

City of Melfort Policy Manual

<i>POLICY TITLE:</i> Budget Policy	<i>POLICY NUMBER:</i> 1.3.01	<i>EFFECTIVE DATE:</i> December 10, 2007
<i>ORIGIN:</i> Finance Department	<i>ADOPTED BY COUNCIL ON:</i> December 10, 2007	<i>DATE AMENDED:</i> April 12, 2010 April 16, 2012 April 13, 2015 November 16, 2015 August 14, 2017

1. PURPOSE

The purpose of this policy is to provide a framework for the budget process. A well developed budget process helps decision makers make informed choices about the provision of services, programs and capital assets as well as providing accountability for the proper and prudent management of public funds.

2. POLICY

- 2.1 The City of Melfort employs zero-based budgeting. This is the process of preparing a budget that starts with no authorized funds. Each service/program activity to be funded must be justified in each fiscal year.
- 2.2 A key component of the budget process is the development of general guidelines and assumptions. The guidelines will acknowledge and be responsive to our financial limitations, clarify the City's objectives, outline new program initiatives and reflect the overall priorities of City Council.
- 2.3 The budget document shall include an operating budget for each fund, capital budget for five years, including reserve utilization. These documents are summaries of more detailed support documents.
- 2.4 This policy is to be reviewed on an annual basis.

3. BUDGET PRACTICES

- 3.1 A preliminary budget document is to be prepared for City Council by December 31 of the previous year. Final budget approval is required by April 30.

- 3.2 New budget requests are to be incorporated into the preliminary budget documents. An external organization's request should be made to the whole of council. When a new budget request is made it must be supported by a report that thoroughly describes the impact on the operating budget, number of additional positions required, tax or fee implications and other financial or service impacts.
- 3.3 Annually service levels are reviewed. Departments must be sufficiently knowledgeable of the relationship between program service levels and program expenditures to be able to assess the impact of expenditure adjustments that may be imposed by City Council.
- 3.4 The general capital budget includes pre-approved Council programs, significant maintenance and equipment replacement. The general capital program is funded by reserve interest earnings (see Reserve Policy 1.3.50). The general capital program revenue and expenditures have to be balanced annually. As per Reserve Policy 1.3.50, the annual general capital revenue is derived from the previous year's actual investment income, adjusted using the five-year average Canadian CPI.
- 3.5 The linear asset infrastructure replacement budget was established to build an alternative, more flexible source of funding for the replacement of transportation linear assets other than investment earnings and/or local improvement. A mill rate increase for fifteen years will be utilized for the replacement of existing transportation linear assets. Initial or new transportation linear asset construction is not replacement and as it is first time construction, is to be funded through other means such as local improvement, frontage charges, lot price or through the use of development levies. The budget has been extended to include sidewalk infrastructure with a fixed annual mill rate transfer and with the intention to complete one block of sidewalk per year.
- 3.6 The fleet replacement budget was established to build an alternative, more flexible source of funding for the replacement of fleet other than investment earnings. Annually a mill rate transfer based on replacement value of fleet divided by a useful life of fifteen years funds the fleet replacement of established fleet classes.
- 3.7 With the nature of maintenance of the facility building and mechanical equipment there will be some years where there will be less expenses than budgeted creating a surplus while there may be years where there will be higher scheduled maintenance of building and mechanical equipment. The facility maintenance reserve was established to fund years with higher maintenance expenses and will be funded through 50% of annual surpluses.
- 3.8 The utility capital budget includes Council's manhole rehabilitation, water meter replacement, water line replacement, and equipment replacement programs. The utility budget is funded by two sources. The first being the

annual transfer from the operating fund to the utility fund in consideration of Capital Trust Fund Utility Equity being used for non-utility purposes. Second by the utility rate levy established for replacement of infrastructure. The utility capital program revenue and expenditures have to be balanced annually. The fleet replacement budget is funded through annual transfers from the utility fund with all utility fleet classes being established and funded.

- 3.9 The special capital budget is a visionary capital plan detailing Council's highest priority **new** projects/programs. The ability to access grants and/or an alternative revenue source is the key eligibility factor for a project to be listed in the special capital budget. Council's mechanism to fund the special projects budget is to draw from the special capital project reserve on a highest priority basis.

4. EXCEPTION TO APPROVED BUDGET

Each change in the approved Budget requires the appropriate **prior** authorizations. The following authorizations shall apply:

4.1 Operating Over-expenditures/Revenue Shortfalls

For all revenue shortfalls, over-expenditures and expenditure reallocations from that approved in the operating estimates, the following authorization is required:

- Senior management may approve a budget variance provided the variance can be absorbed within the Department's total budget
- City Treasurer may approve a budget variance provided the variance can be absorbed within the City's total budget.
- City Council approval is required when the variance cannot be absorbed within the City's total budget.
- Council is to be informed of any change to program or service delivery.

4.2 Capital program over-expenditures and/or resource re-allocation

Any exception to the approved capital budget is subject to authorization by City Council.

5. RESPONSIBILITIES

5.1 City Treasurer

- 5.1.1 Coordinating the preparation of the annual budget documents for City Council review.
- 5.1.2 Produce monthly, quarterly and annual financial reports.
- 5.1.3 Reviewing expenditures, revenues, and forecasts in relation to approved budgets and taking appropriate action.
- 5.1.4 Reporting expenditures and revenue performance, both operationally and capital, to City Council on a quarterly basis.
- 5.1.5 Recommending changes to this policy.

5.2 Senior Management

- 5.2.1 Development of budget guidelines and directives to facilitate the preparation of budget estimates.
- 5.2.2 Preparation of annual departmental budgets. This includes, but is not limited to, estimating resource requirements (i.e. labour, materials, equipment, and services), estimating program expenditures, estimating revenues and the preparation of justification reports for capital projects. A greater level of detail and information is required for non-routine capital projects.
- 5.2.3 Review monthly financial reports.
- 5.2.4 Reporting anticipated over-expenditures and/or revenue shortfalls on a quarterly basis to City Treasurer.
- 5.2.5 Periodic reports should be issued routinely on all ongoing capital projects to the City Treasurer. The reports should compare actual expenditures to the original budget, identify level of completion of the project and indicate any concerns with completion of the project on schedule.

5.3 City Manager

- 5.3.1 Monitors and ensures compliance with this policy

5.4 City Council

- 5.4.1 Approving the final Budget
- 5.4.2 Reviewing performance in relation to approved budget.