CITY OF VAUGHAN
EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 22, 2021

Item 6, Report No. 32, of the Committee of the Whole, which was adopted without amendment by the Council of the City of Vaughan on June 22, 2021.

6. OPERATING BUDGET POLICY

The Committee of the Whole recommends approval of the recommendation contained in the following report of the Deputy City Manager, Corporate Services, City Treasurer and Chief Financial Officer, dated June 8, 2021:

Recommendation

1. That Policy number 12.C.11 - Operating Budget, as included in Attachment 1 and Attachment 2, be approved.

Committee of the Whole (2) Report

DATE: Tuesday, June 8, 2021 **WARD(S):** ALL

TITLE: OPERATING BUDGET POLICY

FROM:
Michael Coroneos, Deputy City Manager, Corporate Services, City Treasurer and Chief Financial Officer

ACTION: DECISION

Purpose

To seek approval of the City of Vaughan's Operating Budget Policy No. 12.C.11.

Report Highlights

- The purpose of the operating budget policy is to provide guiding principles and direction for the development and form of the operating budget.
- The policy allows for managing adverse and unanticipated situations through a transparent and accountable process that provides flexibility to respond to changes and risk while keeping Council and the public informed.
- The policy reflects the City's Financial Sustainability Guiding Principles and legislative requirements of the Municipal Act, 2001.

Recommendation

1. That the City of Vaughan's Operating Budget Policy No. 12.C.11 as contained in Attachment 1, be approved.

Background

Financial policies are a key element of sound fiscal administration.

Section 290 of The Municipal Act, 2001 sets out provisions for local municipalities and sets minimum requirements for budgeting.

i. Local municipalities must adopt an operating budget annually that includes estimates of all sums required during the year for the purposes of the municipality. Council may adopt a budget in the year, or the immediately preceding year provided it is not an election year.
ii. The budget must be balanced and set out the estimated revenues, including tax levy; estimated expenses for the year; and amounts to be paid into and out of reserves, sinking and retirement funds.

The Government Finance Officers Association ("GFOA") recommends adopting operating budget policies aimed at achieving and maintaining a structurally balanced budget that is transparent and supports financial sustainability for multiple years into the future.

Previous Reports/Authority

Not applicable.

Analysis and Options

Operating budget policies are valuable because they outline a transparent budget process, and currently the City does not have a formal policy in place. The City of Vaughan's ("City") operating budget is a primary tool in the management of the City and enables the City to fulfill its commitment to service excellence in governance and fiscal responsibility.

A formalized comprehensive operating budget policy provides the governance and guidance to develop, manage, and administer the City's operating budget. A formal policy provides for consistency, accountability, and quality control of the operating budget. The policy also serves to inform and to demonstrate to Council and residents that the City is committed to sound financial practices.

The operating budget policy provides the guiding principles and direction for developing the operating budget. It ensures budget development, management, and controls are consistent with relevant policies and promotes financial responsibility. This policy also provides the flexibility and guidance to respond to changes and unanticipated situations.

Financial Impact

There are no financial impacts directly associated with this report.

Broader Regional Impacts/Considerations

Not applicable.

Conclusion

Financial policies are central to a strategic, long-term approach to financial management. The operating budget policy is one of several basic financial policies that municipalities should consider adopting. Existing policies will continue to be reviewed and updated regularly as part of Long-Range Fiscal Planning.

For more information, please contact:
Michael Marchetti, Director Financial Planning & Development Finance, ext. 8271.
Kenneth Quan, Manager, Corp. Financial Planning & Analysis, ext. 8029.

Attachment

1. City of Vaughan Operating Budget Policy 12.C.11.

Prepared by

Kelly Sutton, Senior Financial Analyst, Financial Sustainability, ext. 8252.

Approved by



Michael Coroneos, Deputy City Manager, Corporate Services and Chief Financial Officer

Reviewed by



Jim Harnum, City Manager

THE CORPORATION OF THE CITY OF VAUGHAN

CORPORATE POLICY

POLICY TITLE: **OPERATING BUDGET**

POLICY NO.: **12.C.11**

Section:	Finance & Budgets		
Effective Date:	Click or tap to enter a date.	**Date of Last Review:**	Click or tap to enter a date.
Approval Authority: Council		**Policy Owner:** DCM, Corporate Services & CFO	

POLICY STATEMENT

The City of Vaughan's ("City") operating budget is a primary tool in the management of the City, enabling it to fulfill its commitment to service excellence in governance and fiscal responsibility.

The City's Budget and Financial Plan is consistent with the goals and objectives set in the Term of Council Strategic Plan.

Decisions made regarding the operating budget ensure that the budget plans support economic growth, maintenance of infrastructure, responds to changing needs and are fiscally responsible.

PURPOSE

The purpose of this policy is to provide guiding principles and direction for the development and form of the operating budget and plan that:

- Becomes a plan of action to enable staff and Council to make informed decisions about the financial commitments to meet the provision of programs and services for achieving Council objectives;
- Serves as a statement of priorities to guide allocation of resources through approved budgets that reflect Council priorities and Strategic Plan;
- Reflects financial policies in the framework for budget development, management, and controls that ensures consistent and responsible use of financial resources across the City;

- Allows for managing adverse and unanticipated situations through a transparent and accountable process that provides flexibility to respond to changes and risk while keeping Council and the public informed; and,

- Contributes to measures of performance for programs and services against stated objectives and key results.

Guiding Principles

Financial sustainability guiding principles provide a conceptual approach to making responsible budget decisions, including:

1. Existing service levels

   The City will strive to maintain existing infrastructure and services in a climate of increasing costs by leveraging efficiencies and preparing for anticipated future needs through reserves and contingencies.

2. Growth pays for growth

   Infrastructure and services that support new growth should be funded, to the fullest extent possible, through new property tax assessment and growth-related revenues.

3. New initiatives to enhance the City

   Investments in new initiatives should enhance service levels, improve efficiencies, mitigate risk, support service excellence, or enhance the quality of life for residents while staying within the City's financial means.

Budget Objectives

- To ensure that the City's operating revenues and tax-levy are allocated in ways which best realize the City's objectives, priorities, and approved plans;

- To ensure that municipal programs, services, and administrative units have the resources required to carry out their work effectively, subject to the constraints imposed by the flow of revenue; and,

- To provide an effective means of monitoring and controlling revenues and expenditures in accordance with the highest standards of financial management and accounting.

SCOPE

POLICY TITLE: **OPERATING BUDGET**

POLICY NO.: **12.C.11**

This policy applies to all operating revenues and operating expenditures undertaken by the Corporation of the City of Vaughan.

LEGISLATIVE REQUIREMENTS

The Municipal Act, 2001 ("Act") sets out provisions and minimum standards for municipal budgets. Municipalities have flexibility regarding the format and level of detail of its budgets.

Section 290 of the Act sets out provisions for local municipalities and sets minimum standards of what the budget must contain. "For each year, a local municipality shall, in the year or the immediately preceding year, prepare and adopt a budget including estimates of all sums required during the year for the purposes of the municipality". A budget for a year immediately following a year in which a regular election is held, may only be adopted in the year to which the budget applies.

Section 291 of the Act allows (but does not mandate) multi-year budgets of two to five years. Notwithstanding the adoption of a multi-year budget, it is mandatory to review the second and every subsequent year annually.

Ontario Regulation 284/09, *Budget Matters – Expenses* (O. Reg. 284/09) was put in place to consider the Public Sector Accounting Board standards for tangible capital assets on municipal budgeting. This regulation explains that specific expenses (amortization, post-employment benefits, and solid waste landfill closure and post-closure liabilities) may be excluded from the budget if a report is produced annually that describes the future impact on the municipality.

DEFINITIONS

1. **Accrual Basis Accounting:** An accounting method that identifies revenues and expenditures as they are earned and incurred; the basis for preparing financial statements.

2. **Administrative Amendment:** Fiscally-neutral adjustment to the approved operating budget as reflected in the City's budget and financial systems, to reflect organizational changes, reallocation of costs and line item transfers, for the effective financial management, reporting and monitoring of the City's programs and services.
3. **Annual Operating Budget:** Annual budget for the operations of City departments, including operating revenue and operating expenditures; referred to as approved upon Council adoption.

4. **Budget:** A financial plan defined as an estimate of costs, revenues and resources over a specified period that reflect a forecast of financial conditions based upon a set of assumptions.

5. **Budget Line Item:** A budget item that reflects grouping of similar expenses by category (object code). i.e. grouping of consulting costs for various projects within a budget that represents the sum.

6. **Budget Transfer:** A transfer of an amount initially recorded within one budget line item to a different budget line item.

7. **Business Unit:** An organizational unit focused on a municipal program or service.

8. **Chief Financial Officer and City Treasurer ("CFO"):** The employee appointed by Council as the City Treasurer.

9. **City:** The Corporation of the City of Vaughan.

10. **Consolidated Operating Budget:** Includes Revenues, Expenditures and Transfers for the Corporation of the City of Vaughan.

11. **Cost Centre:** A detailed level of budget that identifies the grouping of line items at a Business Unit level.

12. **Department:** Functional area within a Portfolio responsible for the delivery of municipal services.

13. **Department Budget:** Those budget line items applicable to and to be administered by each department.

14. **Deputy Treasurer:** The second most senior official(s) that oversees the management of the City's financial affairs.

15. **Emergency:** Unforeseen situation of an urgent nature, presenting an unacceptable risk to the health and safety of persons or to property, requiring an immediate expenditure of funds.

16. **Financial Report:** Summary of financial activities and budget performance related to the operation of the City.

17. **Fiscally Neutral Budget Adjustment:** An adjustment that has no impact to the approved net operating budget, and no impact to the current annual tax-levy or tax-funded reserves.

18. **Modified Accrual:** The basis of budgeting used at the City that excludes certain expenses as permitted by O. Reg. 284/09.

19. **Public Sector Accounting Board ("PSAB"):** An independent body with authority to set accounting standards for the public sector, which includes municipalities.

20. **Rate-supported Budget:** Revenues (a form of user fees) for cost recovery services, such as water and wastewater; rate-supported programs are not supported by property tax revenues.

21. **Reserves and Reserve Funds:** Designated accounts established to set aside funds for future purposes or unanticipated events. A reserve is an allocation of accumulated net revenue, whereas a reserve fund is segregated and restricted for a specific purpose.

22. **Specific Purpose Revenues:** Operating revenue received for a specific purpose (grants and donations are examples), also special purpose revenues.

23. **Tax-Levy:** The amount the City decided to raise in its budget for the year under s. 290 of the Municipal Act, 2001, also general levy.

24. **User Fee:** Fee or charge to an individual, business, or identifiable group for using a service provided by the City in which they directly benefit from.

POLICY

1. Requirement to Set a Budget

1.1. The Chief Financial Officer ("CFO") is to present an annual consolidated operating budget for the upcoming year to Council.

1.2. For any year in which the budget for that year is not approved by Council before December 31st of the preceding year, Council shall adopt an interim operating budget that does not exceed 50 percent of the preceding years annual operating budget before January 1st of the budget year.

2. Basis of Budgeting

2.1. The City's annual operating budget is developed on a modified-accrual basis, that excludes all amortization expenses, post-employment benefits expenses, solid waste landfill closure and post-closure expenses as permitted by Ontario Regulation 284/09, s.1.

3. Requirement for a Balanced Budget

3.1. The CFO is to present to Council for adoption an annual consolidated operating budget that is balanced; operating revenues and operating expenses must be equal, net of transfers to or from reserves and other funds.

3.2. Operating expenditures cannot be financed with debt, except as allowed by the Temporary Borrowing By-law.

4. Budget Development and Review Process

4.1. A best practice in financial management is to establish a budget before the start of the fiscal year to which it applies. The steps in the City's budget review process include:

- Establishing a budget timetable.
- Initiating a budget plan, supporting data and guidelines.
- Evaluating/reviewing draft budget submissions.
- Engaging public consultation.
- Compiling an overall consolidated budget document.
- Council approval of the budget, user fee and tax-levy requirements.
- Budget implementation and budgetary control.

4.2. Budget packages including baseline budgets, guidelines, budget envelopes, templates, and other supporting materials will be distributed to staff to assist with developing and preparing budget submissions according to the guiding principles framework:

4.2.1. "Base Budget" starting assumption for operating budget development is that services and service levels approved in the immediately preceding year are maintained wherever possible;
4.2.2. "Status Quo" changes are related to increasing (or decreasing) costs, including operating impacts of capital, required to maintain service levels to the community;
4.2.3. "Growth" related budget items are associated with maintaining existing service levels to a growing population, including operating impacts of capital; and,
4.2.4. "New services or enhancements" are associated with new or enhanced levels of service currently provided to the community.

5. Budget Control

5.1. The budget as approved by Council establishes the operating spending authority for the year to which the budget applies.
5.2. Amendments to the approved budget must be approved by Council unless the amendment is of an administrative nature.

5.3. Delegated authority to approve or recommend administrative budget amendments are outlined in Appendix A of this policy.

6. Budget Monitoring and Reporting

6.1. Operating budgets are used to plan the City's day-to-day spending. The operating budget document serves many important purposes for Council, including:

- Policy document in the form of goals, objectives, and strategies.
- Communication tool that provides summary information that can be used by media and the public
- Operations guide that describes the organization of the City and data to provide a basis for comparison year-over-year.
- Financial plan includes projected operating expenses and revenue sources for a specific time-period.

6.2. The CFO will report bi-annually to Council on the status of actual financial performance relative to approved budgets.

ADMINISTRATION			
Administered by the Office of the City Clerk.			
Review Schedule:	3 Years If other, specify here	**Next Review Date:**	Click or tap to enter a date.
Related Policy(ies):	12.C.12 – Capital Budget, 12.C.09 – Corporate Debt, 12.C.10 – Consolidated Reserve,		
Related By-Law(s):			
Procedural Document:			

Revision History	
Date:	**Description:**
Click or tap to enter a date.	
Click or tap to enter a date.	

THE CORPORATION OF THE CITY OF VAUGHAN

APPENDIX

APPENDIX TITLE: OPERATING BUDGET

APPENDIX NO.: A

APPENDIX	
Responsibility	**Budget Amendment Authority**
Council	Budget amendments which are not administrative in nature, must be approved by Council. These include budget amendments that are not fiscally neutral, increase the total approved complement of permanent FTEs; pertain to debt, impact reserves in accordance with the Reserve policy (FPDF-004) or changes that alter the ability to deliver Council priorities as approved in the budget.
City Manager, or delegate	Approve administrative budget restatements necessary to create and re-organize departments of the City; Administration of collective agreements, in accordance with by-law 012-2013.
Chief Financial Officer and City Treasurer, or delegate	Approve administrative budget amendments recommended for approval by the Deputy Treasurer.
Deputy City Manager, or delegate	Authorize and recommend to the Deputy Treasurer and CFO budget transfers between business units or departments.
Deputy Treasurer, or delegate	Recommend administrative budget amendment requests to the CFO for approval, and authorize changes in the budget or financial systems, as required.
Director, or delegate	Authorize and recommend to the Deputy City Manager for Approval administrative amendments within the business unit(s) or department(s) for which they are responsible.