

OPERATING AND CAPITAL BUDGETS

Date Issued: September 12, 2017, R175-17

Mandated by: City Council

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Cross Reference:

- User Fees & Charges Policy FIN-009-C
- Tangible Capital Assets Policy FIN-018-C
- Financial Reserves Policy FIN-021-C
- Allocation of Operating Budget Surplus Policy FIN-022-C
- Property Tax Policy FIN-027-C
- Debt Management Policy FIN-028-C
- Service Levels Policy GOV-020-C

Next Review: January 1, 2027

Responsibility: Chief Financial Officer

1. PURPOSE

This Policy establishes principles and guidelines for the preparation of Operating and Capital Budgets, Operating Financial Plan Forecasts, and Capital Plans.

2. POLICY

- 2.1 The City shall develop Operating and Capital Budgets for approval by Council, as well as Operating Financial Plan Forecasts and Capital Plans for adoption by Council in an accountable, open and transparent manner that takes into consideration Council's strategic priorities, anticipated revenues and expenses, and the short and long-term impacts to the City.
- 2.2 The City shall utilize Priority Based Budgeting tools and principles to assist in the development, reporting, and evaluating of Operating and Capital Budgets, Operating Financial Plan Forecasts, and Capital Plans in order to help prioritize spending and inform resource allocation decisions.
- 2.3 This Policy establishes principles for the preparation of Operating and Capital Budgets, Operating Financial Plan Forecasts, and Capital Plans in accordance with the *Municipal Government Act*. In some cases these principles will stand alone, while in others the principles will be further supported by separate policies established by Council.

3. DEFINITIONS

- 3.1 *Annual Budget Process* - means the yearly development of the City's Operating and Capital Budgets, Operating Financial Plan Forecast, and Capital Plan following established timelines for review and deliberation by Council. Typically, Council will review and update the Capital Plan once in June and again in October coinciding with the presentation and deliberation of the Capital Budget. Council will review and deliberate the Operating Budget in November with formal budget approvals by Council scheduled for December.
- 3.2 *Base Budget* - means the previous year's approved Operating Budget adjusted for one-time revenues and expenses.
- 3.3 *Capital Budget* - means the financial plan for the proposed acquisition and financing of Tangible Capital Assets for the current budget year.
- 3.4 *Capital Expenditure / Project* - means any expenditure in excess of \$10,000 incurred to acquire, construct or improve a Tangible Capital Asset used in the provision of municipal services.
- 3.5 *Capital Plan* - means the financial plan respecting the City's anticipated Tangible Capital Asset additions over a ten-year period and includes allocated or anticipated funding sources.
- 3.6 *City* - means the municipal corporation of the City of Fort Saskatchewan.
- 3.7 *Council* - means the municipal Council of the City of Fort Saskatchewan.
- 3.8 *Estimate Class* - means a cost estimate classification as defined by the American Society for Testing and Materials (ASTM) within its standard ASTM E2516-11. Estimate classes 1 through 5 define the accuracy range of an estimate, with 1 being the most accurate and 5 being the least accurate.
- 3.9 *Horizon List* - means a list of Capital Projects not currently within the Capital Plan for reasons including, but not limited to, no capital funding source and/or insufficiently refined scope, cost or business case. The list is maintained separate from the Capital Plan.
- 3.10 *Line-Item Budget* - means an Operating Budget prepared on a basis that meets legislative requirements; revenues and expenses are listed by category with current year budget figures compared to the previous year.
- 3.11 *Major Capital Project* - means the construction of a Tangible Capital Asset with total projected costs in excess of \$500,000.
- 3.12 *Operating Budget* - means the financial plan for the purchase and financing of the City's day-to-day operations for the current budget year and includes expenses such as salaries, wages and benefits, and materials, supplies and utilities. After all own-source revenues have been accounted for, property taxes are levied to balance this budget
- 3.13 *Operating Budget Request* - means a proposed adjustment to the Base Budget that is recommended by Administration and presented to Council for consideration and deliberation.

- 3.14 *Operating Financial Plan Forecast* - means the financial plan respecting the City's anticipated financial operations over a period of at least the next three budget years, and includes anticipated total revenues, total expenses by major category, anticipated annual surplus or deficit, and anticipated accumulated surplus or deficit.
- 3.15 *Operating Program* - means a group of people working together to deliver a discrete service to identifiable users categorized as either 'community programs' which are external facing services that benefit the community, or 'governance programs' which are internal facing services that are needed for good governance.
- 3.16 *Priority Based Budgeting (PBB)* - means a budget methodology that serves as a tool and framework for prioritizing and evaluating options for both Operating Programs and Capital Projects to help make resource allocation decisions. PBB is based on allocating budget dollars to Operating Programs and Capital Projects that bring the greatest value to the community, with the intent to optimize service delivery and maximize value for tax dollars.
- 3.17 *Program Budget* - means an Operating Budget prepared on a PBB basis showing budget information for Operating Programs including the net costs (personnel/non-personnel costs and revenues) of each program.
- 3.18 *Tangible Capital Assets* - means land, buildings, water and sewer systems, roads, infrastructure, machinery, vehicles, and equipment that has been purchased, constructed or contributed to the City and provides long-term benefits.
- 3.19 *Utility Operations* - means a component of the Operating Budget that includes water distribution, wastewater collection and solid waste services with these specific services provided on a user pay basis, ensuring that users pay the full cost of utility services.

4. GUIDING PRINCIPLES

The approval of Operating and Capital Budgets and the adoption of Operating Financial Plan Forecasts and Capital Plans are among the most critical policy decisions made by Council. The Annual Budget Process allows the City to prioritize Operating Programs and Capital Projects based on anticipated revenues and expenses, and allocate the resources to fund them.

Operating Budget and Operating Financial Plan Forecast:

4.1 Budget Requirement

- 4.1.1 Operating Budgets shall be prepared annually and include both a Program Budget and a Line-Item Budget. Under limited circumstances, the approved Operating Budget may be amended by Council to reflect approved Council motions.
- 4.1.2 Council shall review the Operating Budget as part of the Annual Budget Process and approve it after the budget deliberations have concluded.

4.1.3 Operating Financial Plan Forecasts shall be prepared annually on a rolling three-year basis, not including the current budget year.

4.1.4 Council shall review and update the Operating Financial Plan Forecast as part of the Annual Budget Process and adopt it after the budget deliberations have concluded.

4.2 Base Budget

4.2.1 Operating Budgets shall be developed based on the principle of sustaining established and Council approved Operating Programs and service levels. As such, the previous year's approved Operating Budget will be used as the starting point for development of the current year's Operating Budget.

4.2.2 The Base Budget shall be further scrutinized and adjusted through the use of Program Insights, a PBB tool used to examine Operating Programs to help identify opportunities to improve efficiency, free up resources, and optimize internal reallocations.

4.3 Balanced Budget

4.3.1 The City shall approve a balanced budget with operating revenues equal to operating expenses.

4.3.2 Any year end Operating Budget surpluses shall be allocated in accordance with Allocation of Operating Budget Surplus Policy FIN-022-C.

4.4 Multi-Year Approach

4.4.1 The City shall incorporate a multi-year approach to the Annual Budget Process as evidenced through development and use of three-year Operating Financial Plan Forecasts and ten-year Capital Plans. This approach reinforces the commitment to sustain a financially viable municipality, and communicates the City's short and long-term plans to residents, businesses, and other stakeholders.

4.4.2 Operating Budgets and Financial Plan Operating Forecasts shall include the operating impacts of approved Capital Projects and Capital Projects proposed within the Capital Plan.

4.5 Budget Reallocations

4.5.1 Reallocations to the Base Budget shall be permitted in the preparation of Operating Budgets and during the budget year provided that the net effect on revenues and/or expenses is zero, and there is no net increase to budgeted salaries, wages and benefits.

4.5.2 Budget reallocations do not require separate approval by Council; however, any adjustments outside the scope of an approved Operating Budget require Council approval.

4.6 Capital Funding

- 4.6.1 Annual capital funding shall consist of a base funding amount within the approved Operating Budget that supports the Capital Plan through funding of new, one-time Capital Expenditures.
- 4.6.2 Operating Budgets shall provide adequate capital funding to support the lifecycle maintenance and replacement of the City's Tangible Capital Assets over the long-term in accordance with Financial Reserves Policy FIN-021-C.

4.7 New Permanent Staff Positions

- 4.7.1 As part of the Annual Budget Process, Administration shall present requests for new permanent staff positions as Operating Budget Requests to Council. Only under unique circumstances will Council consider these types of plan requests over the course of the budget year.
- 4.7.2 Operating Budget Requests for new permanent staff positions shall be:
- a. budgeted based on a start date of April 1, or the actual start date if known, and
 - b. budgeted at an initial midpoint salary grade level, or equivalent, as defined within the relevant collective agreement, or the actual salary grade level if known.
- 4.7.3 In addition to direct staffing costs, Operating Budget Requests for new permanent staff positions shall include any related equipment costs (e.g. office equipment, computers, cell phones, etc.) required by the position.

4.8 Current Staff Positions

The Operating Budget shall include provisions for staff vacancies and salary grade levels based on actual historic staff vacancy trends and salary grade levels. These provisions shall be determined annually and applied at the corporate level.

4.9 Revenues

4.9.1 Revenue Estimates

Operating revenues shall be estimated conservatively using an objective, analytical approach based on actual historic trends, predictive statistical analysis and professional judgment.

4.9.2 Revenue Diversification

- a. Revenue diversification is an important consideration in the preparation of Operating Budgets, since the City has limited revenue raising tools available. User fees and charges, fines, and penalties are the most significant source of own-source revenue after property taxes. A consistent and planned approach to the setting of user fees and charges, fines, and penalties shall be taken to protect this vital revenue source.

- b. User Fees & Charges Policy (FIN-009-C) and related Administrative Procedures provide a consistent and transparent approach to considering and establishing new user fees and charges, and for reviewing existing user fees and charges for relevant goods and services the City offers. The Policy and related Procedures' guiding principles, funding categories, and key factors shall be reviewed and applied on an individual basis for each City department, as applicable.
 - i. The City shall establish and charge fees for services in accordance with the User Fees & Charges Policy (FIN-009-C).
 - ii. Proposed changes to user fees and charges shall be reflected in the Operating Budget, and upon budget approval by Council, these fees shall be listed in the User Fees, Rates and Charges Bylaw.
 - iii. The City shall charge fines and penalties as permitted through policy, bylaw or other legislation.
 - iv. The City shall endeavor to maximize cost recovery where applicable and cost effective to do so. Also, the User Fees & Charges Policy (FIN-009-C) identifies several other key factors to consider such as assessment for relevance, pricing methodology, pricing strategy, comparators and existing market, inflation rates, and public engagement.
 - v. The City shall pursue new and diverse revenues so as to limit the dependence on one, or only a few sources of revenue in order to maintain approved service levels.

4.9.3 Grant Revenue

The City shall continuously pursue federal, provincial and private operating grants, but will strictly limit financial support of these programs to avoid commitments which continue beyond funding availability.

4.9.4 One-Time and Unpredictable Revenues

One-time and unpredictable revenues, such as proceeds on sale of property, shall not be relied upon to fund ongoing expenditures, rather they shall be applied to:

- a. reserves in accordance with Financial Reserves Policy FIN-021-C;
- b. one-time expenditures; and/or
- c. repayment of outstanding debt.

4.9.5 Unconditional New Operating Revenues

When the City creates or receives a new, stable, lasting and unconditional revenue source, Administration shall present an Operating Budget Request to Council that recommends either:

- a. new Operating Programs or services;
- b. changes to existing Operating Programs or services;
- c. reductions to the property tax levy;
- d. additional debt repayment; and/or
- e. increases in reserve allocations.

4.10 Expenses

Operating expense projections shall be estimated using an objective, analytical approach based on actual historic trends, predictive statistical analysis and professional judgment.

4.11 Utility Operations

Utility Operations shall be funded on a “user pay” basis such that users pay the full costs of utility services at rates established and approved by Council annually.

Capital Budget and Capital Plan:

The Capital Budget and Capital Plan serve as financial planning and guiding documents for the City’s investment in Tangible Capital Assets (TCA). The Capital Budget is a short-term financial plan that covers the current budget year and includes proposed acquisitions of new TCA, and proposed costs for the maintenance and replacement of existing TCA. The Capital Plan serves as a long-term financial plan that forecasts the City’s anticipated TCA additions and sequencing over a nine-year period that extends beyond the Capital Budget. The Capital Plan includes expected/allocated capital financing sources along with estimated impacts to debt limits, property taxes, and financial reserve balances to assist in identifying challenges/opportunities and meeting of cash flow requirements.

4.12 Budget Requirement

- 4.12.1 Capital Budgets shall be prepared annually. Under limited circumstances, the approved Capital Budget may be amended to reflect approved Council motions.
- 4.12.2 Council shall review the Capital Budget as part of the Annual Budget Process and approve it after the budget deliberations have concluded.
- 4.12.3 Capital Plans shall be prepared annually on a rolling ten-year basis and include the Capital Budget as Year 1. Years 2 through 10, inclusive, shall be considered a Capital Plan forecast.
- 4.12.4 Council shall review and update the Capital Plan as part of the Annual Budget Process including documented changes from the previous year or Council’s last review, and adopt it after the budget deliberations have concluded.

4.13 Capital Project Thresholds

Capital Budgets and Capital Plans shall only include Capital Projects with total projected costs in excess of \$10,000 in accordance with Tangible Capital Assets Policy FIN-018-C.

4.14 Asset Management

The City shall operate under an asset management framework, which includes the compilation and maintenance of a full tangible capital asset inventory that includes a condition based assessment and lifecycle plans to support the maintenance and replacement of Tangible Capital Assets.

4.15 Multi-Year Capital Projects

4.15.1 Capital Projects with a completion timeframe of more than one budget year shall be identified as multi-year Capital Projects within the Capital Plan.

4.15.2 The total cost of a multi-year Capital Project shall be considered and deliberated by Council as part of the current year's Capital Budget.

4.16 Major Capital Projects

4.16.1 Major Capital Projects shall follow a consistent framework for evaluation, planning and approval which consists of (as applicable):

Evaluation:

- a. background and research including previous approved plans and studies;
- b. strategic direction alignment;
- c. risk analysis and mitigation strategies;
- d. PBB capital project scoring information;
- e. PBB supporting operating programs;
- f. utilization demands, needs, and service levels assessments;
- g. current facility assessment and costing (if applicable);
- h. public input and stakeholder engagement;
- i. challenges/community needs;
- j. comparators, regional supply and leading practices;
- k. environmental considerations;

Planning:

- l. project definition and scoping (Class 5 estimate);
- m. planned capital financing source(s);
- n. operating impacts;
- o. future impacts to cash flows, property taxes, debt limits, and financial reserve balances;
- p. conceptual level planning and design (Class 2 estimate);

Approval:

- q. interim and final approvals by Council based on cost estimates at various design phases.

4.16.2 This framework shall be documented within the Capital Plan for each Major Capital Project by way of project reports with cross-references to all relevant supporting documents and data, as applicable. The Capital Plan may also include Major Capital Projects which are at various stages of completion within the framework for evaluation and planning purposes.

4.16.3 For Major Capital Projects that require design work to be completed in order to determine a Class 3 or better estimate, the project shall be approved by Council in 2 phases:

- a. Under phase 1, Council will approve design money for the project up to 10% of the Major Capital Project cost based on a Class 5 estimate. The design process is started, refining the scope and project definition leading to a Class 2 or better estimate.
- b. Under phase 2, Council will approve the remainder of the design and construction budgets based on a Class 2 or better estimate.

4.16.4 When the scheduled commencement of a Major Capital Project within the Capital Plan moves from Years 6 through 10, inclusive to Years 1 through 5, inclusive the project shall be noted and identified as such for further review and scrutiny by Council.

4.17 Capital Financing Sources

Several financing sources are available to fund Capital Projects including, but not limited to, federal and provincial grants, capital reserves, long-term debt and annual capital funding.

4.17.1 Each Capital Project identified within the Capital Budget and Capital Plan shall include a planned capital financing source.

4.17.2 Capital financing sources shall be reviewed annually to ensure that the allocation of funds are appropriate and that capital grants have been fully utilized.

4.17.3 The future impacts of proposed Capital Projects on property tax rates, reserves, debt limits and debt service limits shall be included as part of the Capital Budget and Capital Plan, or presented separately, where applicable.

4.18 Use of Estimates Within Capital Plan

For purposes of establishing costs and timelines for Capital Projects within the Capital Plan, estimates shall be used using the best information currently available. These estimates are subject to Council's formal approval as part of the Annual Budget Process and are to be supported by, as applicable, detailed assessments, public engagement, economic fluctuations, inflationary factors, and other key considerations.

4.19 Changes in Scope

Over the course of the budget year, there may be opportunities to change the scope of an approved Capital Project due to higher or lower than expected revenue or costs. The original scope of an approved Capital Project shall only be changed subject to Council approval.

4.20 Horizon List

- 4.20.1 Administration shall prepare a Horizon List annually to track Capital Projects not currently within the Capital Plan.
- 4.20.2 Council shall review the Horizon List as part of the Annual Budget Process to determine whether Capital Projects should remain on the list, be removed, or moved for inclusion within the Capital Plan.
- 4.20.3 The movement of Major Capital Projects from the Horizon List for inclusion within the Capital Plan shall use the same framework as Major Capital Projects, as described under section 4.16.1 of this Policy.

Priority Based Budgeting (PBB):

- 4.21 Priority based budgeting tools and principles shall be used to assist in the development, reporting, and evaluation of Operating and Capital Budgets, Financial Plan Operating Forecasts, and Capital Plans.
- 4.22 Administration shall review the application and use of PBB tools and principles on a regular basis (annually, if applicable) to ensure they remain relevant and effective, and maintain alignment with the City's strategic plans, goals and initiatives. Administration shall update the application and use of PBB tools and principles accordingly.
- 4.23 The application and use of PBB tools and principles shall include, but is not limited to, the following:
 - a. Program inventories;
 - b. Program costing including allocations;
 - c. Program/Capital Project scoring including quartile placement;
 - d. Community and governance results and basic program attributes (population served, demand, reliance, mandate and recovery cost);
 - e. Focus programs;
 - f. Program insights (service level decrease, internal/external partnership opportunities, cost recovery analysis, program efficiency, program elimination, and service level increase);
 - g. Program scoring reports indicating alignment to community/governance results and attributes;
 - h. Program Budgets;
 - i. Program-based Operating and Capital Budget plan requests;
 - j. Resource allocation analysis/recommendations, and
 - k. Other tools, techniques, and processes as developed over time.

5. AUTHORITY / RESPONSIBILITY TO IMPLEMENT

- 5.1 It is the responsibility of the Chief Financial Officer to establish and administer compliance with this Policy, and for compliance with City Bylaws, the Municipal Government Act, and other applicable legislation.
- 5.2 It is the responsibility of department Directors to be in compliance with this Policy.