

Date: June 9, 2022	Originator's files:
To: Chair and Members of Budget Committee	
From: Shari Lichterman, CPA, CMA, Commissioner of Corporate Services and Chief Financial Officer	Meeting date: June 27, 2022

## **Subject**

**New Finance Policies and Reserves and Reserve Funds By-law**

## **Recommendation**

1. That the Corporate Policies – Operating Budget Policy, Fees and Charges Framework Policy, Budgeted Position Control Policy, Capital Budget Policy, and Reserve and Reserve Fund Policy contained in appendices to the report dated June 9, 2022 from the Commissioner of the Corporate Services and Chief Financial Officer entitled “New Finance Policies and Reserves and Reserve Funds By-law” be approved.
2. That the Reserves and Reserve Funds By-law 0298-2000, as amended, be repealed and replaced with a new Reserves and Reserve Funds By-law.
3. That the Budget Control By-law 0262-1997 be repealed.
4. That all necessary by-laws be enacted.

## **Executive Summary**

- Staff have prepared five new Finance policies:
  1. Operating Budget
  2. Fees and Charges Framework
  3. Budgeted Position Control
  4. Capital Budget
  5. Reserve and Reserve Fund Management
- The policies provide definitions, principles and guidance for financial functions, processes as well as outlines roles and responsibilities to assist City staff.
- The Treasurer be authorized to administer related guidelines and procedures.
- Staff have developed a new overarching Reserves and Reserve Funds By-law and the procedural details have been moved to the new Reserves and Reserve Funds Management Policy.

- Staff recommend that the Budget Control By-law 0262-1997 be repealed, as the details regarding Capital and Operating Budget processes are now outlined in new Capital Budget, Operating Budget and Position Control Policies. Legal Services has advised that a new by-law is not required.

## Background

The annual budget and forecast is a document that allocates resources to City programs, establishes the funding required from various sources; particularly the property tax and provides spending authority to staff to undertake these programs. The budget and financial reporting framework has been determined by Council through by-law 0262-1997, the Budget Control By-law and by-law 0298-2000, the Reserves and Reserve Funds By-law. Staff have undertaken a review of the framework and determined that it can be strengthened through the adoption of five new comprehensive corporate policies, repealing the Budget Control By-law and updating the Reserve and Reserve Fund By-law.

### Consultation Process

The five new Corporate Policies, being Operating Budget, Fees and Charges Framework, Budgeted Position Control, Capital Budget, and Reserve and Reserve Fund Management and the updated Reserves and Reserve Funds By-law reflect a rigorous and extensive review and consultation process. The review process included engagement with internal stakeholders and against benchmarking of other Ontario Municipalities and Regions, material published by the Government Finance Officers Association of the United States and Canada as well as legislative requirements as defined by the *Municipal Act, 2001, as amended*.

## Comments

A budget and financial reporting framework is necessary to ensure that the budget is prepared according to legislation and Council direction. It establishes the procedures necessary to prepare the annual budget and forecast, delegates certain administrative decisions and ongoing spending authority to staff, determines the frequency of variance reporting (actual compared to budget) and year end results forecasting to Council and the public, provides guidance in establishing and maintaining a system of user fees and ensures that a mechanism controlling staff complement based upon delegated budget spending authority is in place.

### Policies:

The key highlights proposed for each policy are summarized below:

1. Operating Budget
  - a. Finance shall present Operating Budget monitoring reports to Council at least twice a year, including forecasted variances.
  - b. Any spending over net budget must be approved by the respective Department Head.

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- c. Any adjustment to Council approved Operating Budget for the active budget year must be approved by the respective Department Head and have no impact on the net budget.
  - d. No expenditures shall be incurred until the budget for the current year has been approved by Council unless the following two conditions are satisfied:
    - o Budget for a similar item existed in the prior year's Operating Budget; and
    - o The expenditure does not exceed 50% of the amount budgeted for that item in the prior year's Operating Budget.
2. Fees and Charges Framework
- a. This policy applies to all City programs and services levying User Fees, excluding the Stormwater Program.
  - b. Council approval is required before implementation or elimination of any User Fee and for subsidy, waiver and exemption programs.
  - c. Department Heads are responsible for approval of the appropriate User Fee targets
3. Budgeted Position Control
- a. Permanent and Contract Positions are to be stated in terms of FTEs (Full Time Equivalent) only; pooled positions will only be tracked through budget.
  - b. Council approval is required for increasing position count and budget; and position conversion from contract to permanent.
  - c. Department Head approval is required for transfer of positions and change of position grade, subject to job evaluation where required.
4. Capital Budget
- a. Capital Budget Guidelines will be developed by Finance based on Leadership Team direction and priorities.
  - b. Finance's recommendation will be to prioritize and fund SGR (State of Good Repair) Capital Projects while maintaining a targeted balanced split (approximately 70% SGR: 30% new initiatives). The split is endorsed annually by Leadership Team.
  - c. Finance recommends which projects will be funded using debt.
  - d. WIP (Work in Progress) reporting: Projects will be recommended for closing based on:
    - o No additional expenditures or commitments within two years of approval;
    - o Re-occurring capital projects (bucket budgets) to be closed within three years, provided there are no outstanding commitments;
    - o Capital Projects not remain open due to outstanding Statutory Holdbacks and Warranty Holdbacks, if it has been fully expensed for the full costs of the project. A corresponding liability will be established instead.
5. Reserve and Reserve Funds
- a. Council approval is required for creating, amending and closing Reserve and Reserve Funds.

- b. Reserve and Reserves Funds are permitted to carry negative balances, as authorized by the Treasurer and Treasurer will arrange to replenish the balance.
- c. Borrowing between Reserves and Reserve Funds is permitted to cover a deficit in a Reserve or Reserve Fund.
- d. Transfers to/from Reserve and Reserve Funds resulting from the year-end Operating Budget variance are authorized by the Treasurer.
- e. An Operating Budget surplus realized by the City at year-end will be utilized in the following order:
  - o To replenish unanticipated in-year Reserve and Reserve Fund draws;
  - o 50% of the remaining Operating Budget Surplus should be transferred to Capital Reserve Fund;
  - o 50% of the remaining Operating Budget Surplus will be used to proportionally supplement other Reserve and Reserve Funds with targets.

## Financial Impact

There is no financial impact as a result of this report.

## Conclusion

The new policies and updated bylaw play an important role in providing guidance to staff and ensuring compliance with legislation and Council direction over preparation of the annual budget and forecast and ongoing reporting to Council and the public.

## Attachments

- Appendix 1: Operating Budget Policy
- Appendix 2: Fees and Charges Framework Policy
- Appendix 3: Budgeted Position Control Policy
- Appendix 4: Capital Budget Policy
- Appendix 5: Reserve and Reserve Fund Management Policy



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