. Such repairs or maintenance expenditures shall be included in the Operating Budget.

Project Management Surcharge

20. Certain capital projects will include an appropriate amount for wages and benefits where a significant amount of staff time will be spent on the project management duties related to the project.
21. Such wages and benefits shall be on a cost recovery basis. Staff working on capital projects will estimate the amount of time that will be required for the management of the project and provide that information to the Finance Department.
22. Staff wages will be paid from their departmental operating budget, with a cost recovery from the capital project being booked by the Treasurer, or delegate, on a quarterly basis.

Capital Budget Preparation

23. Each Department shall prepare and submit annually to the Treasurer their Capital Budget requests and 5-year forecasts on the forms and in the format prescribed by the Treasurer.
24. Each Capital Budget and Forecast shall include:
 - a) The project ID number (to be set by Finance Department);
 - b) The responsible department;
 - c) The service or program within the department to which the project applies;

- d) The year of initiation of the project;
- e) The flexibility in the timing of the project (e.g. if there is a reason that it must go forward in a certain year due to legislated requirements, development or safety);
- f) An indication of whether the project is growth related and will have growth funding;
- g) A project name which shall be consistent throughout all studies and Town documents;
- h) A brief description of the project which should identify the objectives of the project and a describe how the objectives are achieved, including the need for the project;
- i) The Strategic Plan objectives that the project is related to;
- j) An indication of the project priority ranking, following the ranking system in place;
- k) Priority comment that provides the rationale for the assigned ranking;
- l) A detailed estimate of each project's costs net of HST rebates, including a breakdown by year for multi-year projects;
- m) The financing of each project, including any known information regarding grants/subsidies, direct developer contributions, external contributions or other. The Finance Department will complete the remaining financing breakdown;
- n) An identification of operating impacts/expenditures that result from the capital project, including any additional transfers to reserves required due to increased need for replacement of new equipment and/or new facility components that will be required in the future. At least one full year of operating costs/revenues will need to be estimated. Any savings due to upgrades should be identified.

Capital Budget Priority Ranking Process

25. Capital budgeting requires Staff and Council to allocate the scarce financial resources of the Town to meet the needs of the Town in the present and future. As a principle, the "best interests" of the community as a whole should be at the core of all capital budgeting decisions.



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26. Staff will rank projects to assist in the determination of which projects should be recommended to be included in the Capital Budget. Any new capital project, that is a capital project that is not replacing or rehabilitating an existing capital asset, should be accompanied by a business case report which will form part of the capital budget document and will be in the form prescribed by the Treasurer.

27. The following rankings shall be used to prioritize capital projects:

a) "5 Star"

- Legislative requirements. The projects must be completed to meet statutory or mandated initiatives and are the highest priority for funding. Items included in this ranking are mandated accessibility requirements, minimum maintenance standard requirements;

b) "4 Star"

- Committed projects. Projects that have already commenced and are simply a continuation from a prior year(s);
- Serious threat to Public Health and Safety. There is a recognized health and safety issue that could place the Town in a situation of high risk if not for immediate corrective action;
- Phased project. A project, that if not completed, would preclude continuation of another project, result in the loss of external funding opportunities or is a corollary project that is fiscally efficient (e.g. replacement of sewer at same time as road reconstruction);
- Dependent project. A project that would preclude growth if not completed; a project that is tied to one in another jurisdiction and will minimize public disruption or be fiscally efficient;
- Growth related project. This priority would apply to a project that is partly funded through Development Charges, sufficient funding is available and growth would be impeded if the project were delayed;



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- o Critical lifecycle maintenance items. These are projects that can no longer be put off;
- c) "3 Star"
 - o Growth related projects. These projects would be funded in whole or in part by Development Charges but can be done "in their turn" or wait for sufficient Development Charge funding to become available;
 - o Serious lifecycle maintenance items. These are projects where there may be a one or two year period before it becomes critical;
- d) "2 Star"
 - o Lifecycle maintenance items. These are projects where there may be three to four budgetary periods before it becomes critical;
 - o Operating cost reduction or efficiency. The project will reduce net current and future operating or maintenance costs. The payback period must be less than five years;
- e) "1 Star"
 - o General benefit to the Town. These projects would have general benefit to the community as a whole but may not have any funding. These are "nice to have" items;
 - o Lifecycle maintenance items. These are projects where there is a period of more than four years before they would be deemed critical;
- f) "No Stars"
 - o These projects would be recommended for postponement or elimination because they require further development of the justification of benefit, need, proper timing or adequate funding;



Capital Budget Process

28. Capital budget project requests will be reviewed and approved for presentation to Council as follows:

- a) Staff will identify the projects and submit their capital project sheets to the Treasurer;
- b) The Treasurer will meet with each department to verify timing, costs and identify external funding sources (grants, subsidies, fundraising, donations);
- c) Finance staff will review for internal funding sources such as transfer from operating and reserves, development charges, reserve funds and debentures;
- d) The Senior Leadership Team will meet to rank each project;
- e) All projects submitted will be included in the capital budget document;
- f) Finance staff will compile the appropriate continuity and cash flow schedules and annual capital budget summaries to be incorporated into the budget document;
- g) The Senior Leadership Team will review the compiled capital budget and schedules for accuracy and completeness;
- h) Capital budgets will be presented to Council for approval with the associated operating estimates and business plans.

Capital Spending Before the Budget Approval

29. Until the Capital Budget has been approved by Council, no department will begin any capital project that was not authorized in prior years unless:

- a) Approval was granted by council through a report outside of the budget process prepared by the Director requiring the expenditure or the CAO;
- b) An emergency occurs requiring capital repairs and the purchase was approved through the processes outlined in the Town's Procurement Policy.



Capital Budget Reporting

30. A quarterly financial detail of the capital budget will be provided to council beginning the second quarter end (June 30th).
31. A summary listing of capital budgets will be provided to Directors with the monthly operating statements.
32. Any capital project that has a variance in excess of 5% or \$10,000 (whichever is more) shall have an explanation as part of the quarterly reporting to Council.

Authority for Budget Changes

33. Where authority has been given in the Capital Budget for a particular project, and an increase to the approved amount is needed the approval amount is authorized to reallocate funds from one project to another as detailed below:
 - a) The Treasurer may approve, including the source of financing:
 - o Up to \$5,000 for projects budgeted under \$100,000;
 - o Lesser of 5% or \$25,000 for projects budgeted at \$100,000 and over;
 - o If no other capital projects for the affected department have been approved, the amount may be transferred from the operating budget of that department;
 - b) The Chief Administrative Officer may approve, including source of financing:
 - o Up to \$25,000 for all projects;
 - o If no other capital projects for the affected department have been approved, the amount may be transferred from the operating budget of that department;
 - o If an operating transfer is required and the department does not have sufficient operating budget available, the CAO may request other departments to review their capital and operating budgets to determine if there are any amounts that could be transferred.
34. Council approval is required, including the source of financing for:
 - a) Project over expenditures in excess of \$100,000 of budget.



b) Any capital project to be added or cancelled.

35. A summary of budget changes to the amount, in accordance with sections 33 and 34 above, will be provided to Council with the quarterly financial report.

Project Completion

36. No later than 60 days after the completion of the project, the Director, or designate, is to advise the Accounting Supervisor that the project is complete.

Municipal Policy - Tax Rate Increases

37. The Town faces fiscal pressures from increasing costs of operating while relatively limited revenue sources are available legislatively. The primary source of sustainable revenue is through the collection of property taxes.

38. The Town will budget to ensure that tax increases are reasonable and affordable, while still maintaining the level of service that Council and residents expect.

39. Staff will prepare and present a budget to Council, for consideration, on an annual basis based on an increase in the tax levy (excluding growth) within a range of:

a) At the low end, by the higher of:

- o 100% of The Consumer Price Index year over year change for the Province of Ontario as at July 31 for the year prior to the budget year (e.g. July 31, 2015 for the taxation year 2016); and
- o The percent increase as stipulated under collective bargaining for wage increases for the year, the higher of the union increase and the non-union increase as approved in the applicable by-law.

b) At the high end, 200% of The Consumer Price Index year over year change for the Province of Ontario as at July 31 for the year prior to the budget year.

40. Staff will also prepare a list of all items considered and cut in order to reach the tax levy identified in paragraph 39 above. This list will be presented to Council for consideration.



Policy Review

41. This policy shall be reviewed prior to the initiation of the budget process of the first year of each term of Council, or if deemed necessary.