



REPORT FIN-2021-035

TO: Mayor and Members of Council

FROM: Mary Hasan, Director of Finance/Treasurer

MEETING DATE: October 27, 2021

SUBJECT: Budget Development and Control Policy
File No. A09 BUD

RECOMMENDATIONS

THAT Report FIN-2021-035 regarding Budget Development and Control Policy be received; and

THAT Council adopt the Budget Development and Control Policy attached as Schedule A to Report FIN-2021-035; and

THAT Council repeal By-law No. 007-2020 being a by-law to establish and define the discretionary reserves for the Corporation of the Township of Puslinch; and

THAT the previous Financial Administration and Budget Management Policy adopted by Council in By-law No. 60/08 be replaced with the Budget Development and Control Policy attached as Schedule A to Report FIN-2021-035.

DISCUSSION

Purpose

The purpose of this report is to provide Council with the proposed Budget Development and Control Policy attached as Schedule A to this Report.

Background

Report ADM-2021-043 – June 29, 2021 Special Council Meeting – Budget Review and Looking Forward to 2022

Council at its Special Council Meeting held on June 29, 2021 passed the following Council Resolution No. 2021-197:

THAT Report ADM-2021-043 entitled 2021 Budget Review and Looking Forward to 2022 be received; and

That staff be directed to prepare the 2022 budget considering the comments provided in the report; and

That staff bring forward a Budget Development and Control policy at the September 22, 2021 Council Capital Budget Meeting.

The primary purpose of a Budget Development and Control Policy is to provide a guideline for the development and control of the Township's annual budgets and to ensure that budget principles are adhered to.

Financial Implications

None

Applicable Legislation and Requirements

Municipal Act, 2001

Attachments

Schedule A – Budget Development and Control Policy

Title: **Budget Development and Control Policy**

Date: **October 27, 2021**

Adoption: _____ **through Council Resolution No.** _____

Subject: **BUDGET DEVELOPMENT AND CONTROL POLICY**
File No: A09 BUD

1. Purpose

The Budget Development and Control Policy has been developed by the Township of Puslinch ("Township") to serve as a guideline for the development and control of the Township's annual budgets.

2. Budget Principles and the Basis of Budgeting

- a) Council's responsibility is to approve appropriate budgets and financial policies for the Township. Approval reference throughout this policy that infers Department Head, Chief Administrative Officer, Director of Finance/Treasurer, and Council will progress with initiation from the Department Head, reporting to the Chief Administrative Officer, and Director of Finance/Treasurer, with final reporting to Council.
- b) All programs/service levels approved by Council are carried out within the approved annual budget.
- c) Budget planning and administration are a primary responsibility of Department Heads.
- d) The Township operates by way of balanced budgets. Operating and capital revenue and expenditures are balanced with funding sources for the budget period. Transfers to and from applicable reserves as approved by Council may be required to balance differences between budgeted revenues and budgeted expenditures. Current operations are financed from current revenues.
- e) The Township's budget is prepared on a modified accrual basis. Transactions are recognized in the period in which the transactions occur or are received. The budget includes capital expenditures rather than amortization expense. Revenues and expenditures are reported as a gross amount rather than a net revenue or net expense amount.

- f) Long-term financial sustainability of the Township's services and the development of adequate discretionary reserves to fund the Township's financial requirements is a priority during budget development.
- g) Commitment is to deliver services in a cost effective manner that balances investments made in Township priorities with mitigating cost increases to taxpayers.
- h) Annual budgets and associated documents are living documents that are updated annually and are realistic and sustainable for the established/approved service levels.
- i) Operating and capital expenditures are funded through an optimal mix of public funding, user fees and charges, grants, discretionary reserves, restricted reserves, and other self-generated revenue to minimize impacts to taxpayers.
- j) The operating and capital funding requested in the annual budget will consider the existing base operating and capital funding allocation to avoid significant shifts between operating and capital programs.
- k) Long term financing for capital projects may be considered based on the life of the proposed asset being acquired. This includes debt or any other obligation for the repayment of money. For Ontario municipalities, debt would normally consist of debentures as well as either notes or cash from financial institutions, but could also include loans from reserves.

3. Guiding Principles

- a) The Township's budget development will be guided by the initiatives, priorities and timelines identified by:
 - i. Asset Management Plan (AM Plan)
 - ii. Development Charges Study
 - iii. Energy Conservation and Demand Management Plan
 - iv. Recreation and Parks Master Plan or other related plans
 - v. Master Fire Plan or other related plans
 - vi. Roads Management Plan or other related plans
 - vii. Ontario Structure Inspection Manual Report (Bridges and Culverts) or other related inspections for Township infrastructure
 - viii. Council Objectives – Direction to Staff or other related Council resolutions or directions provided throughout the year.
- b) No expenditures shall be incurred until the budget for the current fiscal year has been approved by Council unless Council provides a pre-budget approval for the expenditure.

- c) Council authorizes a total blended tax increase on the median/typical Single Family Home equal to the proposed budget year's Consumer Price Index (CPI) inflation rate as outlined in the Ontario Budget and as determined by Statistics Canada and Ontario Ministry of Finance before adding on the dedicated capital levy impact for the proposed budget year.

4. User Fees and Charges

- a) User fees and charges shall be automatically adjusted annually based on the CPI inflation rate as outlined in the Ontario Budget and as determined by Statistics Canada and Ontario Ministry of Finance.
- b) When recommending a new user fee and charge or where the pressure on user fees and charges indicates an alternate rate change over and above the CPI inflation rate to ensure tax subsidization does not increase, the Township will consider changes to the user fees and charges that closely reflect the actual cost for providing the service while keeping in line with comparator municipalities.

5. Ten Year Capital Budget and Forecast

- a) The ten year capital budget and forecast is prepared based on revenue and expenditure projections using the most current information available and will be updated annually as detailed information becomes available. Impacts will be mitigated where possible to maintain the forecast within budget guidelines.
- b) The current year capital budget is approved by Council with the remaining forecast period provided for information and for planning purposes. The forecast may change in future budget deliberations based on new and more up to date information.
- c) Capital budget sheets will be prepared by Department Heads for current year proposed projects and will include a brief description of the project, explanation of the need for the project, operating cost impacts, and any link to AM Plan, other master plans, studies, inspections, etc.
- d) The Director of Finance/Treasurer or designate will provide an analysis of the balance in each capital discretionary and capital restricted reserve based on the current year proposed projects, capital carry forward projects, and recommended current year budget contributions to capital discretionary reserves. The projected balance will be as of the end of the proposed capital budget year. This will be provided when the first draft of the capital budget is provided for Council's consideration.

- e) The Director of Finance/Treasurer or designate will provide an analysis of major known capital grant or other third party funding including amounts per year. This will be provided when the first draft of the capital budget is provided for Council's consideration.
- f) The Director of Finance/Treasurer or designate will provide Council with the following as part of the first draft of the capital budget for Council's consideration:
 - i. Comparison of the current year capital program compared to previous years.
 - ii. Comparison of the current year ten-year forecast compared to previous years.
 - iii. Capital budget and forecast funding sources by year (ie. grant funding, levy funding, discretionary reserve funding, restricted reserve funding).
- g) In the event that a property owner or a group of property owners request that the Township undertake a capital project not included in the ten-year capital budget and forecast, such expenditures may be considered provided that the individual(s) making the request agree to fund the expenditure. The degree of funding will be determined by Council on a project by project basis to a maximum level of 100%.
- h) A lifecycle based capital forecast based on the Township's AM Plan and updated inspections, studies, plans, etc. will be established for asset replacement projects and updated annually by Department Heads based on current documented costing.
- i) Any new Township capital infrastructure is required to be added to the Asset Management Plan in order to ensure replacement based on its lifecycle.

6. Allocation of Capital Funds

Capital funding will be allocated to projects according to the following principles:

- a) Capital funding will be used only for capital projects that are approved by Council.
- b) Capital projects will be closed upon completion. Every effort will be made by the Department Head to complete capital projects within a reasonable time frame. Consideration will be given to recommending the closing of capital projects as a result of unexpected significant delays in project completion.
- c) The annual capital budget will include new capital requirements and amounts approved in prior year budgets that have not yet been completed.
- d) Surplus capital funding determined at the fiscal year-end, for each open capital project,

will be reported in the capital carry forward discretionary reserve or remain in the appropriate discretionary reserve as a source of financing for future years upon project completion.

- e) Surplus capital funding, determined upon capital project closure, will be transferred to the appropriate discretionary reserve in accordance with the approved budget or be transferred to the general corporate surplus.

7. Operating Budget Methodology

- a) The department's base operating budget will be prepared by the Department Head in collaboration with the Director of Finance/Treasurer using the following methodology with focus on the Township's key initiatives as previously approved by Council:
 - i. 2-years of historical data, current year to date data, and prior year approved budget will be reviewed in developing the proposed base operating budget.
 - ii. CPI adjustments for volatile commodity price shifts (ie. fuel, natural gas, etc.).
 - iii. Unavoidable price changes as per contractual obligations (ie. insurance, etc.).
 - iv. Provincial or Federal funding announcements.
 - v. Efficiencies and cost savings achieved through new innovative approaches to delivering services.
 - vi. Revenue and recovery amounts based on the approved User Fees and Charges By-law.
- b) The Director of Finance/Treasurer or designate will update salaries, wages, benefits based on salary grid movements and approved staffing changes in the base operating budget.
- c) The Director of Finance/Treasurer or designate will determine and incorporate in the base operating budget a cost of living adjustments (COLA) based on:
 - i. The CPI for Ontario From August to August and
 - ii. the COLA determined by comparator municipalities surveyed in the Township's Compensation Review.
- d) Department Heads will provide to Council as part of the draft operating budget a detailed listing of the following in accordance with the Township's Staff Expense Policy:
 - i. Conference, Seminar and Training Budget
 - ii. Memberships and Associations Budget
 - iii. Uniforms and Special Clothing Budget

- e) Base budget increase requests are provided separately via a Base Budget Increase form and require approval from the Chief Administrative Officer and Director of Finance/Treasurer prior to being presented to Council. Base budget increase requests are required if an operating line item expenditure is increasing due to a proposed new project/initiative/service level/governing legislation. These requests are not incorporated in the base operating budget. The Department Head must indicate whether the base budget increase request is one-time or recurring.
- f) Any increases to service levels or addition of new Township capital infrastructure requires a corresponding increase in resources (staffing and equipment) and the operating budget of the Department.

8. Fund Allocation Principles

- a) Any deviation from approved budgets shall be reported to and approved by the Department Head, reporting to the Chief Administrative Officer, Director of Finance/Treasurer and ultimately Council as required by this Policy.
- b) Fund re-allocation between the operating budget and the capital budget is not permitted.
- c) The following re-allocation of funds may occur with approval from Council and the appropriate source of funding is maintained:
 - i. Transfers between open capital projects; and
 - ii. Unbudgeted transfers from discretionary reserves to capital projects; and
 - iii. Unbudgeted transfers from discretionary reserves to operating programs.
- d) Where it is desirable to reallocate funds between detailed operating accounts within the approved budget allocations in order to achieve the most efficient and effective use of resources, said reallocations shall be carried out in accordance with this policy and reported to Council through the quarterly financial reporting process.
 - i. The Chief Administrative Officer may approve requests from Department Heads to reallocate current budget funds between detailed accounts within approved budget allocations within their own department to a maximum of \$10,000.
 - ii. Where it is proposed to reallocate current budget funds in excess of \$10,000, the reporting Department Head along with the Director of Finance/Treasurer shall prepare a report seeking Council's approval for the reallocation.

9. Discretionary Reserve Financing and Balances

- a) Council has the authority to establish discretionary reserves as a financial management tool in accordance with the Municipal Act.
- b) The Township will adopt discretionary reserve financing and discretionary reserve balances that consider the following:
 - i. Mitigation of current and future risks.
 - ii. Stabilization of the tax levy.
 - iii. Reduce exposure to unpredictable revenues and unplanned funding requests.
 - iv. Multi-year financing of capital projects.
 - v. Replacement value of tangible capital assets.
- c) The use or transfer from any discretionary reserve requires the approval of Council.
- d) All proposals to establish and maintain discretionary reserves in any year, whether for current or capital purposes, shall be contained in the budget and shall be presented to Council for approval.
- e) Annual budgets shall not commit to financing from reserves an amount greater than the reserve balance in the account.
- f) Council shall determine annually during the budget process, an amount to be contributed to each discretionary reserve.
 - a. The Director of Finance/Treasurer or designate will provide an analysis of the recommended contributions to discretionary reserves based on the proposed budget presented and compare these contributions to the previous year approved budget and the current balances in each discretionary reserve.
- g) The Township's operating and capital discretionary reserves including their use are outlined in Schedule A to this Policy.

10. General Corporate Surplus

- a) Where funds have been appropriated but not incurred prior to the end of the fiscal year, and no legal obligation to expend said funds has been entered into prior to the end of the fiscal year, said funds shall be included in the general corporate surplus and shall be submitted for Council's consideration to be contributed to the AM Discretionary Reserve in

accordance with Council Resolution No. 2019-347 or to another discretionary reserve based on Council's direction.

- b) The policy adopted by Council through Council Resolution No. 2019-347 states that Council authorizes the allocation of all budget surpluses into the Township's AM Discretionary Reserve for the purpose of meeting future AM obligations.

11. Budget Calendar – Annual Target Dates

Target Dates	Item	Purpose
June	Council Objectives – Direction to Staff	This meeting allows for discussion between Council and Department Heads regarding the overall direction of the proposed budget. Resolutions passed by Council will be used as the basis for initiating the budget creation process.
July/August	Director of Finance/Treasurer or designate provides user fees and charges and budget instructions to Department Heads.	
August	Proposed User Fees and Charges Report and Proposed By-law prior to presenting at the Public Information Meeting.	
August	EngagePuslinch.ca Survey for proposed User Fees and Charges	
September	Department Heads meet with Director of Finance/Treasurer and Chief Administrative Officer to discuss proposed Capital and Operating budgets.	
September	Public Information Meeting regarding Proposed User Fees and Charges By-law	
October	Approval of User Fees and Charges By-law by Council	Public comments received will be provided for Council's information.
October	Road and Facility Tour with Department Heads and Council	To provide Council with key projects, vehicles, equipment that have been completed as part of the past year's budget and proposed for consideration prior to formal budget presentations.
October	Present Proposed Capital Budget and Ten Year Forecast to Council including Capital Budget Sheets	This meeting provides Council with a preliminary look at the proposed Draft Capital Budget and Forecast. Any direction

		provided by Council will be used to finalize the Draft Capital Budget and Forecast.
October	EngagePuslinch.ca Survey for proposed Budget	
November	Present proposed base operating budget to Council including both detailed and summary expense, reserve transfer, and revenue reporting.	<p>This meeting provides Council with a preliminary look at the proposed Draft Operating Budget. Any direction provided by Council will be used to finalize the Draft Operating Budget.</p> <p>This meeting also provides Council with answers to questions or updates to the proposed budget based on direction from Council from the October Capital Budget Meeting.</p>
November	<p>The Director of Finance/Treasurer or designate will provide the grant applications and amounts requested including previous year approved grant funding allocations for each organization.</p> <p>Category 3 applicants for funds requested of greater than \$3,000 must delegate to Council in accordance with the Grant Application Policy.</p>	<p>Council will approve the budget grant application allocations to applicants through Council Resolution to be incorporated in the proposed Operating Budget.</p> <p>Funds available under the Grant Application Program are limited to a maximum of 0.50% of the previous year's taxation levy per calendar year.</p>
December/ January	Provide Council with the updated Capital and Operating Budget based on Council's direction from the October and November budget meetings to be presented at the Public Information Meeting in January.	The Director of Finance/Treasurer or designate will provide the tax impact of the proposed levy on the median/typical properties (Single Family Home, Farmland, Small Retail Commercial, and Standard Industrial) in the Township based on MPAC's returned assessment roll received in December which incorporates new assessment growth. This analysis will include the County of Wellington's proposed tax rate and the Education estimated tax rate.
January	Public Information Meeting regarding Proposed Budget.	The presentation materials will include charts and other graphs regarding the proposed budget for the Public's consideration.

By the end of the first week of January of each fiscal year	Last date for submitting current expenditures, revenues and adjustments by Department Heads	
February	Balances in Discretionary and Restricted Reserves	Balances as of the end of the current fiscal year and over the ten year forecast period.
February	Current Year Completed Capital Projects including how each project's actual costs were funded.	Includes engineering/project management costs as a percentage of total project costs.
February	The Director of Finance/Treasurer or designate will provide a Report to Council with the final budget compared to the prior year approved budget. The final report will include charts and other graphs regarding the final approved budget.	Public comments received will be provided for Council's information. Budget By-law approval with a media release issued upon approval of the budget by-law.
April	General Corporate Surplus Allocation Report to Council	This will be provided after the completion of the Township's annual audit.
May	Tax Rate By-law approval	This will be provided after the County's passing of its Tax Ratio and Tax Reductions By-law and after the Education rates have been set by the Province through Ontario Regulation under the Education Act, as amended.
Quarterly	Quarterly financial reports presented to Council showing budget to actuals.	

12. Reporting Requirements

- 1.) The Director of Finance/Treasurer or designate shall produce and forward quarterly operating budget versus actual reports to Department Heads and the Chief Administrative Officer for review.
- 2.) The Director of Finance/Treasurer or designate shall review the quarterly reports and forward comments to the Department Head and the Chief Administrative Officer on significant account variances.
- 3.) The Department Head shall prepare reasons for any significant variances to provide to the Director of Finance/Treasurer and Chief Administrative Officer.

- 4.) The Director of Finance/Treasurer or designate shall include for Council's review quarterly financial reports which include departmental detail, expense and revenue summaries, and other pertinent financial data.

13. Attachments

Schedule A – Listing of Operating and Capital Discretionary Reserves

Operating Discretionary Reserves

The Township of Puslinch's operating discretionary reserves are outlined below:

- a) Broadband Strategy Implementation
 - i. Funding for the recommendations that came out of the broadband strategy.
- b) Corporate Insurance Contingency Discretionary Reserve
 - i. Funding the unrecoverable portion of insurance claims
- c) Corporate Legal Contingency Discretionary Reserve
 - i. Funding major unrecoverable legal matters.
- d) Election Discretionary Reserve
 - i. Funding the costs of the election every four years.
- e) Operating Carry forward Discretionary Reserve
 - i. Maintaining allocated funding for operational items approved in a previous budget but not yet complete.
- f) Outstanding Deposits Discretionary Reserve
 - i. To account for security and grading deposits ten years or older for the purpose of determining the status of these outstanding deposits.
- g) Public Works Winter Maintenance Discretionary Reserve
 - i. Funding winter maintenance costs as needed to offset unusual/severe winter weather conditions
 - ii. Surplus funds from the winter maintenance operating accounts are captured annually and are allocated to the Public Works Winter Maintenance Discretionary Reserve. If the winter maintenance expenditures exceed the amount budgeted, the deficit is drawn from the Winter Maintenance Discretionary Reserve.

Capital Discretionary Reserves

The Township of Puslinch's capital discretionary reserves are outlined below:

- a) Asset Management Discretionary Reserve
 - i. Implementing the funding requirements for current infrastructure as noted in the 2019 Asset Management Plan.

- ii. The 2019 Asset Management Plan recommended that the Township maintain a minimum target balance of 2.0 million and a maximum target balance of 4.0 million in its Asset Management Discretionary Reserve.
- b) Capital Carry forward Discretionary Reserve
 - i. Maintaining allocated funding for capital projects approved in a previous budget but not yet complete
- c) Corporate Information Technology Discretionary Reserve
 - i. Implementing the recommendations from the County of Wellington and its member municipalities Operational Services Efficiency Review in response to the Provincial Modernization Grant.
- d) Gravel Roads Improvement Discretionary Reserve
 - i. Improving the Township's gravel roads as authorized by Council at its January 2, 2020 Budget Meeting