

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF OCTOBER 20, 2021

Item 2, Report No.46, of the Committee of the Whole, which was adopted without amendment by the Council of the City of Vaughan on October 20, 2021.

2. CAPITAL BUDGET POLICY

The Committee of the Whole recommends approval of the recommendations contained in the following report of the Deputy City Manager, Corporate Services, City Treasurer and Chief Financial Officer, dated October 13, 2021:

Recommendations

1. That the Capital Budget Policy, as included in Attachment 1, be approved; and
2. That Policy No. FPDF-005 Capital Project Financial Administration and Reporting Policy be repealed and replaced with Policy No. 12.C.12 Capital Budget Policy.

Committee of the Whole (2) Report

DATE: Wednesday, October 13, 2021

WARD(S): ALL

TITLE: CAPITAL 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 Capital Budget Policy No. 12.C.12.

Report Highlights

- The purpose of the capital budget policy is to provide guiding principles and direction for the development and form of the capital 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.

Recommendations

1. That the Capital Budget Policy, as included in Attachment 1, be approved; and
2. That Policy No. FPDF-005 Capital Project Financial Administration and Reporting Policy be repealed and replaced with Policy No. 12.C.12 Capital Budget Policy.

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 a 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.

Section 291 of the Municipal Act, 2001 allows for a municipality to prepare and adopt a multi-year budget of two to five years; however, Council must readopt the budget annually for the subsequent years.

The Government Finance Officers Association (“GFOA”) recommends adopting capital 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

The Capital Project Financial Administration and Reporting Policy was mainly procedural in nature and as a result was previously identified to be repealed. The proposed Capital Budget Policy (“Policy”) to replace the Capital Project Financial Administration and Reporting Policy, reflects best practices recommended by the Government Finance Officers Association (“GFOA”), supports the City’s capital budget process, and aligns with the City’s Financial Sustainability Guiding Principles.

The Policy provides guiding principles and direction to support the development of the capital budget. The Policy helps to guide informed and fiscally responsible decisions regarding the City’s capital plan, ensuring that budget development, management and controls are consistent and compliant with other City policies. This Policy also allows for a transparent and accountable process to respond to unanticipated situations, the necessary flexibility to manage capital project budgets and ensures Council remains informed.

When developing this Policy, staff considered current legislation and City policies; as well as conducted a jurisdictional scan of other municipalities. It was important to

structure this Policy to be consistent with current practices, while not restricting the ability to implement continuous improvements or enhancements to the capital budgeting process as the City's capital plan and budgeting process continues to mature.

Highlights of the Policy

- The budget must be approved by Council each year to provide the authority to spend.
- The Policy formalizes the budget development process to ensure that the City's budget is aligned with Council's priorities, goals, and commitment to transparent and fiscally responsible government.
- Budget guidelines are reviewed and updated annually to assist staff with developing and preparing budget submissions. The guidelines set the schedule, key assumptions, and directions for the upcoming budget.
- Amendments to the approved budget must be approved by Council unless the amendment is of an administrative nature.
- A budget control framework for authority to approve/authorize budget amendments provides flexibility and puts in place effective controls to ensure clarity of authorities, consistency, and flexibility needed to manage the capital budget responsibly.
- To maintain transparency, accountability, and fiscal responsibility, staff will report bi-annually on budget performance to Council.

Financial Impact

There is no financial impact 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 capital budget policy is one of several basic financial policies recommended by the GFOA municipalities should consider adopting. Policies will continue to be reviewed and updated regularly as part of long-range financial planning and the annual budget process.

For more information, please contact:

Michael Marchetti, Director, Financial Planning & Development Finance, ext. 8271.

Kenneth Quan, Manager, Corporate Financial Planning & Analysis, ext. 8029.

Attachments

1. City of Vaughan Capital Budget Policy No. 12.C.12.

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



Nick Spensieri, City Manager



THE CORPORATION OF THE CITY OF VAUGHAN

CORPORATE POLICY

POLICY TITLE: CAPITAL BUDGET POLICY

POLICY NO.: 12.C.12

Section:	Finance & Budgets		
Effective Date:	October 21, 2021	Date of Last Review:	Click or tap to enter a date.
Approval Authority:	Policy Owner:		
Council	DCM, Corporate Services & CFO		

POLICY STATEMENT

The City of Vaughan's ("City") capital budget is a primary component of the City's annual Budget and Financial Plan, 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 out in the Term of Council Strategic Priorities.

The capital budget plans support economic growth, maintain infrastructure, respond to changing needs, and are fiscally responsible.

PURPOSE

The purpose of this policy is to establish a framework to guide the development of capital budgets and to facilitate informed decision making regarding the acquisition, development, construction, and lifecycle maintenance of capital assets and resulting financial resource implications while promoting stakeholder participation.

Guiding Principles

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

1. Consideration towards 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

POLICY TITLE: CAPITAL BUDGET POLICY

POLICY NO.: 12. C.12

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

3. New initiatives that enhance the City

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

Budget Objectives

- Ensure that capital projects proceed in accordance with capital project budget approvals and adhere to other City policies.
- Foster and maintain public accountability and transparency, and provide detailed information about each capital project, including costs, funding sources and outcomes.
- Apply capital budgeting best practices and responsible financial controls.

SCOPE

This policy applies to all expenditures and funding sources included in the City of Vaughan approved capital budget.

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 their budgets.

Section 290 of the Act stipulates provisions applicable to local municipalities and establishes minimum standards of what the budget must contain. Section 290(1) states that 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. Section 290(1.1) further states that 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.

Section 23.3 (1) of the Act outlines powers and duties that cannot be delegated including “the power to adopt or amend the budget of a municipality”; Section 23.3 (2) of the Act allows the delegation of a municipality’s administrative powers.

POLICY TITLE: CAPITAL BUDGET POLICY

POLICY NO.: 12. C.12

DEFINITIONS

- 1. Administrative Amendment:** Fiscally neutral adjustments to the approved capital budget as reflected in the City’s budget and financial systems, to reflect organizational changes, scope changes, and/or reallocation of budget, for the effective financial management, reporting and monitoring of the City’s programs and services.
- 2. Capital Budget:** The City’s overall budget plan to purchase, build, maintain, repair, and replace assets including infrastructure. Capital assets also directly and indirectly impact the City’s operating budget as funds are needed to cover day-to-day operating expenses associated with the asset. Department Capital Budget is the consolidation of projects applicable to and to be administered by a Department.
- 3. Capital Project:** The planning, acquisition, replacement, upgrade, or expansion of capital assets. Capital projects can also be for engineering and planning projects, assessments, studies, and non-tangible capital assets. The length of the project will depend on the complexity of the project or asset. A capital project has a lasting benefit beyond one year and a gross cost exceeding \$20,000.
- 4. Capital Program:** A series of projects or program of work. A capital program can include projects from the tax-supported and/or the non-tax-supported budget. *For example, the Road & Water Rehab/Replacement Capital Program includes projects from Roads and Water/Wastewater that make up the program.*
- 5. Cash Flow:** The expected or planned expenditures associated with a capital project for a particular year.
- 6. Chief Financial Officer and City Treasurer (“CFO”):** The employee appointed by Council as the City Treasurer and Chief Financial Officer.
- 7. City:** The Corporation of the City of Vaughan.
- 8. Contingency:** A provision made in an approved budget for an unforeseen event or circumstance that gives rise to an increase in cost. This includes an unbudgeted cost, increase in contract price and/or scope change.
- 9. Debt:** Any obligation for the repayment of money. For Ontario municipalities, long-term debt would normally consist of debentures, capital, or financing leases, as well as notes or cash loans from financial institutions, but could also include loans from reserves and reserve funds, sinking funds, or an endowment fund. Debentures issued through Infrastructure Ontario are also considered debt.

POLICY TITLE: CAPITAL BUDGET POLICY

POLICY NO.: 12. C.12

- 10. Deputy Treasurer:** The second most senior official(s) that oversees the management of the City's financial affairs.
- 11. Emergency:** Unforeseen situation of an urgent nature, presenting an unacceptable risk to the health and safety of persons or to property and which requires an immediate expenditure of funds.
- 12. Fiscally Neutral Budget Adjustment:** An adjustment that maintains the approved funding source, compliant with the Consolidated Reserve Policy, does not increase debt or current-year net budget, does not increase permanent staff complement, and does not alter the ability to deliver Council priorities as approved in the budget.
- 13. Infrastructure:** The equipment and structures the City owns including, but not limited to, roads, bridges, parks, libraries, buildings, and facilities.
- 14. Non-Tangible Capital:** Project costs related to non-tangible capital assets, such as studies, historical treasures, works of art and natural resources that are not recognized as assets for financial reporting.
- 15. Recognized Capital Project:** A capital project that is part of the capital plan for a future budget year, which is included for information, but is not approved as part of the annual budget.
- 16. 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.
- 17. Scope Change:** Any change to the scope of a contract to accommodate a need not originally provided for in the contract and which may include the purchase of additional deliverables or the extension of the term of the contract and which may require an adjustment to the contract price.
- 18. Specific Purpose Revenues:** Operating revenue received for a specific purpose (grants and donations are examples, also special purpose revenue).
- 19. Tangible Capital Assets:** Non-financial assets having physical substance.
- 20. 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 local municipality levy).
- 21. Total Capital Budget:** The total estimated costs for the project, over the life of the project, which may span multiple budget years.
- 22. User Fees:** Fee or charge to an individual, business, or identifiable group for using a service provided by the City which they directly benefit from.

POLICY

1. Requirement to Set a Budget:

- 1.1. The approved capital budget is the spending authority for capital projects and reflects implementation of the City's capital plan.
- 1.2. Capital programs and capital project budgets, including non-administrative budget amendments, must be approved by Council prior to any expenditure or commitment being made on the capital project, or processing amendments. Capital budget development will coordinate with the operating budget process and the capital budget year will run concurrently with the operating budget year.
- 1.3. Planned capital projects with future budget requirements included in the annual budget are considered recognized capital projects
- 1.4. Budget guidelines are prepared annually and provided as a budget development tool for departments. The guidelines will include the necessary and relevant instructions for preparing the budget submission, which may include, but is not limited to updates or changes to the budget process, timelines, templates, instructions, and assumptions.

2. Types of Capital Projects

- 2.1. Infrastructure renewal or replacement projects are for the purpose of preserving existing capital assets and preventing costly replacement in the future, or lifecycle replacement of existing assets.
- 2.2. Growth-related capital projects are for the purpose of acquiring new capital assets to provide an established level of service within the City due to growth and development. All growth-related capital projects proposed in the capital plan shall meet the City's long-term needs and priorities, as identified in the City's Master Plans, which are informed by the Official Plan and Secondary Plans.
- 2.3. City Building and other new capital projects include expansion or purchase of a capital asset to provide a higher-level of service to the community, maintain the same service to more existing residents or businesses, or adding a new service; Other capital projects include, but are not limited to studies, technology systems, software upgrades, and non-tangible capital assets.

3. Funding Capital Projects

- 3.1. Funding strategies for capital projects include:
 - 3.1.1. Pay-as-You-Go strategy is a provision of tax funding that is transferred from operating to capital in the year the project is funded. Pay-as-you-go reduces reliance on debt and provides a mechanism to fund ongoing capital needs of assets that have a shorter lifecycle.

POLICY TITLE: CAPITAL BUDGET POLICY

POLICY NO.: 12. C.12

3.1.2. Reserves/Reserve Funds strategy includes annual transfers from the operating budget (sourced from tax-levy, user rates and fees, grant funding, or development charges (DCs),) to capital reserves or reserve funds to build a source of funds for future capital projects and to smooth tax levy requirements.

3.1.3. Debt financing a capital project and the type of debt financing instrument will be informed by evaluating the cost-benefits of using debt, and considering factors such as fiscal sustainability, fiscal health, aversion to debt, the expected useful life of the asset. Such financing must comply with legislation and the Corporate Debt Policy (12.C.09).

3.2. Funding strategies for capital project costs, including future lifecycle costs and other operational cost impacts, will align with the Financial Sustainability Guiding Principles, and related fiscal policies:

3.2.1. Infrastructure renewal or replacement projects are eligible to be funded by pay-as-you-go, reserves/reserve funds and/or debt financing.

3.2.2. Growth-related capital projects are eligible to be funded by reserves/reserve funds and/or debt financing.

3.2.3. City building and other new capital projects may be funded through existing budget off-sets, pay-as-you-go, or reserves/reserve funds as applicable. Eligibility for debt financing, if required, is guided by the Corporate Debt Policy.

4. Budget Controls

4.1. The budget as approved by Council establishes the capital spending authority, subject to applicable City policies that govern procurement, project management and finances, and relevant laws and legislation.

4.2. Capital project budget amendments must be approved by Council unless the amendment is fiscally neutral and of an administrative nature.

4.3. Budget amendments that materially change the scope of a Council approved capital project, change in funding type/source, cancel an approved project, add a new capital project, or are otherwise non-administrative require Council approval.

4.4. The CFO has the authority, subject to applicable legislation and policy, to determine the appropriate funding source(s) for capital budgets.

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

4.6. Allocation of remaining balances for a capital project after project completion is at the discretion of the CFO, subject to any legal requirements that may dictate how remaining funds should be spent.

POLICY TITLE: CAPITAL BUDGET POLICY

POLICY NO.: 12. C.12

4.7. When an approved capital project is cancelled or closed, the unused funding and remaining funding commitment will be returned to its original source.

5. Budget Monitoring and Reporting

5.1. The CFO will report bi-annually to Council on the status of capital projects, in-year administrative capital budget amendments, and performance versus budget.

5.2. Department Heads, in consultation with Finance Staff, will prepare and submit a Report to Council to approve all non-administrative amendments to approved capital project budgets, unless it is included in the annual budget approval.

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.09 – Corporate Debt 12.C.10 – Consolidated Reserve 12.C.11 – Operating Budget PS-003 – Corporate Procurement Policy		
Related By-Law(s):			
Procedural Document:	PRC-18 – Capital Budget Reduction		
Revision History			
Date:	Description:		
Click or tap to enter a date.			
Click or tap to enter a date.			
Click or tap to enter a date.			

THE CORPORATION OF THE CITY OF VAUGHAN

APPENDIX

APPENDIX TITLE: CAPITAL BUDGET POLICY

APPENDIX NO.: A

APPENDIX	
Responsibility	Budget Amendment Authority
Council	Approve budget amendments which are not administrative in nature. These include budget amendments that are not fiscally neutral, or which materially change the scope of an approved capital project.
City Manager, or delegate	Approve administrative budget amendments necessary to create or reorganize departments of the City.
Deputy City Manager, or delegate	Authorize and recommend to the CFO and Deputy Treasurer capital budget administrative amendments between capital projects.
Chief Financial Officer and City Treasurer, or delegate	Approve administrative capital budget amendments recommended for approval by the Deputy Treasurer.
Deputy Treasurer, or delegate	Recommend administrative capital budget amendment requests to the CFO for approval, and authorize capital budget changes in the budget or financial systems, as required
Director, or delegate	Authorize and recommend to the Deputy City Manager for approval, administrative amendments to capital project(s) for which they are responsible.