Financial Policies Framework

Key Principles

The goal of the framework is to place the City's finances on a sound and sustainable footing so that financial, service and infrastructure standards can be met without resorting to unplanned or excessive increases in rates or disruptive cuts in services. The following key principles apply to all decisions:

Principle	Meaning
Respect for the taxpayer	▪ Constant search for excellence and value with due regard to economy, efficiency and effectiveness while striving to attain NQI Level 4 certification ▪ Programs subject to periodic internal and external review ▪ A City that lives within its means with predictable tax levels. ▪ Fair and equitable treatment by other orders of government
Maintain and enhance the City's financial condition	▪ Sufficient revenues are raised to fund operations, while maintaining appropriate levels of debt and equity ▪ Liabilities arising out of current operations fully funded by current taxpayers and user ratepayers
Maintain assets	▪ Physical assets are maintained/replaced using models of best economy
Look ahead and deal with contingencies	▪ Financial decisions based on a multi-year forecast ▪ Equity (reserves) provides flexibility to respond to economic cycles and manage financial risk ▪ Prudence and flexibility built into the budget ▪ Deals with financial issues with permanent solutions
Borrow only for substantial long-term assets at affordable levels	▪ Debt used for specified capital programs at levels affordable to taxpayers and user ratepayers ▪ Credit ratings sustained and/or improved
Diversify revenues	▪ "User pay" is an operating principle considered for all program areas; recovery rates are research-based ▪ Identify new funding sources/financing methods that maintain or enhance the City's financial sustainability
Cautious investor	▪ Invests cash balances only in high-grade securities and to the extent that does not result in short term borrowing or bank overdraft situations
Short and long term financial plans respect the financial policies framework	▪ Budget directions and the long-range financial plan respect the financial policies framework ▪ Report on financial condition and performance relative to the framework on an annual basis
Pursue innovation	▪ Continuously find efficiency and quality improvements in the way we manage and deliver services

Financial Elements

The financial elements are:

- Growth and development
- Strategic initiatives and enhancements
- Debt Management
- Investments
- Operating surplus/deficit
- Budgeting
- Revenues - user fees and service charges
- Revenues - property taxation
- Revenues – non recurring revenues
- Program review
- Financial position
- Reserve/Reserve Fund Management
- Capital Project Financial Control Policy

The financial policies framework is a high-level document appropriate for Council and residents who are interested in financial matters. Staff will have more detailed and prescriptive policies (i.e. debt and capital leasing policy and investment policy) and targets for internal management purposes. In some instances Council will approve these detailed statements of policy.

Growth and Development

Growth includes capital projects and operating costs related to the economic maturity and expansion within the City. The Development Charges Act permits the City to fund the growth portion of new infrastructure required to support new development from a charge levied at the building permit stage. This infrastructure must be maintained by the City, resulting in the need for an increased operating budget. While new residents bring in more taxation, they also participate in City programs, resulting in increased costs to maintain the same standard of service.

Guiding Principles:

- Asset acquisitions and construction are subject to a cost and benefit analysis that considers initial and lifecycle expenditures and alternative financing arrangements
- The Development Charge (DC) Bylaw will be used to recover the costs of growth to the full extent permitted by legislation (thereby minimizing the financial burden of the costs of growth on existing residents)
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- Growth projects are undertaken as DC's are collected, consistent with the DC Background Study. Certain projects can proceed in advance of collection of DC's subject to the availability of funds/financing
- Other methods will be explored with developers/others to fund growth related projects that are not eligible for development charges
- Official Plan discussion about options to expand the urban boundary should include the projected impact on the operating budget and capital budget as well as an estimate of property tax revenue.

Targets

- DC's to be applied to the full extent permitted by legislation
- The cost associated with growth included in the operating budget will be identified and compared to new assessment generated by growth with impacts to existing taxpayers quantified where possible.
- The cost associated with development charge discounts will be identified and reported
- The cost impact of growth will be identified and quantified in the operating budget

Accountability

- Status of Development Charge accounts reported by the Director of Finance annually to Council and the Province
- The cost of growth will be reported as part of the City's Business Plan and Budget

Strategic Initiatives and Enhancements

Strategic Initiatives include capital projects and additional operating requirements that enhance the quality of life in the City, respond to changes in demand for services, enable organizational efficiency, or are required because of senior levels of government regulation. These items are not related to growth nor are they required to maintain existing assets or programs. Council will establish its priorities for strategic initiatives and enhancements at the beginning of its term.

Guiding Principles

- Capital strategic initiatives will be advanced based on their priority as established by Council over a multi-year timeframe
- Dedicated sources of funding, including confirmed funding from other levels of government, to be considered as the first source of financing for strategic initiatives (relative fairness in funding from other levels of government will be sought)
- Council will assess asset management status and the sustainability of City finances when considering strategic initiatives and enhancements
- Identification and analysis of the impact of future operating cost should be completed
- Strategic initiatives and enhancements are highlighted in budget documents

Targets

- Public-private partnership opportunities will be considered and presented to Council.
- No target is set for strategic initiatives and enhancements, other than the general financial limitations.

Accountability

- Strategic initiatives and their sources of funding to be specifically identified in the operating and capital budget

Debt

Debt includes long-term debt and capital lease obligations. As stipulated in the Municipal Act, long-term debt can only be used to finance capital assets. The term of the debt must be equal to or less than the life of the asset subject to limitations imposed under the Municipal Act. The Province limits the total amount of debt that a municipality can issue to 25 per cent of its own-source revenues (all revenue received less Federal and Provincial Grants). The City issues debt that is repaid from a variety of sources including water, wastewater and parking user rate, development charges, provincial/federal gas tax and property taxation and local improvements.

Guiding Principles

- Long-term debt to be used only for the purchase, construction, or replacement of assets excluding vehicles, machinery and equipment with long useful lives that provide a benefit for future taxpayers
- The term of the debt repayment must match or be less than the expected useful life of the asset.
- Debentures should not be issued if internal funds are available at a lower cost i.e. the interest rate on borrowed DC reserves which must be equivalent to the rate earned if the funds were invested, is less than the cost of borrowing
- Long-term debt for replacement and refurbishment of existing capital assets be reduced and ultimately eliminated
- Short-term borrowing (e.g. line of credit, bank overdraft) to be used where feasible if cash flow is forthcoming or as an interim measure prior to issuance of long-term debt
- The overall measure of the affordability of debt is the burden of principal and interest relative to city’s own source revenue (i.e. not including government grants)
- The total amount of debt issued must not compromise the City’s credit rating
- Debt maturities should be staggered when possible, so that interest rates are contracted at various times
- Before borrowing for growth related tax rate supported capital projects all developer related advanced financing arrangements that are in accordance with the Development Charges legislation must be exhausted
- Where debt is issued on behalf of development charges, the repayments to be recovered from future development charge revenues, including interest, be tracked separately

Targets

- More than 2/3 of all outstanding tax rate supported debt to be retired within 10 years in any single reporting period
- Average debt retirement period for all of the City’s outstanding debt not to exceed 12 years in any single reporting period.
- Principal and interest must not exceed 20% of own source revenues
- Principal and interest for tax rate supported debt not exceed 10% of the City’s net levy requirement.
- When new debt is issued, 50% of the annual debt charges must be included in the current year budget and any portion not required for actual debt charges be established as a budgeted transfer to the capital reserve for that year.
- Principal and interest for water rate supported debt not to exceed 25% of the City’s water revenues by 2018
- Principal and interest for wastewater rate supported debt not to exceed 25% of the City’s wastewater revenues by 2014
- Short-term borrowing not be used for longer than three years for any given construction project or asset acquisition.

- All debt charges for DC borrowings as a percentage of own source revenues will be less than 1%
- The total debt charges in each year is not to exceed 10% of the DC reserve fund balance.
- The maximum term of borrowing for growth related tax rate supported projects will not exceed 10 years

Accountability

- Council authorizes new debt financing with the annual capital budget
- Director of Finance determines short-term borrowing needs and reports to Council annually on any balance and their use.
- The Director of Finance through the staff report process will seek Council approval on new debt prior to works being formally undertaken and will advise Council of issuance of debt when it is being undertaken.
- The Director of Finance will include in the Annual Report a review of debt against the targets.
- An annual report describing adherence to the City's financial policies and the implications of any policy exceptions will be produced and submitted to Council
- The Director of Finance will provide the multi-year cash flows for DC Reserves Funds as part of the Capital Budget portion of the annual Business Plan.

Investments

Municipalities are faced with restrictions on the type and duration of investments it may make of any funds not immediately required to meet current operating or capital needs. These funds may include any reserve funds, proceeds from debentures or other monies not immediately required for the ongoing operations of the City but any earnings must be credited to each fund in proportion to the amount invested from it.

Guiding Principles

- Investments must only be made from surplus cash not immediately required to satisfy operational or capital needs.
- Investments cannot be made such that the City is placed in an overdraft or borrowing situation, either short-term or long-term.
- Sufficient cash flow analysis and projection must be undertaken to ensure that maturity dates of investments meet current and future obligations as they arise
- Investment will be primarily in highly liquid marketable securities with high credit ratings
- Must not be limited to any one specific issuer or sector to avoid over concentration and reduce risk

Targets

- Average rate of return on invested funds to exceed bank account rate of interest by a minimum 1.0%
- Average daily bank balance of uncommitted funds not to exceed $1M

Accountability

- The Director of Finance will include in the Annual Report a schedule of investments at year- end and the rate of return for investments maturing during the year.

Operating Surplus/Deficit

Ontario municipalities may not budget an operating deficit. Any operating surplus in any given year is allocated to reserves to ensure target levels are achieved with any amounts above the defined maximum subject to Council direction for disposition. Operating deficits, if not funded from other sources within the year, become the first item of taxation in the subsequent year. Staff report quarterly to Council on the status of spending against budget and provide forecasts at the mid-point and third quarter, identifying any actions that may be required to eliminate a potential deficit.

Guiding Principles

- An operating deficit is funded by the Tax Rate Stabilization Reserve,
- Surpluses are allocated to reserves in accordance with the Reserve/Reserve Fund Management Policy
- Notwithstanding the Reserve/Reserve Fund Management Policy, surpluses not required to meet the rate stabilization reserve balance target will be allocated to the Capital Reserves.
- Department staff to respect and manage a global budget (higher than expected spending in one area is first offset by savings in another)

Targets

- Forecast of year end results provided to Council with the second and third quarterly reports

Accountability

- The disposition of a prior year surplus or deficit is reported annually to Council by the Director of Finance
- Director of Finance to issue quarterly reports on finances with comparisons of actual year to budget and previous year

Budgeting

Council is required to approve a balanced budget each calendar year that must be finalized and approved before final property tax bills can be issued. Included in the operating budget is a forecast for the two following budget years. Assumptions and their associated risks are disclosed in the budget. Council also approves a capital budget that identifies the projects that will be undertaken during the year, how they will be funded, a forecast of projects that will proceed within the term of Council and a 10-year outlook. Capital & operating spending against budget is reported quarterly with adjustments identified throughout the year.

Guiding Principles

- The budget utilizes an outcome based budgeting format and reflects the City's business plan
- Financing plans for the City's budget reflect the City's long term financial plan and will not produce material variances to "base case" targets.
- The long term financial plan will take into account long term growth related impacts, new and capital infrastructure maintenance requirements and the operating costs relating to additional capital infrastructure.
- Respect for the taxpayer through a commitment to continuous improvement and a high regard for economy, efficiency and effectiveness in City programs and in conjunction with NQI certification goals.
- Budget guidelines will incorporate relevant economic factors and be specific enough to reflect the financial impact of continuing existing services ie impacts arising from new labour agreements, anticipated increases in commodity pricing
- Recurring expenditures are to be financed from recurring sources of revenue
- One-time, non-recurring expenditures can be financed, if necessary, from Tax Rate Stabilization Reserves
- The operating budget is to be segmented by:
    - Water, Wastewater and Parking Rate supported;
    - Tax rate supported
- Budget expenditures that may continue to be incurred in advance of annual budget approval will be identified and reported as part of the annual Procurement Activity Report
- For each budget, Council will consider a range of program eliminations, reductions, efficiencies and enhancements
- If program costs must be constrained, then costs savings will be identified with a focus on the highest savings and the least impact to service levels. All vacant position should undergo an evaluation to determine if the position can be permanently eliminated through internal restructuring
- The budget will be presented on a functional basis with operating and capital components shown separately
- Any contributions required from the tax operating budget to fund capital requirements will be budgeted as a transfer to the Tax Capital Reserve
- Input from all stakeholders, including the public should be encouraged during the budget preparation cycle
- Key service usage and performance statistics will be maintained and benchmarked where possible to highlight specific service areas where an increased level of funding and support may be required to maintain acceptable service levels and to identify opportunities for improvement.

Targets

- Taxes levied for municipal purposes, based on an average dwelling value, not to exceed 4% of average household income.
- Average water and wastewater costs as a percentage of household income not to exceed 2.5%
- Annual operating budgets reflect plans that produce results in accordance with the “base case” Long Range Financial Plan targets of no more than plus or minus ten per cent.
- Financial condition measures of flexibility, vulnerability and sustainability into the Long Range Financial Plan will be used to ensure the long term financial health and sustainability of the City as recommended by the Public Sector Accounting Board (PSAB)
- Quantify growth related revenues and expenditures and identify funding shortfalls were possible;

Accountability

- The Director of Finance to comment on spending relative to budget and the prior year in the quarterly reports and adherence to the Long Range Financial Plan
- The Director of Finance to comment on the progress of all authorized capital projects including an assessment of approximate completion.
- Budget documents and the Annual Report to reveal extent of Council control over various categories of expenses
- The Annual Report will include an analysis of budget to actual and prior year (operating and capital) and explanations for the differences
- The Director of Finance will provide regular measurement of the City’s actual financial performance against the current Long Range Financial Plan to ensure that corrective action can be initiated on a timely basis when material variance to the longer term plan are identified.

Revenues – User fees and service charges

Funding of municipal services that benefit defined users by collecting fees and service charges that are at or approaching full cost recovery.

Guiding Principles

- User fees should be used as a full cost recovery mechanism for services that are provided for the benefit of individuals rather than for the community as a whole and particularly where the use of the municipal service is discretionary to the user.
- Objective criteria is used to determine where user fees apply, and for the range of fees to be applied
- Recovery rates for services consider:
    - Operating and capital costs including an allocation of corporate overhead;
    - Incorporation of an asset renewal or replacement charge
    - Extent of private, commercial and community benefit (note: community benefit includes environmental considerations)
    - Use of service by non residents (not including tourists);
    - Rates for commercially available services
    - Impact of changing user fees on demand
- Service fees implemented where individual beneficiaries of the service can be identified
- Fees subject to periodic study and review
- Programs to mitigate the impact of fees on specific users should be adjusted in accordance with fees
- Changes in user fees to be transparent and to occur in conjunction with annual operating budget process and Council deliberations.

Targets

- Capital and operating costs for water, wastewater and parking operations to be 100 per cent recovered by fees (includes associated development charges)
- All other services that have user fees will recover a percentage of cost that reflects Council's decisions about an appropriate level of cost recovery after considering the extent to which:
    - A service provides a private or commercial benefit,
    - A service is routinely supplied to non residents, or
    - A service provides a community or common good
- User fees and service charges will be updated annually and reported as part of the City's Business Plan and Budget

Accountability

- Report on user fees and recoveries to be published on an annual basis by the Director of Finance

Revenues – Property taxation

Property taxes are calculated utilizing assessment of property values provided by the Municipal Property Assessment Corporation (MPAC) on an annual basis multiplied by a rate determined for each property class in effect (e.g. residential, commercial, industrial) sufficient to raise required revenues to support planned capital and operating expenditures net of all other revenue sources including payments made in lieu of taxes by senior governments and their agencies.

Guiding Principles:

- Tax levels adequate to fund/protect the City's:
  - Financial condition;
  - Investment in infrastructure;
  - On-going expenditures (including those of local Boards) ; and
  - Liabilities incurred
- Affordability is assessed by:
  - the overall level of revenue required to finance the City's needs relative to other comparable Ontario cities
  - the typical cost of property taxes as a percentage of household income
- To the extent possible, the burden of property taxes is to be reduced by diversifying revenue sources, such as user fees
- Adequate consideration given to tax relief programs for disabled and senior citizens to be included were feasible and in accordance with provincial legislation
- Capping protection for properties not being taxed at full current value assessment be funded from properties in the same tax class that would otherwise have a tax decrease by clawing back sufficient amounts such that the impact to residential taxpayer is eliminated or minimized (i.e. industrial pays for industrial, commercial pays for commercial, multi-residential pays for multi-residential).

Targets

- Council will establish directions for staff at the beginning of the budget development process that generally describe, among other details, the level of taxation it deems to be acceptable
- Tax increases for all municipal services will be based requirements to maintain existing levels of services and proposed service level changes and on long range financial planning strategies. Boards and agencies will follow the City's budget directions, subject to further information from them that supports a different increase

Accountability

- Municipal tax bills will provide details about the components of city spending and changes in tax levels from previous periods
- Special levies will be identified separately
- The Director of Finance will comment in both the City's Business Plan and Budget and in the annual report on the City's financial condition

Revenues – Non-recurring revenues

From time to time, senior governments may provide funding to municipalities that is for a specified purpose (like an infrastructure project) or that is available only for a specified period (usually one year). Similarly, a municipality may receive a financial gain when it sells an asset or enjoy a “windfall” as a result of some unique transactions or events. The nature of these nonrecurring revenues can vary significantly, but overall a municipality has little control over the amount, timing or conditions associated with receiving them. Careful attention needs to be paid to ensure ongoing government operations don’t rely on these types of revenues for support, or shortfalls will inevitably occur that put upward pressure on property taxes and/or user fees.

Guiding Principles:

- Non-recurring revenues will only be used for non-recurring expenditures or to replenish any reserve or reserve fund. Nonrecurring expenditures include studies, investment in tangible capital assets, land and other one-time expenditures.
- The City will not budget for non-recurring revenues
- The availability of funding from senior governments must be assessed in the context of the long-term financial implications associated with receiving it

Reimbursements, grants or other similar payment for the purchase/construction of tangible capital assets will first be used to reduce the amount of debt financing required or, if that is not possible, be placed in a reserve to begin

Targets

- Non-recurring revenues will only be used to fund the purchase or construction of tangible capital assets, subject to an analysis of the ongoing cost implications of doing so that indicates the assets can be properly maintained and operated

Proceeds from the sale of assets will be placed in an appropriate reserve**Accountability**

- The Director of Finance will report the level and source of non-recurring revenues received each year in the City’s Annual Report

Program & services review

All programs and services are subject to periodic internal and external review. Staff report to Council on performance against pre-determined standards on a quarterly basis.

Guiding Principles

- Each municipal department will prepare annual business plans prior to developing their budget that clearly describe the relationship between resources, services and service levels
- Executive Management Team will appear before General Committee once every year at budget approval stage to:
    - Review established service-level standards
    - Review department performance with respect to established outcome-based performance measures
- All departments are subject to periodic external program review
- Investments in government business enterprises are subject to periodic review to consider public policy mandate and performance
- Barrie is committed to outcome based performance management

Targets

- Every department will produce data that facilitates a consistent understanding among Council, staff and interested members of the public about the use of resources included in the base operating budget
- Unit cost data will be developed to assess the continued sufficiency and appropriateness of base budget levels, identify productivity improvements and cost saving opportunities
- Managers' individual performance appraisals will include an assessment of their ability to use data for identifying, managing and reporting information about the resources under their control

Accountability

- Chief Administrative Officer to issue quarterly performance report
- All Directors to produce Performance Plans in the City's annual Business Plan and Budget that are supported by departmental workplans and follow corporate standards

Fund Balances and Municipal Position

The municipal position on the City's consolidated statement of financial position—its balance sheet—represents the difference between recorded assets and liabilities. Like all municipalities in Canada, it does not currently include physical assets (buildings, fleet, roads, wastewater and other infrastructure). The Public Sector Accounting Board has changed the reporting requirements so that these physical assets must be recorded in the City's financial statements commencing in 2009. Once implemented the municipal position will be more meaningful, and will indicate the extent to which the net book value of the City's total assets is financed by debt versus annual taxpayer contributions.

The municipal position is currently being expressed as the difference between the city's fund balances (including reserves, reserve funds and equity in business enterprises) and amounts that will be recovered from future taxation (long term debt and liabilities related to unfunded employee benefits). This relationship means that sustaining reserve and reserve fund balances serves to protect the City's municipal position.

Given the substantial change in municipal accounting, it is appropriate to wait until the 2010 budget cycle to establish guidelines and targets for the newly defined net municipal financial position. However, in the interim, guidelines are nonetheless relevant to sustaining the City's overall financial condition.

Guiding Principles

- The City will sustain an appropriate level of municipal equity to manage risk and to generally sustain the finances of the corporation. This will be accomplished by maintaining the level of fund balances on the City's financial statements at or above current levels until 2010.
- A policy will be developed thereafter that ensures the net municipal position of the City is sustained or enhanced. A target range will then be established for the municipal position relative to the City's long-term debt and assets

Targets

- Fund balances on the City's statement of financial position to be sustained in real terms for 2008 and 2009 (i.e. current balance plus the consumer price index)
- A policy establishing a level or range for net municipal position will be prepared and approved for 2010 after physical assets are recorded on the City's statement of financial position commencing with 2009 reported results.

Accountability

The Director of Finance will report on the maintenance of fund balances for 2008 as part of the Annual Business Plan and Budget and as part of the financial statements. Recommendations for a new policy on municipal position will be produced no later than 2010.

Reserve/Reserve Fund Management

Reserves and reserves funds are a critical component of the City's long range financial planning. They are used to provide tax rate and user rate stability by smoothing the effect of variable or unanticipated expenditures or revenues, to provide funding for one time or short term requirements, to provide for future replacement or acquisition of capital assets and to provide the flexibility to manage debt within the City's Debt Policy.

A reserve is established by Council for a specific purpose but the funds do not relate to any particular asset and there is no requirement for the reserves to earn interest. Reserves are created either through a planned contribution established in the budget process or through the transfer of unspent funds at the end of a year. Any transfer of unspent funds at year end must be authorized by Council. A reserve fund is similar to a reserve except that the reserve fund assets are segregated and restricted to meet the purpose of the reserve fund. There are two types of reserve funds; obligatory and discretionary reserve funds. Obligatory reserve funds must be created whenever a statute requires revenue received for special purposes be segregated from the general revenues of the municipality i.e. Development Charges. Discretionary reserve funds are established through a by-law of Council for a specific purpose. Investment income generated by reserve funds must be accumulated in the reserve fund and accounted for as part of it.

Guiding Principles

- The Capital Reserves are to be used for the future replacement or acquisition of capital assets
- The annual contribution to the Capital Reserves should be at least equivalent to the annual amortization charge of capital assets
- The Rate Stabilization Reserves are to be utilized to provide rate stability by smoothing the effect of variable or unanticipated expenditures or revenues and to provide funding for one time or short term requirements.
- The City determines future capital reserve requirements based on the stock of its tangible capital assets, condition assessment and lifecycle costing
- The tax rate supported Capital Reserves be managed on a consolidated basis for effective management of the capital financing program
- All reserves and reserve funds will be supported by a financial plan identifying contribution sources and projected disbursements required to meet their planned future obligations.

Targets

- As debt charges mature, the annual amount that is no longer required from the operating budget in the year of maturity shall be transferred for that year and subsequent years to the Tax Capital Reserve in order to build a reserve for future major refurbishment, renovation, capital improvement or replacement expenditures.
- Contributions to the Tax Capital Reserve should be phased in over 12 years when it is expected that the contribution is equivalent to the annual amortization charge
- When the construction of new capital infrastructure is authorized, a corresponding contribution to the Tax Capital Reserve equivalent to the annual amortization charge of that asset, should be budgeted concurrently.
- The annual contribution from the operating budget to the Landfill Closure Reserve be increased by 10% until the estimated landfill closure date of 2026.
- Annual tax and user rate supported operating surpluses be allocated by transferring 30% to the Tax Rate Stabilization Reserve and 70% to the Tax Capital Reserve.

- Five per cent of gross operating revenues (excluding transfers to capital, specific reserves, and debt principal repayments) to be maintained as a minimum balance in the Tax Rate Stabilization Reserve to cover potential deficits and to fund one-time non-recurring expenditures
- A range of no more than ten per cent of gross operating revenues (excluding transfers to capital, specific reserves, and debt principal repayments) to be maintained as a minimum balance in the Water Rate Stabilization Reserve to cover potential deficits and to fund one-time non-recurring expenditures
- A range of no more than ten per cent of gross operating revenues (excluding transfers to capital, specific reserves, and debt principal repayments) to be maintained as a minimum balance in the Wastewater Rate Stabilization Reserve to cover potential deficits and to fund one-time non-recurring expenditures

Accountability

- The Director of Finance will report annually on the status of the City's reserves and reserve funds and the future demands associated with each.

Capital Project Financial Control Policy

Council is required to approve a Capital Plan each year which includes the Capital Budget and the Capital Forecast. The Capital Budget includes capital projects approved for expenditure with related funding sources. The Capital Budget may include Capital Projects or Project Phases that extend over multiple years. In these instances a Capital Spending Plan will also be submitted for approval which represents the annual cash flow projection for each Capital Project. The Capital Forecast represents the projection of expenditures and financing sources that are not included in the Capital Budget but are planned over the next nine years. A Capital Project Status Staff Report will be prepared semi annually to report on the status of projects and address any additional funding adjustments required to complete the approved projects. Quarterly financial variance reports will report spending plan variances.

Guiding Principles

- The current, approved Capital Budget includes all of the capital projects eligible for funding.
- Except for Extraordinary Circumstance purchases made in accordance with the provisions of the Purchasing By-law, work that is not part of an approved capital project budget may not proceed without prior approval from Council.
- Holding Accounts will be established to serve as a funding source when a capital project's costs exceed its budget by no more than the lesser of 10% of the capital project's approved budget or $250,000.
- Funding requirements that exceed the lesser of 10% of the capital project's approved budget or $250,000 require Council approval.
- The Finance Department has responsibility for managing Holding Accounts. A Holding Account is funded, up to a prescribed limit, via savings from other capital projects.
- Expenditures for a Capital Project may be incurred or committed only up to the limit approved by Council, subject to the materiality threshold described in this policy.
- A Capital Project will be closed if any of the following criteria are met:
    - Project completed at or under budget
    - Project deleted or deferred in order to finance a new project or to fund over-expenditures in other projects and such deletion or deferral has been approved by Council
    - Project completed over budget and a report recommending a funding source for the over-expenditure has been approved by Council
    - There has been no activity for 18 months
    - Prior to the end of the 18-month inactivity period, projected costs exceed the approved budget by more than the materiality threshold
    - Prior to the end of the 18-month inactivity period, but before work commences, there is a substantive change in the nature or scope of the project compared to what was originally approved by Council

- When an incomplete or inactive capital project has been closed it will be classified as a pending project and funding will be returned to source. The decision to proceed with the project will be based on the project's new assumptions and its subsequent ranking using the Integrated Decision Support System.

Targets

- Completion of Capital Project in accordance with the Capital Plan
- Completion of Capital Projects within 10% or $250,000 of the Capital Project Budget
- Capital Project variances within 10% or $250,000 be funded from Holding Accounts established by project savings from other Capital Projects.
- Holding accounts and respective target balances will be maintained as follows and reviewed annually:

- Tax Rate Holding Account $3,000,000
- Water Rate Holding Account $1,000,000
- Wastewater Rate Holding Account $1,000,000
- Parking Rate Holding Account $ 100,000

Accountability

- The quarterly variance reports prepared for Council will provide the status of the Capital Spending Plan.
- Staff assigned responsibility for managing capital projects must monitor progress and costs to ensure anticipated over-expenditures are reported to the responsible Department Head as soon as the potential for over-expenditure is identified.
- A semi annual report will be prepared for Council to:
    - Identify Capital Project Status
    - Report on any anticipated over expenditures that either exceed the materiality threshold or for which insufficient funding exists in the appropriate Holding Account with related financing adjustment recommendations
    - Report on the deferral or closure of projects to either finance new projects or to fund over-expenditures in other projects
    - Address substantive changes in the nature or scope of a Capital Project
    - Recommend the closure of capital accounts and recommend the treatment of project savings and to recommend financing plans for over-expenditures exceeding the materiality threshold.