# COUNTY OF WELLINGTON
# POLICY & PROCEDURE MANUAL

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| **DEPARTMENT** | TREASURY | **POLICY NUMBER** | TR-21-03 |
| **SECTION** | FINANCIAL SERVICES | **EFFECTIVE DATE** | NOVEMBER 1, 2021 |
| **SUBJECT** | **BUDGET MANAGEMENT POLICY** | | |
| **AUTHORITY** | PENDING COUNTY COUNCIL APPROVAL ON OCTOBER 28, 2021 | | |

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## PURPOSE

1. To ensure the long-term financial sustainability of the Corporation;
2. To establish the authority and process for the development and ongoing management of the annual budget and capital forecast for the County of Wellington;
3. To ensure that all service levels and resource commitments are approved by Council with the appropriate funding;
4. To define responsibilities for the creation, maintenance and reporting of budgets and variances;
5. To promote a long-term and corporate approach to the use of surplus operating funds.

## PRINCIPLES

1. **Strategic Priorities:** This policy is aligned with various strategic plans of the County, including the Strategic Action Plan, the Long-Term Financial Sustainability Strategy, and the Strategic Asset Management Policy.
2. **Accountability:** As a public sector organization, the County of Wellington is responsible to tax payers. Budget management is the responsibility of all County departments, supported by the Treasury Department.
3. **Interdependency:** Capital expenditures and financing decisions impact current and future operating budgets. The long-term impact of any capital or operating expenditures on critical indicators of financial health will be evaluated.
4. **Risk Management:** The County must understand the likelihood and impact of budget variances, and proactively mitigate the impacts of overspending.
5. **Relevance:** Ensure that the County budget and associated documentation provide the necessary information for decision-makers and key stakeholders.
6. **Best Practices:** The County strives to develop and monitor the budget based on best practices.

## GENERAL

1. In accordance with the *Municipal Act*, Wellington County Council has the final authority to approve and amend operating and capital budgets.
2. The Operating and Capital Budgets reflect the level of services established by County Council.
3. The County commits to preparing an annual budget and ten-year plan that has a fully-integrated operating and capital forecast whereby the implications of funding all of the projects in the capital forecast are recognized in the operating budget and resulting ten-year tax rate forecast.
4. All changes to service levels which are within the control of the County must be approved by County Council through the annual budget process of by Council resolution subsequent to budget approval, and must include a current year and annualized costing impact.

5. If emergency expenditures which are not part of the budget are required, such expenditures may be undertaken only under the authority of the Chief Administrative Officer. Where such authorization has been given, a report detailing the emergency and financing of such expenditures shall be prepared for Council approval.

**ROLES AND RESPONSIBILITIES**

To prepare the annual budget and ten-year plan:

1. The Treasury Department will:
    a. Provide advice and recommendations to Council on the timing, format and content of budget documents;
    b. Develop guidelines for use by County staff during budget preparation and support each department in the development of their budget;
    c. Prepare certain components of each departmental budget (e.g. salaries and benefits, capital financing, etc.);
    d. Compile all budgets for the purposes of overall corporate budget analysis;
    e. Develop all presentations and staff reports to Standing Committees, in conjunction with departmental staff.

2. All Other Departments will:
    a. Recommend service levels and service delivery policies to the appropriate Standing Committee and Council;
    b. Implement service levels and service delivery policies as approved by County Council;
    c. Provide preliminary budget impacts and detailed budget review feedback in conjunction with the Treasury Department;
    d. Inform the Treasury Department of any anticipated changes to existing funding levels as a result of new grants or changes in funding expected from senior levels of government.

To evaluate capital projects for inclusion in the annual budget and ten-year plan:

3. The Treasury Department will:
    a. Review the project plan proposed by the department;
    b. Review planned project expenditures impacting the current budget, and lifecycle project costs impacting future projections;
    c. Review the appropriateness and availability of revenue sources identified in the project plan;
    d. Confirm the adequacy of cash flow in relation to project requirements.

4. All Other Departments will:
    a. Provide the Treasury Department with a project plan for review, including planned project expenditures;
    b. Review any project retainages, warranties, or conditional performance schedules with Purchasing and Risk Management.

To monitor the budget and ten-year plan:

5. The Treasury Department will:
    a. Review project-related financial transactions;
    b. Review operating budget expenditures against budget, working with departments to identify causes of variances;
    c. Provide support to departments to ensure projects are funded appropriately.

6. All Other Departments will:
   a. Review the project plan, including scope and key milestones, to manage the scope, cost, and quality of the project;
   b. Inform the Treasury Department of any anticipated changes to key project milestones;
   c. Review operating expenditures to provide programme insight into variances.

## SECTION 1: DEVELOPING THE BUDGET

### 1.1 BASIS OF BUDGETING

1. In accordance with s.289 of the *Municipal Act*, the County is required to have a balanced budget. The operating budget is balanced when all budgeted revenues equal expenditures.

2. The County prepares a fully-integrated 10-year operating and capital forecast with all capital project funding sources identified and funded through the operating budget, as necessary.

3. As part of the development of the budget, the County budgets for all anticipated expenditures and revenues. The difference between budgeted expenditures and revenues must come from the tax levy. This is process is called net-based budgeting.

4. The County of Wellington approves its annual operating and capital budgets using the modified accrual basis of accounting. The County's annual financial statements are produced on a full accrual basis.

5. In accordance with *Ontario Regulation 284/09* the County excludes amortization (a non-cash expense) from the annual budget. The County includes transfers of tax levy funding to capital projects and capital related reserves for tangible capital asset renewal and funding from other levels of government. The budget also includes the current year expense for eligible retired employees, and landfill site closure and post-closure expenses. The budget also includes transfers to the landfill closure and post-closure and post-employment benefit reserve funds.

### 1.2 BUDGET CALENDAR

1. Council shall, in accordance with the *Municipal Act, 2001,* consider and adopt an annual operating and capital budget. The County also commits to adopting a nine-year forecast.

2. A budget calendar shall be prepared which includes deadlines for County department contributions, preliminary budget and ten-year forecast, and final budget approval, as well as scheduled Standing Committee and Local Board meetings to review budget items.

3. Each County department shall submit major ten-year capital items, draft ten-year operating forecast and proposed user fees to the Treasury Department. The Treasury Department will prepare a preliminary budget and ten-year forecast of the operating budget, tax rates, and capital budget.

4. The Staff Advisory Committee meets to review the preliminary budget.

5. Treasury Department staff and the CAO meet with each Department Head to review the preliminary budget.

6. A meeting of County Council shall be held to review the preliminary budget and ten-year forecast, followed by Committee and Board reviews. The Administration, Finance and Human Resources (AF and HR) Committee recommends all budgets to County Council.

### 1.3 INFORMATION INCLUDED IN THE BUDGET

1. The operating budget and ten-year operating forecast will include:
   a. Financing sources, such as transfers from reserves, deferred revenues, user fees, grants subsidies from other levels of government, cost sharing and the tax levy;
   b. Operating expenditures required in-year for programme delivery;
   c. Capital financing, including transfers to capital reserves, debt charges, and transfers to the capital fund;
   d. A residential tax rate summary;

2. The capital budget and ten-year capital forecast will include:
   a. A listing of works (both growth and non-growth related) to be undertaken within the term of the budget for all County departments and services, including those services not directly provided by County staff;
   b. A cost estimate for each of the works;
   c. A link to the Asset Management Plan for each of the works, where applicable;
   d. Sources of financing for each project equivalent to the estimated cost;
   e. Estimated future operating budget impacts, including staffing levels;

**3.** The County shall complete an annual Budget Book that contains other budget information that impacts, or is impacted by, the operating and/or capital budgets.

### 1.4 CAPITAL PROJECTS AND RESERVE TRANSFERS

1. For a project to be included in the Capital Budget, it must meet all of the following criteria:
   a. For non-growth related projects, the total cost of the project must exceed $25,000;
   b. The project must relate to the acquisition, improvement or rehabilitation of land, buildings, engineering structures, facilities, machinery or equipment, thereby resulting in the acquisition or extension of the life of a fixed asset;
   c. The project must confer a benefit lasting beyond one year (i.e. must be non-recurring in nature);
   d. A repair or maintenance expenditure designed to maintain an asset in its original state is not a capital expenditure, unless it meets the definition of a betterment as defined in the TCA Policy. Repairs and maintenance expenditures that do not meet the definition shall be including in the Operating Budget.
   e. Generally, all growth-related projects funded by development charges will be included in the capital budget except where it is more appropriately budgeted in operating such as growth-related debt charges, library book provisions, and Development Charge Background Study updates.

2. In accordance with standard practice for capital fund reporting, separate accounts will be created to track the expenditures and financing of each approved capital project.

3. Budgeted operating transfers to and from reserves and reserve funds are processed following budget approval.

4. Current year tax levy funding and reserve funding of capital projects will be transferred to each project following budget approval.

5. Project managers must notify the Treasury Department upon project completion.

6. When a project is complete, any unspent funds are to be transferred back to Capital Reserves.

7. Project accounts will be closed once the project is complete and all expenditures and financing have been recorded against the accounts.

8. In order to adequately plan for the financing of the capital budget, it is expected that new projects will initially appear in the latter half of the forecast, as opposed to the first five years.

## SECTION 2: BUDGET APPROVAL AND MONITORING

### 2.1 BUDGET REVIEW AND APPROVAL

1. The Standing Committees and Local Boards have the responsibility for reviewing and approving the preliminary budget forecasts and detailed budgets for the services under their jurisdiction, and for making budget recommendations to the Administration, Finance and Human Resources (AF and HR) Committee.

2. The AF and HR Committee has the responsibility for reviewing all budget recommendations from other Standing Committees and Local Boards and has the sole responsibility for recommending budgets and budget amendments to County Council.

3. The AF and HR Committee reviews and may return for more consideration, budgets from the Standing Committees and Local Boards; the committee also reviews budgets for departments and services under their jurisdiction.

4. The AF and HR Committee recommends all budgets to County Council.

5. County Council is responsible for the final review and approval of the budget and ten-year plan.

### 2.2 EXPENDITURES PRIOR TO BUDGET APPROVAL

1. No new projects, services or significant service level changes which are within the control of the County will be initiated prior to the approval of the annual budget or without a resolution of County Council.

2. Operating expenditures may be committed or incurred on the basis of the previous year’s operating budget and service levels;

3. Capital expenditures may be permitted if an individual project is deemed a priority and specifically approved by Council in advance of the entire capital budget;

4. Where expenditures form part of a multi-year agreement or are part of the annualization of a service or cost that was introduced in the prior year’s budget, the goods or services may be incurred in the current year in advance of budget approval.

**2.3 OPERATING BUDGET AMENDMENTS**

1. The operating budget is amended only under exceptional circumstances which requires a change to the County tax rate.

2. All other deviations from the original approved budget are treated as in-year variances and reported to Council in accordance with this Policy.

3. The Standing Committees and Local Boards make recommendations to the AF and HR Committee regarding operating budget amendments for services under their jurisdiction.

4. The AF and HR Committee reviews and may return for more consideration, proposed operating budget amendments from the Standing Committees and Local Boards; the committee also reviews budget amendments for departments and services under its own jurisdiction.

5. The AF and HR Committee recommends all operating budget amendments to County Council.

**2.4 CAPITAL BUDGET AMENDMENTS**

1. Refers to any adjustments made to the proposed expenditures and sources of financing for capital works. This would typically occur at the time project tenders are awarded.

2. If a capital budget amendment is required, the Department Head in conjunction with the Treasury Department will prepare a capital project expenditure and financing schedule. This will identify all expenditures and sources of financing for committee and Council approval.

3. The scope of an existing project may not be amended without Council approval.

**2.5 VARIANCE REPORTING PROCEDURES**

1. Operating and capital budget financial statements will be presented to each Standing Committee of Council and Local Boards at their regularly scheduled meetings, beginning with February month-end figures. The Treasurer and the appropriate Department Head will provide verbal explanations of the reports as required.

2. The format of the monthly statements submitted to each of the committees will be at a level of detail similar to that of the annual budget presentations.

3. Corporate operating and capital budget variance analysis, including variance explanations and projections to year end, will be submitted to the AF and HR Committee based on the month-end results for May (reported in June), September (reported in October), and December (reported in April of the following year).

4. Each Department Head or his/her designate will provide explanations of major line programme variances and projections to year-end based on the May and September month-end reports, as well as explanations of any year-end variances based on the December month-end reports.

5. Additional variance reporting or explanations shall be provided to the appropriate Standing Committee on an as required basis.

6. In the event that a year-end deficit is projected, the County Treasurer will recommend to the AF and HR Committee what measures, if any, should be taken to avoid the incurring of a deficit.

**SECTION 3: YEAR-END PROCESS**

1. The County will prepare an Annual Report summarizing the financial position of the Corporation.

2. The County Treasurer shall submit a report to the AF and HR showing the final fiscal year-end financial position and recommending what action, if any, is required.

3. The overall year-end position (surplus or deficit) is considered a corporate financial position.

4. The AF and HR Committee is the committee responsible for considering action with respect to the funding of deficits and the allocation of surplus funds for the corporation, and to recommend such action to County Council.

5. Any actual year-end deficit shall be funded first by transferring funds from the Contingency and Stabilization Reserve; and as a last resort, the following year's operating budget.

6. The County Treasurer shall prepare recommendations to the AF and HR Committee with respect to the allocation of any year-end surplus. Any such recommendation shall be given the following considerations:

   - That the surplus is corporate in nature (see Statement 2 above)

   - That the surplus be utilized in a manner which contributes to the long term financial health and stability of the corporation

   - That allocating surplus to finance capital projects and to reserves is an integral part of a successful long-term financial strategy

   - That the recommendations are consistent with principles set out in the Reserve and Reserve Fund Policy

   - That the practice of bringing forward surplus funds into the following year's budget be discouraged as it can potentially create longer-term problems, such as if a significant surplus is available in one year and not the next. In such a case, a levy increase would be required for no other reason than a surplus did not exist, or did not exist to the same magnitude.

   - That the amount of surplus funds to be carried forward into the following year's operating budget is not to exceed 1% of the tax levy in the year in which the surplus was generated.

## RELATED POLICIES AND BY-LAWS

- *Ontario Regulation 284/09*
- *Municipal Act, 2001*
- Long-Term Financial Sustainability Policy
- Purchasing Policy
- Reserves and Reserve Funds Policy
- Debt Management Policy
- Strategic Asset Management Policy

## DEFINITIONS

**AF and HR:** Administration, Finance and Human Resources Committee

**Balanced Budget:** Total expenses equal total revenues in an operating year.

**Betterments:** Subsequent expenditures on tangible capital assets that fulfill one or more of the following requirements:

- Increase service potential (ie: capacity/output)
- Lower associated operating cost
- Extend the useful life of the asset
- Improve the quality of output of the asset

**Budget Variance Report:** A financial report, typically prepared at the end of a reporting period, which compares actual expenditures incurred and revenues received to the estimated expenditures and revenues. The report would also include projections to the end of the fiscal year, and would normally be accompanied by written explanations of major variances.

**Capital Budget:** A multi-year financial plan for the construction, acquisition and financing of capital works. A capital budget should provide for the planning of future financial resources required to finance projects, and identify the future financial resources to be allocated from the operating budget to operate and maintain the capital asset once it is acquired.

**Capital Budget Amendment:** Any adjustment to the proposed expenditures and sources of financing for capital works. This would typically occur at the time project tenders are awarded.

**Capital Expenditure:** Any significant expenditure incurred to acquire, improve or rehabilitate land, buildings, engineering structures, facilities, machinery or equipment, and all associated items to bring the foregoing into function operation. The work typically confers a benefit lasting beyond one year (and as such is non-recurring in nature) and results in the acquisition or extension of the life of a fixed asset. Capital expenditures also include the cost of studies undertaken in connection with acquiring land or constructing infrastructure and facilities.

**Deficit:** A year-end corporate financial position in which total expenditures exceed total revenues.

**Fiscal Year:** January 1 to December 31

**Long-Term Financial Sustainability Strategy:** A principle-based approach to long-term financial decision-making.

**Modified Accrual Basis of Accounting:** A bookkeeping methodology that combines accrual-basis accounting with cash-basis accounting. Revenues are recognized when they are measurable and available, while expenditures are recorded on a full accrual basis. County staff reconcile the budget to a full accrual basis in the annual financial report.

**Net Budget:** The difference between gross expenditures and offsetting subsidies and fees. The resulting value, the net budget, is the amount paid by property taxes.

**Operating Budget:** Provides for the day-to-day expenditures of a municipality for items such as salaries, wages, benefits, heat, hydro, maintenance of buildings and infrastructure, etc.

**Operating Budget Amendment:** Any change to the operating budget approved by Council which impacts the County tax rate. All other deviations from the originally approved budget are treated as in-year variances and reported to Council in accordance with this policy.

**Reserve:** An allocation of accumulated net revenue set aside for a designated purpose. Funds held in a reserve can be utilized at the discretion of Council. Reserves do not earn interest on their own, although interest may be allocated to reserves if desired.

**Reserve Fund:** A reserve fund is established based on a statutory requirement or defined liability payable in the future and is usually prescriptive as to the basis for collection and use of monies in the fund. All earnings derived from reserve fund investments form part of the reserve fund. There are two types of reserve funds: discretionary reserve funds and obligatory reserve funds. Discretionary reserve funds are established whenever Council wishes to set aside a certain portion of any year's revenues to finance a future expenditure for which it has the authority to spend money, or to provide for a specific contingent liability. Obligatory reserve funds are created whenever a statute or legislation requires that revenue received for special purposes is to be segregated from the general revenues of the municipality. Obligatory reserve funds are created solely for the purpose prescribed for them

**Surplus:** A year-end corporate financial position in which total revenues exceed total expenditures.

**Variance:** The difference between an actual and budgeted expense or revenue.