

# Corporate Policy & Procedure



**Draft Only – May 19, 2022**

**Policy Title: Capital Budget**

**Policy Number: [Policy No.]**

Section: **Finance and Accounting**

Effective Date: **[Effective Date]**

Approved by:

**Click here to enter text.**

Subsection: **Budgets**

Last Review Date: **[Last Review]**

Owner Division/Contact:

**Finance Division, Corporate Services  
Department**

## Policy Statement

The Capital Budget is an important planning tool to ensure funding is available to maintain the City’s existing infrastructure, maintain or enhance existing service levels and implement official plans, master plans and strategic plans.

## Purpose

The purpose of this policy is to provide a disciplined approach for the development, monitoring and control of the City’s capital plans.

## Scope

This policy applies to all staff who are responsible for preparing and monitoring the Capital Budget.

This policy covers:

- Annual Capital Budget and Capital Forecast submission
  - Development of Capital Projects submission
  - Review Capital Project submissions
  - Approval of Capital Budget
- Capital Budget Monitoring and Reporting (WIP)
- Closure of Capital Projects

## Legislative Authority

The City’s Capital Budget policy is written in compliance with:

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- The Municipal Act, 2001, related Ontario Regulations made under the Act, as amended, and all other applicable legislation
- Public Sector Accounting Standards, and
- Corporate policies, procedures and City by-laws

## Related Policies

- Debt Management
- Asset Management Policy
- Corporate Reports
- Reserves and Reserve Funds Management

## Definitions

For the purposes of this policy:

“Budget Committee” means a standing committee of Council comprised of the Mayor and all Members of Council.

“Capital Budget” means year one of the multi-year plan, comprised of Capital Projects with accompanying funding sources proposed for Council approval.

“Capital Forecast” means the remaining years in the multi-year plan that follow the Capital Budget, comprised of Capital Projects with accompanying funding sources.

“Capital Project” means an assignment of significant expenditures to acquire, maintain or improve City tangible assets or a development of a non-tangible expense (example: feasibility study or a planning study); funding is approved by Council in the Capital Budget.

“City” means The Corporation of the City of Mississauga.

“City Manager” means the Chief Administrative Officer and head of the City Manager’s Department or the staff designated in writing to act in the absence of the City Manager.

“Closure” means the administrative process of closing a Capital Project in SAP where no additional financial orders, expenses and funding changes are permitted, while finalizing all remaining contractual obligations until the warranty period has successfully expired and the Warranty Holdback is returned.

“Council” means the Mayor and Members of Council for The Corporation of the City of Mississauga.

“Department” means the major operation groups within the City, namely the City Manager’s Office, Community Services, Corporate Services, Planning & Building and Transportation & Works.

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“Department Head” means the employee heading any Department or the staff designated in writing to act in the absence of a Department Head.

“Director” means the employee heading any City Division or the staff designated in writing as such to act in the absence of a Director.

“Discretionary Reserve Funds” means funds that are created at the discretion of Council for revenues which are earmarked to finance future expenditures for a purpose designated by Council.

“Leadership Team” (or “LT”) means the team comprised of the Department Heads.

“Obligatory Reserve Funds” means Reserve Funds that are required by legislation or agreement, where certain revenue received for special purposes be segregated from the general revenues of the municipality. The funds are received as financial contributions for work to be undertaken by the City on behalf of the contributor. Any unspent funds may need to be returned according to specific agreements. These funds are classified in the financial statements as Deferred Revenue.

“Project Manager” means staff who are responsible for a specific Capital Project.

“Reserve” means an allocation of accumulated net revenue which makes no reference to a specific asset and does not require the segregation of money or assets. Reserves are generally used to mitigate the impact of budgetary fluctuations in operating costs and revenue.

“Reserve Fund” means the segregation of funds which are restricted to meet the specific purpose of the reserve fund. There are two types of reserve funds: Discretionary and Obligatory. The investment income earned on a specified Reserve Fund must be added to the balance.

“Service Area” means a unit of one or more municipal services that may be grouped together administratively for the purposes of preparing business plans and budgets.

“State of Good Repair” (or “SGR”) means those projects required to maintain current capital assets (infrastructure) in good working order.

“Statutory Holdbacks” means monies held from all invoices and instalments of progress payments in an amount equal to 10% of the invoice (before HST), installments of progress payments and any additional lien holdbacks, all as required pursuant to the *Construction Act* (Ontario).

“Treasurer” means the Director of Finance or the staff designated in writing as such to act in the absence of the Treasurer.

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“Warranty Holdbacks” means monies held from all invoices and instalments of progress payments as interim security for the correction of any defects or deficiencies for the warranty period set out in the construction contract, after which period of time monies remaining in the warranty holdback, if any, are to be returned to the contractor.

“Work In Progress” (or “WIP”) means the process of reporting the status of active Capital Projects to Council, including requesting additional project budget and funding; or returning surplus.

## Capital Budget Principles

The following considerations will be used by all City staff in the development of the Capital Budget and Capital Forecast:

### Asset Management

Consideration of Corporate Asset Management findings when determining the priorities for maintenance of existing infrastructure

### Community Input

Provision of an opportunity for community input through the budget engagement process

### Financial Sustainability

Consideration of the long term needs in order to uphold a financially sustainable community.

### Long-Term Affordability

Consideration of the City’s limited resources, balancing the needs and priorities of the present, while meeting the requirements of longer term financial sustainability, leading to fiscal stability

### Strategic Planning

The Strategic Plan, the City’s Official Plan, Council priorities and various master plans, all as amended, serve as the guiding documents under which all City initiatives are aligned. Capital Budget and Capital Forecast will take these documents into consideration.

### Administration

Capital Budget and Capital Forecast Guidelines are developed by Finance and approved by LT, based on their direction and priorities. Minor revisions to the Guidelines that support this policy are approved by the Treasurer.

In addition, WIP Guidelines are updated semi-annually by Finance.

## Annual Submission of Capital Budget and Capital Forecast

The City strives to achieve value for money and sound financial stewardship in the development of the annual Capital Budget and Capital Forecast. Building and maintaining infrastructure is a key strategic goal in the City’s Strategic Plan.

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### **Development of Capital Projects Submission**

The initial phase of the budget cycle involves the collection of information on the future capital requirements of the City from each Service Area. Identification of these needs arises from all aspects of City activities, including but not limited to the Capital Budget and Capital Forecast priorities outlined in this policy.

The Capital Budget and Capital Forecast Guidelines are circulated at the beginning of each budget cycle, indicating SGR funding envelopes based on previous years approved budget, adjusted for in-year amendments.

Based on the considerations above, Service Areas are required to update, identify and prioritize capital needs. This is essential to the decision-making process for allocating limited capital funds. There are two main prioritization categories: SGR and new initiatives. Each of these categories should be ranked independently as per the Capital Budget and Capital Forecast Guidelines.

The final list of Capital Projects for all Service Areas must be approved by the applicable Department Head prior to submission to Finance.

### **Review Capital Project Submissions**

As the next phase of the budget cycle, Finance conducts a Capital Budget and Capital Forecast review of the Service Area submissions. This review ensures that a balance of lifecycle projects, enhancements and high-priority new services are included in the Capital Budget and Capital Forecast, while maintaining financially healthy Reserves and Reserve Funds.

The City's target is to maintain existing infrastructure as per Council approved service levels. For capital prioritization review, Finance's recommendation will be to prioritize and fund SGR Capital Projects while maintaining a targeted balanced split of 70% to SGR projects and 30% for new initiatives. The split is endorsed annually by LT.

New initiative Capital Projects are funded based on Service Areas' ranking as well as LT and Council priorities, per limited capital funding, considering project criticality; risk management; external funding availability; cash-flow requirements; and long-term impacts on the operating budget.

Council approved debt financing is a critical component of Capital Budget and Capital Forecast funding; Finance determines which projects will be funded using debt.

### **Approval of Capital Budget**

The last phase of the budget cycle consists of management's review and endorsement for Council's approval of the Capital Budget. The City prepares the Capital Budget and Capital Forecast using a rolling multi-year horizon for long term financial planning purposes. This multi-year approach is expected to be rolled out in an orderly manner, with future Capital Forecasts incorporating timing changes, necessary scope updates and unforeseen events to existing

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projects, as well as adding new initiatives. The Capital Budget is developed and presented for Council approval at the same time as the operating budget.

### **Recommendation of Capital Budget by Leadership Team**

The Treasurer is responsible for presenting the proposed Capital Budget with any related operating budget impacts for LT's review and recommendation to Budget Committee.

### **Approval of Capital Budget by Council**

The Capital Budget is presented to Budget Committee for consideration and to Council for approval through the annual Business Plan and Budget document.

Budget Committee recommends the Capital Budget and Capital Forecast to Council, which will:

- Authorize Capital Budget spending for the first year only in every budget cycle, and
- Approve estimates in the Capital Forecast for out-years

Capital Project gross funding and financing are based on information provided in the annual Business Plan and Budget document or as amended by Budget Committee including:

- A list of proposed projects, summarized by service and funding sources
- Identification of anticipated debt issuance and inclusion of impact in the operating budget, and
- Identification of related short-term and long-term operating budget impacts

The Project Manager can incur spending on a Capital Project once it is approved by Council and is set up in the system by Finance.

### **Approval of Capital Projects Prior to Annual Capital Budget Process**

Council approval is required to begin a Capital Project that will be included in the upcoming annual Capital Budget. Corporate Reports must outline the funding request; gross cost of the project, irrespective of the recoveries, cash-flow requirements; funding sources approved by Finance; and an explanation of why the approval cannot be accommodated in the normal Capital Budget development process. For additional information on Corporate Reports refer to the [Corporate Reports Policy](#)

Approval of specific Capital Projects can be requested in advance, for example when there is a:

- Delay of budget approval for Capital Projects (e.g. election year), or
- Requirement to proceed with tender/proposal and/or the start of the Capital Project per the City's Procurement By-law, including multi-year projects, subject to approved Capital Budget and Forecast funding

### **Approval of In-year Amendments**

In-year amendments of the approved Capital Budget require Council approval for specific projects that are multi-year funded, defer, accelerate or change the scope of an approved Capital Project or add a new Capital Project. Any adjustments to the approved Capital Budget will impact the long range affordability.

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In-year budget adjustments can be requested where appropriate, such as:

- Emergencies or unforeseen events
- Changes to the City’s financial capacity (e.g. new grants) and strategic priorities (e.g. mandated by higher levels of government)
- Demonstrated changes to the City’s internal needs, and
- Legislation requirements

Corporate Reports for in-year amendments must outline the funding request; gross cost of the project, irrespective of the recoveries, cash-flow requirements; and funding sources approved by Finance. For additional information on Corporate Reports refer to the [Corporate Reports Policy](#).

### **Capital Budget Monitoring and Reporting – Work in Progress (WIP)**

WIP reporting to Council includes a detailed analysis comparing the forecasted expenditures for the year to approved Capital Budgets. It occurs at least semi-annually and provides a review and status of active Capital Projects and identifies any funding surplus or shortfall.

Recommendations within the WIP report include, but are not limited to:

- Closing projects
- Adding new projects
- Name changes
- Changes in funding sources
- Increasing or decreasing funding, or
- Consolidating projects

Project Managers must report to Finance on the status of active Capital Projects in accordance with the WIP Guidelines and the schedule issued by, and in the manner identified by, the Treasurer.

The Finance Division will identify the funding source for additional funds and confirm that funding is available.

Council approval is required for any amendments.

The Treasurer may approve administrative changes to Capital Projects to rename (i.e. clarify the intent of the project), redeploy, redistribute or merge approved budget within the same division to a project with the same purpose. Any such changes will be reported to Council through WIP reporting.

### **Closure of Capital Projects**

Capital Projects are to be closed in a timely manner and in accordance with the Capital Budget and Capital Forecast Guidelines and/or timelines, as determined by Finance, in accordance with the following:

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- The Project Manager notifies Finance that the project is complete, ensuring that:
  - All related purchase requisitions are closed
  - All outstanding commitments and vendor invoices have been posted in the General Ledger
  - All purchase orders have been closed in the system
  - Any outstanding contractor liens and contracts have been resolved, and
  - All payments due for recoverable works have been collected
- Capital Projects will be recommended for Closure by Finance in consultation with the related Service Area if:
  - They have had no expenditures or commitments within two years of approval. These projects can be re-budgeted in future Capital Forecasts
  - Capital Projects characterized as reoccurring are to close within three years, provided there are no outstanding commitments
- Capital Projects should not remain open due to outstanding Statutory Holdbacks and Warranty Holdbacks, as the Capital Project has been fully expensed for the full costs of the project. Statutory Holdbacks and Warranty Holdbacks are held in the Accounts Payable sub-ledger and, in the event that Statutory Holdbacks and Warranty Holdbacks are required to remediate any project work deficiencies, a new Capital Project would be created, with approval of the applicable Department Head, under the original scope of work approved by Council.

### Roles and Responsibilities

	Pre Budget Approval	Post Budget Approval
<b>Council</b>	Authority for approving funding to capital programs, except as otherwise provided in this policy	Authority for the amendment of approved budgets.
<b>Leadership Team (LT)</b>	Determining budget strategy and setting directions for budget preparation  Recommending Capital Budget and Capital Forecast to Budget Committee for approval	Endorsing WIP reporting to Council for Financial position



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	Pre Budget Approval	Post Budget Approval
<b>Department Head</b>	Endorsement of departmental Capital Budget and Capital Forecast submissions	<p>Management of budgets by their Department</p> <p>Approval of departmental WIP submissions</p> <p>Have authority to establish Capital Projects funded solely by third party recoveries for a specific purpose, according to applicable agreements, with a memo to the Treasurer</p>
<b>Treasurer</b>	Ensuring the accuracy of the Capital Budget and Capital Forecast information provided	<p>Ensuring the accuracy of the WIP information provided</p> <p>Ensuring Financial Analysts are consulted prior to a Corporate Report going to Council for pre-approval and in-year adjustments to Capital Projects</p>
<b>Project Managers</b>	Ensuring Capital Budget and Capital Forecast submissions adhere to the Guidelines	<p>Ensuring WIP submissions adhere to the Guidelines</p> <p>Ensuring Capital Projects are on track to be completed in a timely manner and within the approved budget and scope</p> <p>Ensuring that all outstanding commitments and vendor invoices are paid and all recoveries are collected prior to project Closure</p>

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	Pre Budget Approval	Post Budget Approval
<b>Finance</b>	<p>Providing budget guidelines and timelines</p> <p>Supporting Service Areas and ensuring Capital Budget and Capital Forecast information is appropriately captured in the City's budget system</p> <p>Allocating appropriate funding sources based on Department Head approved, ranked Capital Projects for affordability</p> <p>Consolidating all information for reporting in the Business Plan and Budget document to Budget Committee, General Committee and Council</p>	<p>Monitor and report the variances to Directors, Department Heads and LT</p> <p>Consolidating all information for reporting Financial Reports (WIP) to Budget Committee, General Committee and Council</p> <p>Confirming budget requests and adjustments for Corporate Reports going to Council for pre-approval and in-year adjustments to Capital Projects</p>

### Revision History

Reference	Description
Enter previous review - e.g. GC-1234-2015	Click here to enter text.