



SECTION: Finance	EFFECTIVE DATE: November 27, 2023
RECOMMENDATION NO.: GC200-23	COUNCIL APPROVAL: Res. No. 237-23
SUBJECT: Budget and Financial Controls Policy	POLICY NUMBER: Budget&Financial-21

1. Purpose

- 1.1. This policy establishes guidelines for the development, review, approval, and reporting of the Town of Huntsville’s budget.

2. Scope

- 2.1. This Policy applies to all Town departments, boards, committees, working groups and other organizations falling within the reporting requirements of the Town of Huntsville.

3. Definitions

The following definitions pertain throughout this policy:

- 3.1. **"Annualized Costs"** means any costs approved in the prior year's budget that were included for only part of the year and 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;
- 3.2. **"Base Level Budget"** means the current year's cost of providing all the services approved in the prior year budget excluding new Council initiatives and 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 and non-annual recurring costs, capital impacts on operations, and inflation increases;
- 3.3. **"Budget Area"** refers to a specific collection of general ledger accounts that relate to a specific function or facility. A budget area will roll up into a departmental budget;
- 3.4. **"Capital Expenditure"** refers to a significant expenditure incurred for the improvement, acquisition or major rehabilitation of tangible capital assets as defined in the Town’s Tangible Capital Assets Policy;
- 3.5. **"Capital Forecast"** refers to the forecast provided beyond the current budget year which has been presented to Council during the capital budget approval process;

- 3.6. **"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";
- 3.7. **"Capital Project"** means individual standalone projects as outlined in the approved Capital Budget. Each capital project will be given a unique project number. Projects may also be "pooled assets" in accordance with the Town's Tangible Capital Asset policy;
- 3.8. **"Council Initiatives"** means initial additional operating or capital costs that have been directly brought forward by Committee or Council and approved for consideration in the budget process. Any future or ongoing costs related to Council Initiatives would be included in the Base Level Budget;
- 3.9. **"Consumer Price Index"** means the CPI-trim (trimmed mean) as defined by Statistics Canada. This measure helps filter out extreme price movements that might be caused by factors specific to certain components of the CPI;
- 3.10. **"Department"** means the portfolio of areas of responsibility within a division. The departmental budgeted is made up of budget areas and will roll up into a divisional budget;
- 3.11. **"Division"** means the collection of departments under one Director or the CAO;
- 3.12. **"Emergency"** is outlined in the Procurement policy as "legitimate objective".. An emergency is not a necessary expenditure due to lack of planning or insufficient budget funds and is essential to preserve the integrity of an essential Town asset;
- 3.13. **"Essential Asset"** is a Town asset that is necessary to carry on the required duties of the municipality or will have a significant negative impact on the community as a whole due to the nature of the asset;
- 3.14. **"Minor Budget Difference"** refers to a difference of up to \$5,000 between the capital and/or operating budget and the actual amount of any departmental budget area.
- 3.15. **"Multi-Year Budget"** refers to a budget that covers more than one fiscal year;
- 3.16. **"Non-Annual Recurring"** refers to projects or costs that are not expected annually but are expected to recur in future years. Generally, these items are cyclical;
- 3.17. **"One-time"** refers to projects or costs that only impact one budget year and not expected to recur in future years;
- 3.18. **"Service Level Change"** refers to a new capital asset that does not currently exist within the Town's inventory of tangible capital assets, or a change in service levels that has an impact on the current and/or future operating and/or capital budgets which meets the Council's Strategic Objectives and the mandate of the department.

Budget Development

4. General
 - 4.1. Business Plans and Budget Guidelines

- 4.1.1. Departmental managers will prepare detailed business plans to address strategic plan goals, Council direction and/or relevant departmental legislative changes.
 - 4.1.2. Business plans should identify any service level changes and any short-term or future incremental operating costs required for upcoming projects.
 - 4.1.3. The departmental business plans shall be updated at least annually to drive new budget requests for the upcoming budget year.
 - 4.1.4. Direction, in terms of corporate wide assumptions and conditions, are defined in the "Budget Guidelines Report" prepared by the Treasurer.
- 4.2. Council Initiatives
 - 4.2.1. Council initiatives that result in an operating or capital request are to be approved for consideration by September of each year.
- 4.3. Community and User Group Requests
 - 4.3.1. Any operating and or capital requests from the community or user groups will be presented to Committee annually by September.
 - 4.3.2. Community and user group requests will include any proposed funding sources and any current and future budget operating or capital impacts.
5. Operating Budget
 - 5.1. Each Director shall prepare and submit annually to the Treasurer their Operating Budget requests which will include the base level budget adjusted for any service level changes reflected in the departmental business plans on the forms and format prescribed by the Treasurer;
 - 5.2. Carry Over of Projects
 - 5.2.1. Projects not yet started need to be brought back for Council approval to be moved to the following budget year. Approval must be given for any changes to funding due to delaying the project;
 - 5.2.2. Multi-year projects should be identified as such when initial approval is received and the amounts to be spent in each year should be identified and approved. Each year, the project will be identified in the annual budget with the estimated portion of the project included;
 - 5.2.3. Projects started but not completed by the end of the year due to unforeseen delays (e.g., weather, availability of supplies or contractors, etc.) will be carried forward to the following budget year for the amount remaining of the project and will be identified in the subsequent annual budget. If funding needs to be transferred between two consecutive years (i.e., project funded through the levy needs to be split between two years), staff must have Council approval to transfer those funds to a reserve for the subsequent year unless the project was specifically identified as a multi-year project.

5.3. Spending Before Budget Approval

- 5.3.1. Departments are authorized to expend funds at the previous years' service levels (excluding Council initiatives, non-annual recurring, and one-time items), unless specifically directed otherwise by Council, until the current year's operating budget has been approved;
- 5.3.2. No new programs and/or service enhancements are to be initiated before the operating budget is established without the prior approval of Council.

5.4. Authority for Draft Budget Changes

- 5.4.1. Where authority has been given in the Operating Budget, and an increase to the approved amount is needed, staff will endeavor to offset the increase by corresponding decrease(s) in other line items or through enhanced revenues to be realized from the additional expenditure;
- 5.4.2. A summary of significant budget changes will be provided to Council with the draft budget report.

5.5. Budget Principles

The principles for operating, planning, and funding are:

- 5.5.1. The operating budget will be balanced as per the legislative requirements outlined in the Municipal Act
- 5.5.2. The Town shall not utilize one-time revenues for ongoing expenditures. However, one-time revenues may be used to fund non-recurring expenditures and/or services that can be completed within a specified amount of time without significant disruption to the Town provided it is duly approved by Council. At year-end, unallocated one-time revenues will form part of the Town's surplus and be allocated per the Town's Financial Reserves Policy;
- 5.5.3. One-time revenues include, but are not limited to, grants or subsidies from other levels of government that are not legislated to recur annually, transfers from Reserves and Obligatory Reserve Funds, and proceeds from the sale of property;
- 5.5.4. Certain municipal revenues can be termed "unpredictable" as they fluctuate from year to year and are not under the direct control of the Town. The budget amount for unpredictable revenues shall be conservative in nature and represents management's "best" estimate at the time of the budget preparation;
- 5.5.5. Fees or charges for information, services, activities, and use of Town-owned property will be reviewed when the fees and charges bylaw is drafted (either annually or as required) and unit costs will be adjusted to reflect the cost to provide such services. In general, fees or charges will increase by CPI-trim or 2%, whichever is higher, annually unless a specific business case is provided otherwise;

- 5.5.6. When there are reductions in debenture payments (interest and principal) from the previous year, the amount of the reduction will be applied as an increase in funding for capital reserves, over and above any scheduled increases is the net result is no net levy impact as debentures end. This approach is in support of the Town's Strategic Asset Management Policy.

6. Capital Budget

6.1. Business Plans and Budget Guidelines

- 6.1.1. Business plans should identify any capital service level changes and any capital costs required for upcoming projects.
- 6.1.2. The departmental business plans shall be updated at least annually to drive new budget requests for the upcoming budget year.
- 6.1.3. Direction, in terms of corporate wide assumptions, conditions and impacts of the Town's Asset Management Plan strategies, are defined in the "Budget Guidelines Report" prepared by the Treasurer.

6.2. Budget Principles

- 6.2.1. Capital budgeting requires staff and Council to allocate financial resources of the Town to meet the needs of the Town 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. This will be evaluated primarily through the Town's Capital Project Plan;
- 6.2.2. Each Department shall prepare and submit annually to the Treasurer their Capital Budget requests and minimum 5-year forecasts on the forms and in the format prescribed by the Treasurer;
- 6.2.3. Staff will prioritize projects to assist in the determination of which projects should be recommended to be included in the Capital Budget considering the identified capital using data from the Town's Asset Management database. Any new capital project, which is not replacing or rehabilitating an existing capital asset, should be accompanied by a business case report which will form part of the capital budget document and will be in the form prescribed by the Treasurer;
- 6.2.4. New capital projects identified for the budget year must be feasible to complete given a thorough understanding of the project, including considerations such as staff resources and timelines, to ensure that the project can be completed as estimated.
- 6.2.5. Each capital budget and forecast should include:
 - i. The project ID number (to be set by Finance Department);
 - ii. The responsible department;
 - iii. The service and/or program within the department to which the project applies;
 - iv. The year of initiation of the project;

- v. 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);
 - vi. An indication of whether the project is growth related and will have growth funding;
 - vii. A project name which shall be consistent throughout all studies and Town documents;
 - viii. A brief description of the project which should identify the objectives of the project and a description of how the objectives are achieved, including the need for the project;
 - ix. The Strategic Plan objectives to which the project is related, where applicable;
 - x. The risk and/or priority level of the project in accordance with the Town's Asset Management Plan;
 - xi. A detailed estimate of the project's costs, net of HST rebates and/or refunds, including a breakdown by year for multi-year projects;
 - xii. The financing of each project, including any known information regarding grants/subsidies, direct contributions or other. The Finance Department will complete the remaining financing breakdown;
 - xiii. 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 be identified.
- 6.2.6. In accordance with the Town's Tangible Capital Asset policy, if an asset is to be used as a trade-in when purchasing another asset, both transactions will be clearly outlined in the budget;
- 6.2.7. A repair or maintenance expenditure designed to maintain an asset in its original state is not a capital expenditure unless it extends the useful life of the asset. Such repairs or maintenance expenditures shall be included in the Operating Budget.;
- 6.2.8. Any new capital being added will include:
- i. The amount of capital funding required to add to the levy to replace the asset. For example, if an asset is being added to the current infrastructure inventory, in the amount of \$100,000 and the replacement is expected at the same amount in 10 years, the amount of \$10,000 must be included as a contribution to capital, in addition to the regular targets for existing infrastructure;
 - ii. The funding source for the new item;

6.2.9. Funding for new capital shall not displace funding for existing infrastructure or reduce the annual contributions.

6.3. Carry Over of Projects

6.3.1. Projects not yet started need to be brought back for Council approval to be moved to the following budget year. Approval must be given for any changes to funding due to delaying the project;

6.3.2. Multi-year projects should be identified as such when initial approval is received and the amounts to be spent in each year should be identified and approved. Each year, the project will be identified in the annual budget with the estimated portion of the project included;

6.3.3. Projects started but not completed by the end of the year due to unforeseen delays (e.g. weather, availability of supplies, etc.) will be carried forward to the following budget year for the amount remaining of the project and will be identified in the subsequent annual budget. If funding needs to be transferred between two consecutive years (i.e., project funded through a grant needs to be split between two years), staff must have Council approval to transfer those funds to a reserve for the subsequent year.

6.4. Spending Before Budget Approval

6.4.1. Departments will not begin any capital project that was not authorized in prior years until the capital budget has been approved by Council, unless:

- i. Approval was granted by Council through a report outside of the budget process; or
- ii. An emergency occurs requiring capital repairs and the purchase was approved through the processes outlined in the Town's Procurement Policy and has been approved by the Chief Administrative Officer; or
- iii. An emergency requiring immediate attention and due to timing, not able to go through standard reporting or procurement, has been authorized by the Chief Administrative Officer within their spending limits in accordance with the Town's Procurement Policy.

7. Tax Rate Changes

7.1. The Town faces fiscal pressures from changing costs of service delivery and uncertainty of government transfers and grants while relatively limited revenue sources are available legislatively. The primary source of sustainable revenue is through the collection of property taxes.

7.2. The Town budgets to ensure that tax rate changes are reasonable and affordable, while maintaining the level of service that Council approves on behalf of residents.

7.3. The tax rate change proposed in the Draft budget is exclusive of any new Council initiatives brought forward after the Draft budget is presented. Any tax rate changes proposed by new Council initiatives are to be shown separately.

- 7.4. When growth occurs in the Town it is prudent to set targets based on the property tax rate rather than the general levy change (%) to account for any growth that has resulted in additional service delivery costs.
- 7.5. The annual tax rate change shall be within a range set by:
 - 7.5.1. A range between the year over year change (%) of the Consumer Price Index (CPI-trim) and two times the year over year change (%) of the CPI-trim. Using the CPI-trim for July 31 of the prior budget year (e.g. July 31, 2023, for the 2024 taxation year).

Reporting and Monitoring

8. Operating Budget

8.1. Operating Budget Variances

- 8.1.1. Operating budget variances include any difference in a departmental budget area that is between \$5,000 and \$24,999;
- 8.1.2. Any operating budget variance must be reported in the Town's budget reporting system and included in the quarterly reports presented to General Committee;
- 8.1.3. Any anticipated accumulated variances (total accumulated combined variance between \$5,000 and \$24,999) in a departmental budget area that result in the department exceeding their overall budget must be reviewed by the Directors and a recommendation to cover the shortfall in funding must be identified and recommendations brought forward to General Committee in the quarterly reports.

8.2. Operating Budget Deviations

- 8.2.1. Operating budget deviations include:
 - i. Any difference in a departmental budget area that exceeds \$24,999;
 - ii. When the intent of the services provided has been materially altered from the approved budget, even when there is no financial impact;
 - iii. Both the difference between the budget and actual amount in the net cost to the taxpayer as well as individual line items.
- 8.2.2. Operating budget deviations do not include:
 - i. Increased program expenditures that are directly offset by an increase in program revenues, even if those additional expenditures and revenues meet the threshold identified in 8.2.1.

8.3. Approvals for Operating Budget Changes

- 8.3.1. Directors or their designate are responsible for reporting and explaining any operating deviations from their approved budgets. When an operating budget deviation is expected to occur, this must be formally documented in a report to Council, or a committee thereof, for approval of the operating deviation and recommended funding source prior to the event

taking place. If it is not possible to report the operating deviation in advance of the event occurring, the same procedures will be followed as soon as possible after the event;

- 8.3.2. The Director's (or designates') first priority will be to protect the original intent of the individual budget area. If an event occurs that changes the intent of the budget, the Director (or their designate) will use their professional judgment to determine within their department's budget a proposed operating budget deviation within which best preserves the original intent of the budgets affected;
- 8.3.3. The director has the authority to approve deviations that can be funded through the divisional budget that will not result in an overall deficit of division for that year;
- 8.3.4. If the operational budget deviation/variance results in another department having a budget deviation/variance or the use of reserves that have not been previously approved, this must be reviewed first by the appropriate Director(s), Chief Administrative Officer, and the Treasurer and a report with recommendations is to be provided to Council for approval.

9. Capital Budget

9.1. Capital Budget Variances

- 9.1.1. Capital budget variances include any difference in capital project expenditures that is between \$5,000 and \$24,999 and does not affect the overall departmental funding taken from a specific reserve and/or obligatory reserve funds (as identified through the approved budget);
- 9.1.2. Any capital budget variance must be reported in the Town's budget reporting system and included in the quarterly reports presented to General Committee, including the source of funding.

9.2. Capital Budget Deviations

- 9.2.1. Capital budget deviations include:
 - i. Any difference in capital project expenditures that exceeds \$24,999;
 - ii. When the scope of a capital project has been materially altered from the approved budget, even when there is no financial impact;
 - iii. When the difference affects the overall departmental funding taken from a specific reserves fund and/or obligatory reserves.
- 9.2.2. Capital budget deviations do not include re-prioritization of roads capital projects.

9.3. Approvals for Capital Budget Changes

- 9.3.1. Staff shall not commit to expenditures exceeding individual approved budget allocations for the project which will result in a budget deviation without the approval from the appropriate Director, Chief Administrative Officer, and the Treasurer to identify the source of funding for the excess.

- 9.3.2. Budget deviations must be reported to General Committee of Council for approval of where the funds will be sourced from prior to proceeding with project;
 - 9.3.3. Where the funding creates a negative reserve or obligatory reserve fund balances, which has not previously been approved by Council, approval must be provided before proceeding with the project.
 - 9.3.4. In the event of an emergency repair, the budget change will be reported to the General Committee with the source of funds identified in conjunction with the Treasurer;
 - i. If no source of funds can be identified that does not impact a reserve or other division, the budget change must be reported to Council for approval of where the funds will be sourced from at the next regular meeting;
 - 9.3.5. In the event of overall roads capital project cost savings, the Director of Operations and Protective Services can select additional projects up to the current year budgeted capital expenditures based on priorities set in the 10-year capital forecast. These additional projects are limited to roads, streetlights, sidewalks and/or storm network capital projects and does not extend to other Operations and Protective Services capital projects (e.g. fleet, bridges, public works administration, etc.).
- 9.4. Re-prioritization of Road Capital Projects
- 9.4.1. The Director of Operations and Protective Services has the authority to re-prioritize road capital projects within the current budget year where the road condition deteriorates and the risk rating of the road is reduced, falling below other roads in the current budget, as has been identified in the 10 year plan as presented by Council .
 - 9.4.2. Unforeseen Combined projects with the District of Muskoka become available that would provide overall cost savings to the Town over the long-term;
 - 9.4.3. The re-prioritization of the capital projects must not increase the overall spend identified in the approved capital budget for roads.
 - 9.4.4. These road-related projects are limited to roads, streetlights, sidewalks and/or storm network capital projects.
- 9.5. Pooled Capital Projects
- 9.5.1. Capital projects may consist of pooled assets in accordance with the Town's Tangible Capital Asset Policy (e.g.: computer hardware, fire tools & equipment, technical equipment, etc.);
 - 9.5.2. The estimated pooled replacement costs are used as a basis for the budgeted project costs. The timing of replacement for pooled assets is based on the estimated useful lives of the underlying pooled assets although these assets are generally replaced on an as-needed basis. As

a result, the actual spending related to the replacement of these capital projects may differ from budgeted costs.

9.5.3. Funding for pooled capital projects shall therefore be interchangeable within each department’s capital budget to ensure the most effective use of the pooled project funding is achieved and pooled assets are only being replaced when necessary.

9.6. Project closure and re-budgeting criteria for approved capital projects

9.6.1. The status of individual capital projects will be assessed and project closeout procedures will be implemented, at least three times a year. The assessment and closure of projects will occur at the presentation to the General Committee with a summary provided to Council for the periods ending June 30th, September 30th, and December 31st.

9.6.2. Capital projects will be closed out if any one of the following criteria is met:

- i. The project is completed;
- ii. The project has been approved by Council to be deleted in order to finance a new project and/or to release funding commitments from funding sources to finance budget overruns in other capital projects;
- iii. The following year’s capital budget and forecast preparation has begun, the capital project has remained dormant and there are no immediate plans or formal commitments to initiate the project within the following six (6) months.

10. Reporting

10.1. Table 1: Schedule of Operational Reporting

Quarter	Financial Period	Reporting Requirement
1	January – March	Budget and actuals report (not reforecasting).
2	January – June	Formal report prepared through the Town’s budget software for each budget area which includes a year-end forecast by each Director (or their designate) of the year’s operations.
3	January – September	Formal report prepared through the Town’s budget software for each budget area which includes a year-end forecast by each Director (or their designate) of the year’s operations.
4	January – December	Formal report prepared by the Treasurer in consultation with each Director (or their designate) in, or around February of the following year, to provide an overall financial forecast of the projected annual operations.

10.2. Table 2: Schedule of Capital Reporting

Quarter	Reporting Period End
1	No report
2	June 30 th
3	September 30 th
4	December 31 st

10.3. The reports will be presented in the second month following the period end along with the operational forecast/budget reporting. The purpose of these reports is to highlight budget variances and deviations, to recommend funding options to address those budget differences, to identify projects for closure and to provide General Committee and Council with the information as to the implications of the recommendations and of the projected budget differences on the financial position of the Town.

11. Responsibilities

11.1. Directors

11.1.1. Provide information, on an ongoing basis, as it relates to their department's capital program to the Treasurer and the General Committee or Council regarding:

- i. Any unanticipated revenue;
- ii. Any reduced expenditure requirements;
- iii. Any revenue shortfalls;
- iv. Any forecasted expenditure overruns, and
- v. Any other issues which may impact on the viability of the project to achieve desired goals or may have ramification on the Town's future capital expenditure requirements.

11.1.2. Responsible for ensuring all operational budget deviations and variances are reported in the Town budget software in a timely manner;

11.1.3. If an operational budget deviation/variance has an impact on a budget outside of their department, the Director is responsible for ensuring all

other affected Directors approve the deviation/variance prior to incurring the expense, as per section 8.3.4.;

11.1.4. Responsible for reporting any operational budget deviations originating within their division to Council in a timely manner;

11.1.5. Collaborating with other divisions to provide recommendations to Council for any budget deviations that cannot be rectified within a divisional budget.

11.2. Managers

11.2.1. Responsible for reporting any capital budget deviations/variances to their Director and recording these in the Town's budget software as they are known.

11.2.2. Responsible for reporting any operational budget deviations/variances to their Director and recording these in the Town's budget software as they are known;

11.2.3. Recognizing in a timely manner when a budget deviation is likely to occur and responding to reduce budget overruns in keeping with sections 8 and 9 of this policy.

11.3. Treasurer

11.3.1. Prepare capital project status reports for General Committee or Council. This will include project progress information supplied by the Directors or their designate responsible for the projects.

11.3.2. Accountable for reporting to the General Committee or Council significant capital budget deviation/variances by consolidating departmental information into a corporate document.

11.3.3. Accountable for the recommendation of funding decisions to departments and Council outside of the annual budget cycle;

11.3.4. Accountable for reporting to Council, or a committee thereof, significant budget deviation/variances by consolidating departmental information into a corporate document.

11.4. Chief Administrative Officer

11.4.1. Responsible for approving any change to staffing provided that the change:

- i) Does not increase the overall corporate-wide salary, wages and benefits amounts in the approved annual budget; or
- ii) Does not result in a negative net levy impact on the budget and are in accordance with the CAO By-law (2011-83) and;
- iii) Does not result in a budget increase for the subsequent year.

- 11.4.2. The CAO will seek efficiencies when reviewing changes in staffing levels and will decrease salary, wages and benefits while maintaining existing service levels, where possible.

12. Policy Review

- 12.1. This policy shall be reviewed prior to the initiation of the budget process of the first year of each new term of Council, or as deemed necessary by Council.
- 12.2. The Finance Department may automatically update this policy for minor and administrative amendments, should they be required.

13. Appendices

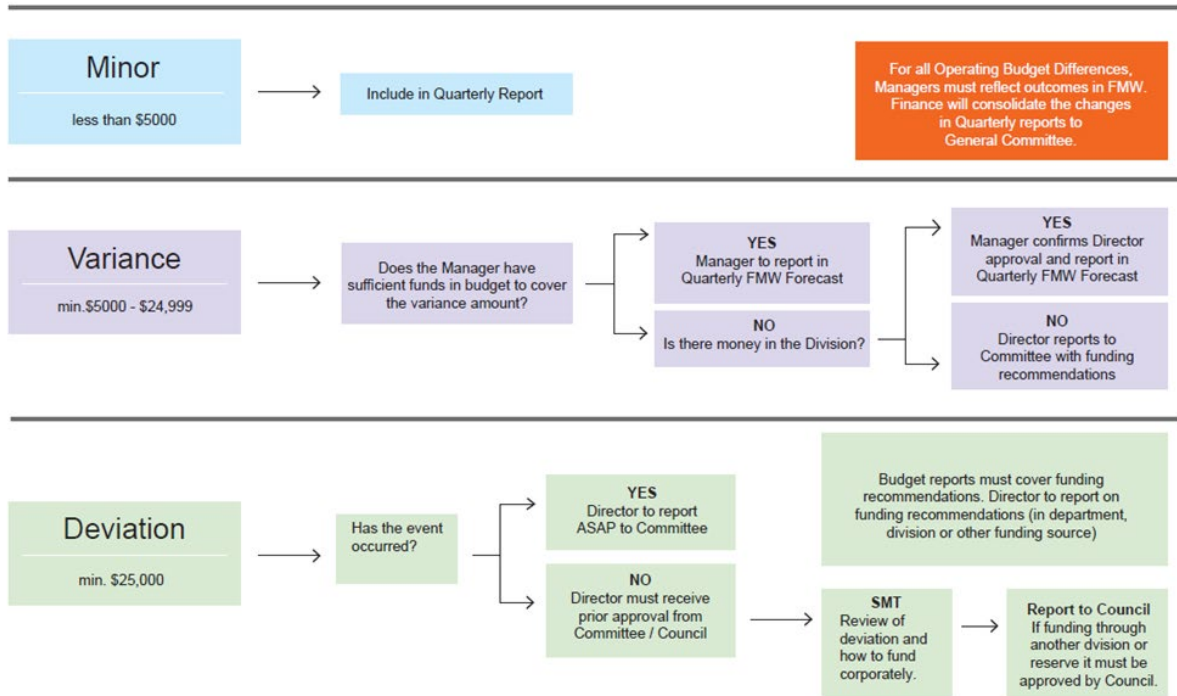
Appendix A: Operating Budget Reporting – Flow Chart

Operating Budget

When and How to report Deviations or Variances



➔ Has the original intent of the service materially altered from approved budget (with no financial impact)? If yes, then proceed as a deviation regardless of the dollar amount:



Appendix B: Capital Budget Reporting – Flow Chart

Capital Budget

When and How to report Deviations or Variances

