

CORPORATE POLICY



Name of Policy:	Capital Budget & Finance Policy
Policy Number:	CS – 027, Rev. 01
Responsibility:	Finance Department
Approval:	Mayor and Council
Approval Date:	June 17, 2019, <i>Revised June 22, 2020</i>
Date of Next Review:	June 2021 (2 Years) <i>Staff</i> June 2024 (5 Years) <i>Council</i>

1.0 Purpose

The capital budget is a multi-year financial plan, forecasted over a ten-year timeline. The budget provides for the planning of future financial resources required to finance capital expenditures. The capital budget should also identify the future financial resources to be allocated from the operating (revenue fund) budget to use and maintain the capital asset.

This policy supports a disciplined approach that reflects the City's strategic plan of reducing its debt servicing. The capital budget will be reviewed by management and council to ensure the City has the financial capability to cover the costs over the long term, through its various sources of funding.

2.0 Policy Statement

The capital budget is an important planning tool, it allows the City to provide for the necessary infrastructure to maintain or enhance future service levels. Through capital budgeting, the City can plan future operating budget expenditures, debt repayment and potential reserve fund needs in order to manage the financial position of the City over a five to ten year period. In addition, the capital budget provides the basis for the implementation of the official plans, master plans and strategic plans, and also provides the financial mechanism to implement Council's planning and fiscal policies.

3.0 Scope/Application

1. Development of Capital Project Submissions

The initial phase of the budget cycle involves the collection of information on the future capital requirements of the City. The preliminary review would identify all projected new capital projects and the related expenditure requirements and a review and evaluation of current ongoing projects to confirm or amend their future expenditure requirements.

The capital budget preparation requires extensive communication and a coordinated effort with staff responsible for budget allocations. To be

successful, teamwork is required from all department managers and directors.

User department managers are required to identify new capital needs for maintaining and enhancing their service objectives (see Capital Project sheet – Appendix 1). Identification of these needs can arise from many different sources; some examples are:

- Asset Management Plans
- Master plans
- Strategic plans
- Official plans
- Community committee input
- Service development or enhancement objectives
- Council requests
- Review of asset inventory (for replacement)
- Provincial or Federal Government initiatives
- Emergency issues (Health & Safety)
- Joint initiatives with other local municipalities, the County or community groups

The operating budget impact of the capital project (net of associated revenue) is to be projected for each year of the forecasted period.

In addition to new projects, existing projects, which have been previously approved by council that are not complete, will also have to be reviewed. The status of the emerging costs versus the approved budget and the timing of the remaining expenditures will have to be documented and reviewed (see the Work-in-Progress sheet – Appendix 2).

2. Review of Capital Project Submissions

The Senior Management Team (Team) represents all user departments and assists with the evaluation of timelines for carrying out the process. The Team consists of the Chief Administrative Officer, Director of Finance, Accounting & Budgeting Manager and the appropriate representative Director. The Team will review the information submitted i.e. project papers regarding capital requests.

As resources are not available to finance all capital projects submitted, the Team will rank and prioritize the various capital projects with the use of a Prioritization Matrix (Appendix 3) that takes into account the City's strategic objectives, project criticality, funding opportunities and risk management. A comment will be provided to substantiate or

explain the rationale as to why a particular priority has been assigned to a respective project.

The CAO, Director of Finance and Accounting & Budgeting Manager will have the responsibility for assigning internal sources of financing (reserves, tax levy etc.) and for recommending which projects should be debt financed. Input from the appropriate departmental staff will be taken into consideration.

The Work-in-Progress is a key review for the capital budgeting process since delayed projects or projects coming in under budget may free up financial resources. Alternatively, projects that experience cost overruns, if approved by council, will call on financial resources. The expenditures to date and financing applied to the approved project to date are elements to be included on the Work-in-Progress sheet.

It is important to distinguish between previously committed projects and new projects, since previously committed financing will reduce funds available for the new budget cycle.

3. Review of Capital Budget by Council

It is essential that staff and Council are committed to working together. Two-way communication is critical to sustain and direct energies towards incorporating the City's strategic focus into the budget. Council's input to the process is imperative as it will establish the direction the City will take over the short to medium term. The capital budget affects future operating expenditures, therefore guidance should be sought to ensure that the desired service levels and tax levels are managed and planned. Council remains responsible for all budget decisions.

Staff will formally present a recommended capital works program to council. The following will be communicated:

- Identification and prioritization of capital projects
- Summary of Works in progress and financial commitments made to date
- Summary of Capital spending by service
- Summary of Funding Sources
- Summary of Debt amounts anticipated
- Long term impact on tax and user rates
- Listing of works that did not get included in the capital program

When the ten year projection is presented, it is noted that year's one through five are approved whereas years six and forward represent a forecast for consideration with approval in subsequent years. That

being said, the capital program will be updated and provided to Council for re-adoption annually.

4. Public Information Session

The community is given the opportunity to provide feedback on the draft capital budget. The timing, location and types of services the City is planning to acquire or construct is presented along with a summary of the financial implications.

5. Review of Capital Budget by Council

The capital budget is developed and given final approval at the same time as the operating budget.

Approving a multi-year capital budget gives the City several advantages. Projects can be tendered early in the construction season, multi-year projects can be tendered as a complete initiative, and larger quantities of similar products (e.g. busses) can be tendered simultaneously for staggered receipt dates, thereby achieving optimal tender prices. It also helps spread the heavy workload associated with the budget process over a longer period of time, thereby achieving a more efficient use of staff time and resources.

After final approval, the capital plan is adjusted, subject to council approval, when the following circumstances occur:

1. Emergency capital requests are received,
2. There are changes to the City's financial capacity (e.g. new grants),
3. There are changes in strategic priorities (e.g. mandated by higher levels of government).

Reference the Procurement of Goods and Services Policy for how budget exceedances are managed.

6. Sources of Financing

Sources of capital funding can be categorized into three main groups:

1. **External sources** of financing include other government subsidies and grants (both federal and provincial), development charges, developer fees, fundraising or donations/bequests, third party contributions under public/private partnership arrangements, etc. Projects dependent on external funding will not commence until such funding is secured.
2. **Internal sources** of financing include property taxes, transfers from other City funds (i.e. operating or reserves) or sales of

existing assets. Reference the Reserves and Reserve Fund Policy for more information on how reserves are managed by the City.

3. **Debt or lease financing** includes external borrowing and other long term repayment obligations. Reference the Financial Policy Statement for more information on how debt is managed by the City.

4.0 Definitions

“Annual Budget” means a budget applicable to a single fiscal year for the City.

“Budget” means a plan of financial operations embodying an estimate of proposed expenditures for a given period and the proposed means of financing them.

“Current Budget” means the annual budget prepared for and effective during the present year for the Revenue Fund.

“Capital Budget” means a plan of proposed capital fund expenditures and the means of financing them from the current fiscal period and over a longer term planning horizon.

“Capital Fun” means the capital fund is used to accumulate the revenues and expenditures for the acquisition or replacement of the capital assets of the municipality. In general, capital assets refer to the buildings, equipment and infrastructure of the municipality. Included are municipal buildings, arenas, trucks, graders, roads, water/sewer systems and the like.

“Capital Expenditure” means a capital expenditure is one that results in the acquisition, construction, development or betterment of a tangible asset.

“Criticality” means the severity of a given consequence against the probability of that consequence occurring. For example, if there is a high probability that an asset will fail in a way that causes great personal injury or severe operational issues, that asset is highly critical and should be prioritized accordingly.

“Debt” means an obligation resulting from the borrowing of money for the purchase of goods and services.

“Debt Limit” means the maximum amount of gross or net municipal debt permitted with OMB approval as regulated by the province.

“Debt Charges” means the annual charges required to service the long term debt of the City including the amount for principal repayments, interest due

within the year, and required sinking fund contributions.

“Debt Term” means the borrowing term of all long-term debt incurred by the City equal to or less than the estimated life of the assets being financed.

“Debt Retirement” means the long-term debt is retired at final maturity through serial retirements.

“Fund” means an independent fiscal and accounting entity with a self-balancing set of accounts segregated for the purpose of carrying on specific activities. There are three funds; the Revenue Fund, Capital Fund and the Reserve Fund.

“Pay-As-You-Go” means the term is used to describe the financial policy whereby capital outlays are financed from current revenues and/or reserves rather than debt.

“Reserve Fund” means those funds that have been set aside either by a by-law of the council or by a requirement of provincial legislation to meet a future event. As a result, reserve funds are either “permissive” being those set up by council or “regulatory” being those set up by virtue of a requirement of a provincial statute.

“Revenue Fund (Current or Operating Fund)” means the revenue fund is the principal fund, found in all municipalities. This is the fund into which the main sources of financing available to the municipality are recorded. Taxation revenue, grants, interest earned on investments, service charges, licenses and permits are all recorded in this fund. It is also the fund that records disbursements for the everyday operating expenditures of the City.

5.0 Policy

Please refer to Section 3.0 Scope.

6.0 Roles and Responsibilities

This policy shall be reviewed by the CAO, Director of Finance and the Accounting and Budgeting Manager at least every two (2) years and by Council at least every five (5) years.

7.0 Process

Please refer to the Operating and Capital Budget Guidelines (staff document).

2021 Capital Project Request

Capital Project Name**Department**

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Project Manager**Start Date****Completion Date****Project Classification**

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Project Description, Justification, & Impact on Operating

DRAFT – SUBJECT TO AMENDMENTS

Assessment

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Prioritization Ranking (out of 100)

Ranking:

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- The assets being acquired and/or disposed as part of this project have been identified and submitted with the capital request.

Project Cost Breakdown

Project Component/Phase	2021	2022	2023	2024	2025	Total
						-
						-
						-
						-
Total Project Cost	-	-	-	-	-	-

Funding Sources

Year	2021	2022	2023	2024	2025	Total
Validated Request	-	-	-	-	-	-
Funding Sources						
Reserves/Reserve Funds						-
Grant						-
Donation						-
Other						-
Prior Year Funding						-
Total Funded	-	-	-	-	-	-
Total Unfunded	-	-	-	-	-	-

2021 Work In Progress Request

Capital Project Name**Department**

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Project Manager**Start Date****Completion Date****Project Classification**

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Project Description, Justification, & Impact on Operating

DRAFT – SUBJECT TO AMENDMENTS

Impact of Deferral

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Prioritization Ranking (out of 100)

Ranking:

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- The assets being acquired and/or disposed as part of this project have been identified and submitted with the capital request.

Project Cost Breakdown

Project Component/Phase	2021	2022	2023	2024	2025	Total
						-
						-
						-
						-
Total Project Cost	-	-	-	-	-	-

Funding Sources

Year	2021	2022	2023	2024	2025	Total
Validated Request	-	-	-	-	-	-
Funding Sources						
Reserves/Reserve Funds						-
Grant						-
Donation						-
Other						-
Prior Year Funding						-
Total Funded	-	-	-	-	-	-
Total Unfunded	-	-	-	-	-	-

Appendix 3

Capital Project and Major Initiatives Prioritization Matrix

Enter Project Name Here

#	Criteria	Description	Max Value	Scoring Description	Assigned Value	Weight	Score
1	Project Category	5 categories of projects that support different classifications of projects which vary depending on importance and impact to the public	100	Essential Projects - this category includes capital projects that have a legal, safety, regulatory or other mandated minimum requirement where not achieving these requirements would lead to legal action, fines, penalties or high risk of liability against the Municipality.		20%	0
			80	Priority Projects - this category includes projects required to maintain critical components in a state of good repair. These projects are not mandatory but will maintain critical infrastructure at current service levels.			
			60	Efficiency or Cost Savings Projects - These projects have a positive breakeven over the life of the capital investment due to operational cost savings and will provide financial benefits in the future.			
			40	State of Good Repair/Lifecycle - This category includes projects that maintain existing capital infrastructure. These projects are not mandatory but if the project is not undertaken the current level of service/condition of the capital asset will decline.			
			20	Improvement (non-essential) - This category includes: projects that will increase current service level; new facilities; expansion of existing facilities or new initiatives.			
2	Strategic Alignment	The project's alignment with strategic goals as set out in a departmental Master or Strategic Plan	100	Directly aligned with Strategic Plan and/or a Master Plan.		10%	0
			50	Indirectly linked to Strategic Plan and/or a Master Plan			
			0	No alignment with any strategic goals			
3	Operating Budget Impact	Incremental increase/decrease on operating budget as a result of the project	100	Significant decrease in operating costs (> \$50,000)		10%	0
			50	Moderate decrease in operating costs (between \$20,000 and \$50,000)			
			25	Marginal decrease in operating costs (between \$5,000 and \$20,000)			
			0	Little or no impact on operating costs (+/- \$5,000)			
			-25	Marginal increase in operating costs (between \$5,000 and \$20,000)			
			-50	Moderate increase in operating costs (between \$20,000 and \$50,000)			
			-100	Significant increase in operating costs (> \$50,000)			
4	Consolidation of Services	The project combines functions and services creating space efficiency and reduces staffing demands	100	Combines 3 or more functions/services		5%	0
			50	Combines 2 or more functions/services			
			0	No consolidation of functions/services			
5	Risk Assessment	The extent to which the project will address/mitigate risk to public health and/or occupational health and safety	100	Significant impact		15%	0
			50	Moderate impact			
			10	Low impact			
			0	No impact			
6	Financing		100	Financed entirely from external sources and must proceed immediately to leverage funds		15%	0
			90	Financed entirely from external sources			
			75	75% - 99% of project financing is from external sources			
			50	50% - 74% of project financing is from external sources			
			25	25% - 49% of project financing is from external sources			
			10	Less than 25% of project financing is from external sources			
0	Financed entirely from debt, tax levy or tax levy funded reserves						
7	Cost/Benefit (Payback)	Project will generate cost savings and/or revenue enhancements that will provide a positive return on investment	100	Able to measure a positive ROI with a payback period of less than 7 years		10%	0
			50	Able to measure a positive ROI with a payback period of greater than 7 years			
			0	ROI difficult to measure			
8	Service Levels	Impact on the service levels to the public as a result of the project	100	Addresses a current service level deficiency so level of service standard is achieved		10%	0
			50	Increases level of service			
			0	Has no impact on service level			
9	Community and Economic Impact	Impact on businesses and economy in terms of revenue generation (job creation, assessment growth, tourism, etc.)	100	Generates a significant economic benefit to the local economy		5%	0
			50	Generates a moderate economic benefit for the local economy			
			10	Limited, minimal or no economic benefit for the local economy			
TOTAL SCORE:					0	100%	0