



# Corporate Policy Manual

Sub Topic:	Operating and Capital Financial Policy	Policy No.	FIN 2-01
Topic:		Employees Covered:	All
Section:	Finance	Council Adoption Date:	Nov. 24, 2008
Effective Date:		Revision No:	Date:

## Policy Statement & Strategic Plan Linkages

The Town of Newmarket believes in full accountability for its spending, revenues, and the performance of service delivery against budget approvals. The Town also recognizes that all services offered have cost implications and that all costs incurred in support of those services must be practical and affordable in keeping with the fiscal responsibility aim of the Town's "Well Equipped & Managed" Strategic Plan objective.

## Purpose

The purpose of the Town of Newmarket's operating and capital financial policy is:

1. To ensure that all programs approved by Council are carried out within the budget allocation therefore;
2. To recognize that Commissioners and Directors are accountable to the Chief Administrative Officer and to Council for their spending, their revenues, and the service delivery performance of their departments against budget approvals;
3. To ensure that any deviation from approved budgets be reported to the Treasurer and to the Chief Administrative Officer, as soon as possible and no later than 30 days after the month of occurrence;
4. To ensure that the Town's debt is controlled and maintained at acceptable levels in accordance with the Town's Debt Policy;
5. To recognize that budget planning and administration are a primary responsibility of management, with direction and approval by Council;

6. To recognize that all services offered have cost implications and that all costs incurred in support of those services must be practical and affordable;
7. To recognize that the Operating Budget and Capital Budget are interdependent; however, capital decisions may invariably have tax rate implications for the following budget year;
8. To comply with legislation and regulations, including but not limited to the Municipal Act and the Public Sector Accounting Board (PSAB).

## Definitions

**Accrual basis of accounting** - Every expenditure for goods and services is charged in the fiscal year in which the goods or services are actually received

**Administrative Budget Review Committee (ABRC)** – Committee established by the CAO for reviewing departmental/commission budget submissions prior to their consolidation and presentation to Council. Membership is usually the CAO, Commissioners, and Senior Finance staff.

**Asset Replacement Fund (ARF)** – A Reserve Fund to finance the replacement of existing Capital Assets.

**Capital Assets** – Roads, water and sewer systems, land, buildings, machinery, equipment and other items that provide benefits for several years.

**Capital Budget** – The annual plan for the purchase and financing of Capital Assets.

**Capital Expenditure** - Any significant expenditure incurred to acquire or improve land, buildings, engineering structures and machinery and equipment used in providing municipal services. It includes Capital Assets and appropriate professional studies, and confers benefit lasting beyond one year.

An expenditure on repair or maintenance designed to maintain an asset in its original state is not a Capital Expenditure.

**Efficiency/Enhancement Fund** – A Reserve Fund used to finance efficiency and enhancement initiatives.

**Emergency** – A situation or impending situation that could result in serious harm to persons or substantial damage to property

**Object Category** – The groupings of revenues and expenses required for financial reporting as set by the Treasurer. Appendix A has the full list.

**Operating Budget** – The annual plan for the purchase and financing of the Town’s operations. It includes salaries, materials and supplies. After all revenues are matched (e.g. user fees), the Tax Levy is used to balance this budget.

**Operating Surplus/Deficit** – The difference between revenues and expenditures not allocated to the Capital Budget or Reserve Funds. An excess of revenue is a surplus. An excess of expenses is a deficit.

**PSAB (Public Sector Accounting Board)** – The rules for municipal accounting and financial reporting.

**Reserve** - An appropriation from net revenue after the provision for all known expenditures. It has no reference to any specific asset and does not require the physical segregation of money or assets. A reserve cannot have a revenue or expense of itself, nor does it earn interest.

**Reserve Fund** - A physical segregation of money into a separate accounting entity (fund). They can have a revenue and/or expenditure stream, and they also earn interest.

The term Reserve Funds, or Reserves, is also used as a collective term for all the Town’s Reserve Funds and Reserves.

**Revenue** - Increases in economic resources realized through increases in assets or decreases in liabilities. They do not include proceeds from debt issues or transfers from other funds within the Town’s reporting entity.

## **Procedures**

### **A. Accounting Guidelines**

1. The Town has adopted the Accrual Basis Of Accounting;
2. A Reserve will be created in respect of any existing budget obligation, which in the opinion of the Treasurer is material, where funds have been appropriated but not expended prior to the end of the fiscal year; however, if there is a legal requirement, it will be treated as a liability;
3. If at the end of the fiscal year, after all financial obligations have been met and appropriate Reserves have been created and maintained, any Operating Surplus will be included in the Operating Budget for the following fiscal year with an allocation to the Town’s Enhancement/Efficiency Fund unless otherwise directed by Council;
4. If at the end of the fiscal year, after all financial obligations have been met, any Operating Deficit will be included in the Operating Budget for the following fiscal year and a source of funding will have to be found;

5. Where unanticipated revenues are realized and do not require additional expenditures, such revenues will not be spent or committed without approval of the Treasurer and, at year-end such remaining revenues will become part of the Town's Operating Surplus or will be applied to reduce the Town's deficit, unless otherwise directed by Council;
6. All land sale revenues are to be reported in the Reserve Fund and are to be used to finance land purchases. Use of these funds to finance the Capital Or Operating Budgets must be approved through the budget process or by Council;
7. The Town will follow the accounting guidelines and disclosure guidelines as set out in the Handbook of the Canadian Institute of Chartered Accountants and the Handbook of Public Sector Accounting and Auditing (PSAB recommendations).

## **B. Capital Budget Financial Controls**

1. The Treasurer will prepare detailed instructions to be followed in the preparation of all Capital Budgets.
2. Budgets will be considered estimates using standard costing methodologies, and are subject to any specific direction provided by Council or the Chief Administrative Officer.
3. Each Commissioner/Director will prepare and submit annually to the Treasurer their Capital Budget and subsequent nine (9) year capital forecast in a format approved by the Treasurer (appendix B).
4. All Capital Budget project requests will be reviewed and approved as follows:
  - a) First Draft for review by the Administrative Budget Review Committee;
  - b) Second Draft for review by the Administrative Budget Review Committee, if necessary;
  - c) Third Draft for review by the Committee of the Whole or by a Council Budget Review Committee;
  - d) Fourth Draft for review by Committee of the Whole with public input;
  - e) Final Draft for approval by Council.
5. Until the Capital Budget has been approved by Council, no department will commence any Capital project that was not authorized in prior years unless:
  - a) approval was granted by Council through a report outside the budget process;

- b) an Emergency occurred requiring capital expenditures and the Chief Administrative Officer approved such expenditures. Where such authorization is given a subsequent report detailing the emergency and the financing of such will be prepared for Council's information by the Chief Administrative Officer.

Procedures for obtaining services/materials for the above will be in accordance with the Town's Purchasing Bylaw.

- 6. All capital projects in accordance with 6 above will be included in and be part of the Capital Budget.

- 7. Where authority has been given in the Capital Budget for a particular project, an increase to the approved amount is authorized, as follows:

- a) Commissioner/Director or the Treasurer may approve:

- i) up to \$5,000 for projects budgeted under \$100,000;
- ii) lesser of 5% or \$100,000 for projects budgeted \$100,000 and over;
- iii) such increases to be offset by corresponding decreases in other similarly funded capital projects.

- b) The Chief Administrative Officer may approve:

- i) up to \$250,000 for all projects;
- ii) such increases to be offset by corresponding decreases in other similarly funded capital projects.

- c) Council approval is required for:

- i) projects in excess of \$250,000 of budget;
- ii) such increases to be offset by corresponding decreases in other similarly funded capital projects;
- iii) any capital project to be added or cancelled.

- 8. Where authority has not been given in the approved Capital Budget for a particular project, no department will commence the project unless:

- a) approval was granted by Council through a report outside the budget process prepared by the Commissioner/Director and Chief Administrative Officer;
- b) an Emergency occurred requiring capital expenditures and the Chief Administrative Officer approved such expenditures. Where such authorization is given a subsequent report detailing the emergency and the financing of such will be prepared for Council's information by the Chief Administrative Officer.

Procedures for obtaining services/materials for the above will be in accordance with the Town's Purchasing Bylaw.

9. The Treasurer will prepare financial reports to Council as at March 31st (if Budget approved), June 30th, September 30th, and December 31st of each year on the capital works in progress.
10. That the principles for capital planning and funding are:
  - a) New development will pay for its capital requirements. This principle means that growth related capital projects and facilities will be financed from development charges, to the level permitted by legislation (DC Act). Tax funds and/or debentures may have to be used to support, in part, growth related projects and facilities;
  - b) Non-growth related capital projects and works and asset replacement projects and works will be financed by reserve funds (but not development charge reserve funds), applicable asset replacement reserve funds and, if necessary, direct use of tax funds and/or debentures. Asset replacement must be well planned on the basis of the asset's estimated useful life and replacement cost;
  - c) Capital Budget decisions made today will be affordable today and tomorrow;
  - d) Capital and Operating Budgets are interdependent. Capital decisions will invariably have tax rate implications for the following budget year(s).
11. That the principles of the Asset Replacement Fund are:
  - a) An amount be included in the applicable annual operating budgets, to be set aside for the replacement of capital assets including roads, watermains, sewer mains, sidewalks, vehicles, equipment, information technology hardware and software, etc., based on the estimated life cycles and estimated replacement costs. The condition of the capital asset will be reviewed at the end of its life cycle for a possible extension of such life cycle;
  - b) Development Charge revenues may not be used for the replacement of capital assets;
  - c) The minimum value of a capital asset replacement expenditure be set at \$5,000;
  - d) That future capital asset replacement expenditures be part of the annual Capital Budget with financing from the appropriate asset replacement reserve fund.

### **C. Operating Budget Financial Controls**

1. The Treasurer will prepare detailed instructions to be followed in the preparation of all operating estimates.
2. Budget expenditure requests will be considered using standard costing methodologies, and are subject to any specific direction provided by Council or the Chief Administrative Officer.
3. Commissioners/Directors will ensure that expenditure requests are prepared to provide sufficient resources to administer any by-laws, or responsibilities assigned to their commission or department, or to attain the level of service approved by Council.
4. Each Commissioner/Director will prepare and submit annually to the Treasurer their Operating Budget, for review by the Administrative Budget Review Committee and Council in a format approved by the Treasurer (appendix C).
5. All Operating Budget revenue estimates and expenditure requests will be reviewed and approved as follows:
  - a) First Draft for review by the Administrative Budget Review Committee;
  - b) Second Draft for review by the Administrative Budget Review Committee, if necessary;
  - c) Third Draft for review by the Committee of the Whole or by a Council Budget Review Committee;
  - d) Fourth Draft for review by Committee of the Whole with public input;
  - e) Final Draft for approval by Council.
6. No expenditure will be incurred until the budget for the current fiscal year has been approved by Council unless:
  - a) An appropriation for a similar item existed in the previous year's Operating Budget and the expenditure does not exceed 50% of the amount appropriated in the previous year's Operating Budget;
  - b) approval was granted by Council through a report outside the budget process;
  - c) an emergency occurred requiring expenditures and the Chief Administrative Officer approved such expenditures. Where such authorization is given a subsequent report detailing the emergency will be prepared for Council's information by the Chief Administrative Officer.

7. All operating expenditures in accordance with 6 above will be included in and be part of the Operating budget.
8. Where authority has been given for the Operating Budget, an increase to the approved amount is authorized, as follows:
  - a) Commissioner/Director or Treasurer may approve:
    - i) up to \$1,000 for Object Category items budgeted under \$10,000;
    - ii) up to \$2,000 for Object Category items budgeted \$10,000 to \$40,000;
    - iii) up to \$4,000 for Object Category items budgeted \$40,000 to \$80,000;
    - iv) greater of 5% or \$5,000 for Object Category items budgeted \$80,000 and over;
    - v) such increases to be offset by corresponding decreases in other line items.
  - b) The Chief Administrative Officer may approve:
    - i) up to \$250,000 for all Object Category items;
    - ii) such increases to be offset by corresponding decreases in other Object Category items.
  - c) Council approval is required for:
    - i) Object Category items in excess of \$250,000 of budget;
    - ii) such increases to be offset by corresponding decreases in other line items;
    - iii) the addition or cancellation of any programs/projects.
9. Where authority has not been given in the Operating Budget for a particular expenditure or line item, no department will expend funds unless:
  - a) approval was granted by Council through a report outside the budget process prepared by the Commissioner/Director and Chief Administrative Officer;
  - b) an emergency occurred requiring expenditure and the Chief Administrative Officer approved such an emergency expenditure. Where such authorization is given a subsequent report detailing the



emergency and the financing of such will be prepared for Council's information by the Chief Administrative Officer.

10. The Treasurer is to make available to all Commissioners/Directors, an applicable monthly financial report, no later than the 5<sup>th</sup> working day of the following month.
11. The Treasurer will prepare financial reports to Council as at March 31<sup>st</sup> (if Budget approved), June 30<sup>th</sup>, September 30<sup>th</sup>, and December 31<sup>st</sup> (a preliminary and a final report) of each year. All Commissioners/Directors will provide a forecast of the year-end revenues and expenditures for their department by the 10<sup>th</sup> working day of the following month, being April, July and October.
12. All reports to Council by Commissioners/Directors will be in a financial format as approved by the Treasurer.
13. The final Budget will also be presented in the format as it will be reported on the financial statements – a pro forma.

#### **D. Reserves & Reserve Funds Financial Controls**

1. All proposals to establish or create a new Reserve Fund in any year, whether for capital or operating purposes, will be contained in the budget estimates and will be approved by Council normally as part of the annual Capital and Operating Budget approval process.
2. A Reserve is created in respect of any existing budget obligation, which in the opinion of the Treasurer is material, where funds have been appropriated but not expended prior to the end of the fiscal year, or to defer excess revenues to match expenditures in future years.
3. Reserves are established from unexpended net operating funds at year end that are to be set aside for specific purposes at the discretion of the Treasurer in collaboration with the Commissioners. The CAO sets priorities, if there are insufficient funds to meet all Reserve requirements.
4. All contributions to and/or withdrawals from Reserves and Reserve Funds will be approved in advance by Council, normally as part of the annual Capital and Operating Budget approval process, or specifically by resolution or by adoption of a report to Council.
5. External revenues for prior year events, which have been fully funded from other sources, are allocated to Reserves and Reserve Funds at the Treasurer's discretion. Allocations, which in the Treasurer's opinion are significant, will be disclosed in the annual report.
6. No Commissioner/Director will, without the approval of the Treasurer, propose to finance capital or operating expenditures from Reserves or

Reserve Funds unless the use of such funds has been authorized by a resolution of Council or as part of the annual Capital and Operating budget approval process.

7. All contributions to or withdrawals from Reserves And Reserve Funds will be clearly identified and segregated on the Town's accounting system and will be flowed through either the Town's Capital or Operating Budget.
8. The Treasurer will prudently invest Reserve Funds and any related net investment income earned will be credited to Reserve Funds accordingly.
9. The Treasurer will prepare and present a report to Council as at December 31<sup>st</sup> each year setting out a Statement of Continuity:
  - a) showing the balance standing to the credit of every Reserve And Reserve Fund as at the previous December 31<sup>st</sup>;
  - b) showing all contributions and withdrawals made against every Reserve And Reserve Fund to the date of the statement.

### **Cross-References**

Debt Policy

Development Charges Act, 1997 as amended from time to time

Municipal Act, 2001 as amended from time to time

Procurement Policies and Procedures Bylaw 2005-94

Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Board (PSAB) Handbook

### **Appendices**

A - Object Categories

B - Capital Budget and Forecast Format

C - Operating Budget Format

## Appendix A

### Object Categories

<b>Object Category</b>	<b>Object Account Numbers Included In The Category</b>
Expenses:	
Salaries, wages and employee benefits	4011-4199 and 5005-5107
Materials, goods and supplies	4202-4299
Utilities	4302-4331
Contracted and general services	4402-4530
Interest on long-term debt	4631
Rents and financial Allocations	4611-4784 (excluding 4621/4631) 4791-5161 (excluding 5005-5107), and 10216.4659
Financing and Transfers:	
Principal repayment on long-term debt	4621
Net transfers to/(from) Reserves and Reserve Funds	4922-4959 and 7541-7547
Transfers to Capital Fund	4911
Revenue:	
Property taxation	7006-7199
Taxation from other governments	7211-7299
User Charges	7431-7516, 7597, 7705-8999 (excluding 8011-8012), 14112.7598, 32210.7591
Grants	7402-7421
Contributions from developers	7556 and 7575
Investment income	7531-7536 and 10216.4959
Fines, penalties and interest	7521-7529
Rent and other	7562-7599 (excluding 7556, 7575, and 7597), 8011-8012

## **Appendix B**

### **Capital Budget and Forecast Format**

The current year's Capital request forms should include the following information:

- a) the department and division;
- b) a project name or title including location;
- c) the proposed starting and completion dates;
- d) a priority ranking;
- e) a detailed description of each project;
- f) an explanation as to project need or justification;
- g) a detailed estimate of each project's cost;
- h) the financing of each project;
- i) the impact on future operating budgets;
- j)** The impact on the number of full-time equivalent positions created upon completion of the project.

The nine-year Capital forecast forms should include the following information:

- a) a summary of costs of the major capital projects for each year and the financing thereof – only one page per year;
- b) any other comments or details that are deemed necessary.

## **Appendix C**

### **Operating Budget Format**

The Operating Budget, for review by the Administrative Budget Review Committee and Council, will include:

- i. Commission/departmental organization charts;
- ii. a summary statement of prepared estimates of revenues and expenditure requests by service bundle for the current year;
- iii. a summary statement of prepared estimates of revenues and expenditure requests by Commission and department for the current year;
- iv. the prior year's budgeted revenues and expenditures;
- v. a corporate business plan and departmental business plans;
- vi. a statement of staff position complement by type;
- vii. general departmental comments or explanations deemed necessary by the Commissioner/Director and/or Treasurer;
- viii. key performance indicators;
- ix. a summary statement of prepared estimates of revenues and expenditure requests for future years to be aligned with the same period as the business plans (up to 5 years).