



BY-LAW

NO. 2023 –

Being a By-law to Adopt Budget Policy for The Corporation of the Municipality of Kincardine

Whereas pursuant to the said Municipal Act, Sections 8 and 9 provides that a municipality has the capacity, rights, powers and privileges of a natural person for the purpose of exercising its authority under this or any other Act; and

Whereas Section 270 (1) of the Municipal Act 2001, S.O. 2001, c. 25, as amended, requires a municipality to adopt and maintain a policy with respect to the manner in which the municipality will try to ensure that it is accountable to the public for its actions, and the manner in which the municipality will try to ensure that its actions are transparent to the public; and

Whereas Section 290 of the *Municipal Act*, 2001, S.O. 2001, c. 25, as amended, provides 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; and

Whereas the Council of the Corporation of the Municipality of Kincardine desires to adopt a new Budget Policy; now therefore be it

Resolved that the Council of The Corporation of the Municipality of Kincardine **Enacts** as follows:

1. That the Budget Policy for The Municipality of Kincardine, attached hereto as Schedule 'A' and forming part of this By-law be adopted.
2. That this By-law shall come into full force and effect upon its final passing.
3. That Policy GG.2.7 Budget Procedure passed by Resolution #99-120 and all other Policies passed by By-law and Motions inconsistent with this By-law, be repealed.
4. That Policy GG.2.14 Municipal Financial Policy passed by Resolutions #2002-049 and 11/21/07 – 05, and all other Policies passed by By-law and Motions inconsistent with this By-law, be repealed.
5. That By-law may be cited as the "Budget Policy By-law".

Read a First and Second Time this 15th day of May, 2023.

Read a Third Time and Finally Passed this 15th day of May, 2023.

Mayor

Clerk

Policy No.: FIN.02
Section: Your Government and People
Policy Title: Budget Policy
Adopted Date: June 5, 2023
By-law No.: 2023 -
Revision Date:



1. Purpose

The purpose of the Budget Policy is to:

- Provide the framework and process for the development of the annual operating and capital budget;
- Define the budget as the financial resourcing plan to implement the goals set out by Council in its Strategic Plan;
- Ensure budget development is based on long-term financial principles;
- Develop consistency and standardization in the presentation of the financial information;
- Elevate the transparency, communication and education about the budget process and financial priorities;

2. Scope

This policy applies to all Municipality of Kincardine ("Municipality") departments, boards, and committees. Local Boards and committees will provide budget requirements consistent with the Municipality's approved Budget Policy.

3. Definitions

Annualized Costs - shall mean any costs approved in the prior year's budget that were included for only part of the year are converted to a twelve-month period and included in the Base Level Budget. Annualized costs would normally apply to personnel and related costs and those costs related to municipal service contracts that had price escalations part way through the year or any that began part way through the year. These costs must be clearly identified in the Base Level Budget;

Base Level Budget – shall mean that the base level for the budget for the current year will be the prior year's cost of providing all of the services approved in the prior year budget except for one time projects. The base level is set by taking the inputs approved in the prior year's budget and costing them, adjusting them for annualized costs, capital impacts on operations (growth), and inflation where inflation increases;

Capital Expenditure - shall mean an expenditure incurred for the improvement, acquisition or major rehabilitation of buildings, equipment, rolling stock and infrastructure used in providing municipal services (including studies undertaken related to such expenditure), as in accordance with the Municipality's Tangible Capital Asset (TCA) Policy;

Capital Impacts means the additional operating costs that relate to operating or maintaining a capital project that has been completed and is now "in use".

One-Time Revenues means grants or subsidies from other levels of government or municipalities that are not legislated to recur annually, transfers from Reserves and Reserve Funds, dividend distributions from related parties (e.g. Bruce Telecom, Westario Power), payments collected under development agreements (e.g. SP Armow Wind), or proceeds on sale of property.

4. Responsibilities

4.1. Council:

- Establish priorities through the Strategic Plan
- Establish budget guidelines by way of the Budget Policy and other financial policy documents
- Review, deliberate and approve the Budget
- Approve the rates required for taxation and user fees by by-law

4.2. Chief Administrative Officer (CAO):

- Direct, in co-operation with the Treasurer and Senior Leadership Team, the preparation and presentation of the Budget to Council
- Exercise financial control over all corporate operations in conjunction with the Treasurer and Senior Leadership Team to ensure compliance with the Council-approved Budget

4.3 Senior Leadership Team (SLT):

- Develop departmental business plans and identify operating and capital resource requirements that are aligned with the Strategic Plan and follow the requirements of the Budget Policy
- Recognize the priorities of the municipality as a whole, separate from departmental priorities, during the budget development process
- Individual accountability over their respective departmental budgets in accordance with established guidelines, timelines and policies
- Ensure that the resources and assets under their authority are effectively managed on an ongoing basis

4.4 Treasurer/Director of Corporate Services:

- Plan, lead and coordinate the overall preparation, engagement, communication and administration of the Budget, both internally and externally
- Ensure adherence to the Budget Policy and financial policies as approved by Council
- Develop funding strategies to finance the Budget
- Prepare financial variance reports in accordance with this policy

5. Procedure/ Policy

Operating Budget:

5.1. Operating Budget and Business Plan Preparation

5.1.1. Each Director shall prepare and submit annually to the Treasurer their Operating Budget Requests on the forms and format prescribed by the Treasurer.

5.1.2. Direction in terms of corporate wide assumptions and conditions will be defined in the "Budget Plan Report" prepared annually by the Treasurer and presented to Council. This includes the following:

- Employee compensation and annual adjustments
- Asset management funding requirements
- Inflationary estimates
- Contractual obligations

5.1.3. All Operating budget estimates will be reviewed and approved for presentation to Council as follows:

- a) Guidelines are set by Council based on staff recommendations in the Budget Plan Report prepared by the Treasurer;

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- b) Finance staff shall prepare detailed instructions to be followed in the preparation of all operating estimates;
- c) Departments shall prepare budget estimates to identify the Base Level Budget requirements at existing service levels;
- d) Departments shall identify new programs and/or service levels and provide costs and justifications for the changes;
- e) Departments shall provide estimates of the number of full-time equivalent requirements and provide costs and justification for any increases from the Base Level;
- f) Departments shall identify goals and objectives for the upcoming year that integrate the operating and capital budget request with the Strategic Plan and other studies/reports adopted by Council;
- g) Revenues/Expenditures are to be calculated based on known commodity trends, approved studies/reports including user fee reports/by-laws and master plan reports, etc.;
- h) The CAO and the Treasurer will meet with each department to verify timing, costs (including review of the source documents that formed the basis for the cost estimates), and identify external funding sources: grants and subsidies, fundraising, and donations;
- i) The Senior Leadership Team shall evaluate each new program and/or service enhancement on the basis of immediacy and need based on the following:
 - Legislative requirement;
 - Capital impacts
 - Cost savings or inherent efficiencies
 - Identified need with self-sustaining revenues available, and
 - Identified need with no corresponding revenue possibilities
- j) The Senior Leadership Team shall review all program and or service levels for potential cuts or rationalization;
- k) Finance staff will compile appropriate operating budgets and summaries to be incorporated into the budget document;
- l) The Senior Leadership Team will review the compiled operating budget and supplementary information for accuracy, completeness, and adherence to Budget Plan;
- m) Operating budgets will be presented to Council for approval with their associated business plans.

5.2. Operating Budget Spending Before Budget Approval

- 5.2.1.** Departments are authorized to expend funds at the previous year's service levels for up to 50% of the previous year's departmental operating budget, unless specifically directed otherwise by Council until the current year's operating budget has been approved.
- 5.2.2.** No new programs or service enhancements are to be initiated before the operating budget is established without the prior approval of Council.

5.3. Operating Budget Reporting

- 5.3.1.** A quarterly financial report of the operating budget will be provided to Council which shall include a variance analysis for accounts in a format prescribed by the Treasurer.

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- 5.3.2.** The Treasurer will review financial statement variances with all Departments to identify any potential cost overages or revenue shortfalls that may impact the overall budget.

5.4. Operating Budget Principles

The principles for operating, planning, and funding are:

- 5.4.1.** The operating budget will be balanced as per the legislative requirements outlined in the Municipal Act. Any shortfall in budgeted revenues versus expenditures for a budget period will be offset by tax levies equal to the shortfall thereby resulting in a balanced budget.
- 5.4.2.** The Municipality shall not utilize one-time revenues for ongoing expenditures. However, one-time revenues may be used to fund non-recurring expenditures or services provided it is duly approved by Council.
- 5.4.3.** Certain municipal revenues can be termed “unpredictable” as they fluctuate year to year and are not under the direct control of the Municipality. The budget amount for unpredictable revenues shall be conservative in nature and represents management’s best estimate at the time of the budget.
- 5.4.4.** The annual operating surplus (deficit) from an audited year-end balance will be transferred in accordance with the Reserve and Reserve Fund Policy.

Capital Budget:

5.5. Capital Budget Preparation

- 5.5.1.** Each Department shall prepare and submit annually to the Treasurer their Capital Budget requests and 5-year forecasts on the forms and in the format prescribed by the Treasurer.
- 5.5.2.** Each Capital Budget and Forecast shall include:
- a) The project ID number (to be set by Finance Department);
 - b) The project name;
 - c) The project type (new acquisition, rehabilitation, etc.);
 - d) The responsible department and sub-department;
 - e) The asset classification for TCA purposes;
 - f) The year of initiation of the project;
 - g) A brief description of the project which should identify the objectives of the project and how the objectives are achieved, including the project need;
 - h) The flexibility in the timing of the project (e.g. if there is a reason that it must go forward in a certain year due to legislated requirements, development or safety);
 - i) An indication of whether the project is growth related and will have growth funding;
 - j) The Strategic Plan objectives that the project is related to;
 - k) An indication of the project priority ranking, following the ranking system outlined in this policy;
 - l) An estimate of the project’s costs net of HST rebates;

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- m) The financing of each project, including any known information regarding grants/subsidies, development contributions, external contributions, or other. The Finance Department will complete the remaining financing breakdown;
- n) An identification of operating impacts/expenditures that result from the capital project, including any additional transfers to reserves required due to increased need for replacement of new equipment and/or new facility components that will be required in the future. At least one full year of operating costs/revenues will need to be estimated. Any savings due to upgrades should also be identified.

5.6. Capital Budget Priority Ranking Process

5.6.1. Capital budgeting requires Staff and Council to allocate the scarce financial resources of the Municipality to meet the needs of the Municipality in the present and future. As a principle, the best interests of the community as a whole should be at the core of all capital budgeting decisions.

5.6.2. Staff will rank projects to assist in the determination of which projects should be recommended to be included in the Capital Budget. Any new capital project that is not replacing or rehabilitating an existing capital asset should be accompanied by a justification report, which will form part of the capital budget document and will be in the form prescribed by the Treasurer.

5.6.3. The following rankings shall be used to prioritize capital projects:

a) Very High:

- Legislative requirements: The project must be completed to meet statutory or mandated initiatives and are the highest priority for funding. Items included in this ranking are mandated accessibility requirements, minimum maintenance standard requirements;

b) High:

- Committed projects: Projects that have already commenced and are simply a continuation from a prior year;
- Serious threat to Public Health and Safety: There is a recognized health and safety issue that could place the Municipality in a situation of high risk if not for immediate corrective action;
- Phased project: A project, that if not completed, would preclude continuation of another project, result in the loss of external funding opportunities or is a corollary project that is fiscally efficient (e.g. replacement of sewer at same time as road reconstruction);
- Dependent project: A project that would preclude growth if not completed; a project that is tied to one in another jurisdiction and will minimize public disruption or be fiscally efficient;
- Growth related project: This priority would apply to a project that is partly funded through Development Charges, sufficient funding is available and growth would be impeded if the project were delayed;
- Critical lifecycle maintenance items: These are projects that can no longer be put off;

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- Operating cost reduction or efficiency: The project will reduce net current and future operating or maintenance costs. The payback period must be one year or less;

c) Medium:

- Lifecycle maintenance items: These are projects where there may be three to four budgetary periods before it becomes critical;
- Operating cost reduction or efficiency: The project will reduce net current and future operating or maintenance costs. The payback period must be less than five years;

d) Low:

- General benefit to the Municipality: These projects would have general benefit to the community as a whole but may not have any funding. These are 'nice to have' items;
- Lifecycle maintenance items: These are projects where there is a period of more than four years before they would be deemed critical;

e) Very Low:

- These projects would be recommended for postponement or elimination because they require further development of the justification of benefit, need, proper timing, or adequate funding;
- Community requests for new projects or initiatives that have not been vetted by staff or identified in the long-term capital plan

5.7. Capital Budget Priority Ranking Process

5.7.1. Capital budget project requests will be reviewed and approved for presentation to Council as follows:

- a) Directors will identify the projects and submit their capital project sheets to the Treasurer;
- b) The Treasurer will meet with each Director to verify timing, costs and identify external funding sources (grants, subsidies, fundraising, donations);
- c) Finance staff will review for internal funding sources such as transfers from operating and reserves, development charges, reserve funds and debentures;
- d) The Senior Leadership Team will meet to rank each project;
- e) Finance staff will compile the appropriate capital budget summaries to be incorporated into the budget document;
- f) The Senior Leadership Team will review the compiled capital budget and schedules for accuracy and completeness;
- g) Capital budgets will be presented to Council for approval with the associated operating estimates and business plans.

5.8. Capital Spending Before Budget Approval

5.8.1. Until the Capital Budget has been approved by Council, no department will begin any capital project that was not authorized in prior years unless:

- a) Pre-budget approval was granted by Council through a staff report prepared by the Director;

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- b) The project was approved by Council in prior years and a contract has been awarded; or
- c) An emergency occurs requiring capital repairs and the purchase was approved through the processes outlined in the Municipality's Purchasing and Procurement Policy.

5.9. Capital Budget Reporting

- 5.9.1.** A quarterly financial detail of the capital budget will be provided to Council for the second quarter ending June 30th.
- 5.9.2.** Any capital project that has a variance in excess of 10% or \$15,000 (whichever is more) shall have an explanation as part of the quarterly reporting to Council.
- 5.9.3.** For purposes of updating the TCA register, upon completion of the project the Director (or delegate) is to advise the Supervisor, Accounting Services that the project is complete.

6. Related Policies

- 6.1.** Tangible Capital Assets Policy
- 6.2.** Purchasing and Procurement Policy
- 6.3.** Reserve and Reserve Fund Policy
- 6.4.** Asset Management Policy
- 6.5.** Debt Management Policy

7. Related Documents/Legislation

- 7.1.** 2022 Asset Management Plan
- 7.2.** *Municipal Act, 2001*

Kincardine Budget Process

