

Backgrounder To Council Capital Budget Policies

This document is entitled to capture the discussions surrounding the council capital budget policies.

Management needs council approval for issues not addressed in the capital budget section of the MGA. The sections with the MGA that reference the Capital Budget are as follows: Section 245 and 246.

Policy Statements – Capital Budget Policy 5320 - C

1. Adoption of capital budget

This item is part of the capital budget section of the MGA and included in the policy.

2. Contents of capital budget

- total current year budget to be approved will include:
 - the amount needed to acquire, construct, remove or improve capital property
 - costs of projects expected to be completed within the budget year
 - costs of multi-year projects
 - costs of major facility planning & construction template projects
 - the anticipated sources and amounts of money to pay the costs
 - identify total debt cost and debt type
 - the amount to be transferred from the operating budget

This item is part of the capital budget section of the MGA and included in the policy as a reminder.

The capitalization policy is also referenced as a resource tool as projects deemed to be capital must meet the requirements outlined in the capitalization policy.

3. Capital budget contingency

Including a contingency amount approved as part of the overall capital budget allows management to obtain approval for projects that come up during the year without having to go to Council. Having a contingency allows for shortfalls and

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emergencies to be dealt with in a timely manner provided the total of the projects fall within the executive limitations of the City Manager.

The contingency is set at \$200,000 a year. Any portion of the contingency used within one calendar year will be replaced the following year.

4. Multi-Year Projects

A capital project with a completion timeframe of more than one calendar year and with cash flows spanning more than one fiscal year will be highlighted as a multi-year or template project in the capital plan. The total cost of a multi-year or template capital project will be considered as part of the current year capital budget provided there is a cash flow amount in the current year.

5. Operating impacts of capital project

Significant operating implications of capital projects will be detailed as part of the capital budget and will also be included in the applicable operating budget.

The operating costs of capital projects should be shown as part of the capital project request. Operating costs that impact the current operating budget should be submitted as part of the operating budget. If the capital project does not go ahead the operating funds should not be utilized for other services.

6. Term of Capital Plan

The policy states the term to be a minimum of 5 years allowing some leeway for change in the future. The five year minimum is the base at which the majority of other municipalities plan their term for capital expenditures.

Policy Statements – Capital Budget Contingency Policy 5320.02 – C

1. Unbudgeted (New) Capital Projects-

The City Manager is authorized to approve new projects that were not previously budgeted to a maximum of \$200,000 subject to the availability of funds. Each individual project request is subject to a \$50,000 maximum.

With each unbudgeted capital project, an 'Application for Unbudgeted (New) Capital Projects' form will be filled out and forwarded to Financial Services.

The MGA does give permission to make an expenditure if

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- Included in an operating budget, interim operating budget or capital budget or otherwise authorized by the council
- An emergency
- Legally required to be paid

The MGA states “Each council must establish procedures to authorize and verify expenditures that are not included in the budget.” We decided that we needed an approval process for the “new” projects that emerge during the year as such above.

2. Capital Budget Contingency Funding

The funding source(s) for projects approved under this policy must have available funds, and the project must meet the requirements of any limitations placed on the funds.

3. Capital Report to Council

The MGA states each council must establish procedures to authorize and verify expenditures that are not included in a budget.

Any new projects approved by the City Manager under this policy will be reported to Council by Financial Services on an annual basis. This should satisfy the need to verify expenditures.

Policy Statements – Capital Budget Contingency Policy 5320.03 – C**1. Transfers between Projects**

The maximum amount the City Manager may approve is \$50,000 per project provided the receiving projects budget does not increase by more than an amount equal to the original budget cost.

The condition that the providing project be more than 75% expended with a surplus balance is to stop the potential of using projects that were deferred or cancelled as a funding source. This condition is also put in place to stop the potential of eroding the funding of a project only to have to go back to Council for further funding at a later date.

There is also a condition that both projects have the same funding source(s). If there is more than one funding source the funding sources should have the same percentage split.

Scope of the project remaining unchanged has not been addressed as the City does not submit a budget for capital jobs on a detailed level.

2. Project Additions/Deletions

This statement is to address the ability to do budget entries to align with actual entries processed moving costs between operating and capital budgets.

The concept is that Council approves both the capital and operating budgets each of which may contain costs that belong in the other budget. This means that Council should not have to approve an item again because it was placed in the wrong budget.

When the actual costs for an item (that has been approved in a budget) is moved from capital to operating or vice versa a matching budget entry will be made in both the operating and capital budget.

3. Project Cancellation

When a project is cancelled and funding has already been applied to the job, any excess funding should be returned to the original source within 30 calendar days.

Departments must notify the Financial Services budget area of the cancellation and supply the reason for the cancellation on a timely basis.

4. Project Deferral Limitation

This statement is to address projects that are not completed on a timely basis. Unless there is a strong reason for keeping the job open or a reasonable expectation that it will be completed within the current fiscal year the job should be closed, any excess funding should be returned to its original source(s) - based on the budgeted funding split, and a new request submitted if the project is to go ahead in the future.

A request to continue to keep the job open for more than the current fiscal year could result in a report to Council providing explanations and planned actions.

5. Funding Source Change

This statement is to allow management the ability to change the funding source to respond to any errors, ineligibilities, or opportunities that come along.

If funding has already been applied to the job it must be returned.

6. Completed Projects

This statement is to address either a surplus or deficit of funding on jobs that have been closed.

7. Required Information

The Financial Analyst in the Budgets & Investments area of Financial Services must be provided with all relevant information allowing completion of the report to Council

8. Report to Council

The MGA states each council must establish procedures to authorize and verify expenditures that are not included in a budget.

Any projects affected by this policy will be reported to Council by Financial Services on an annual basis.

General Statements – Capital Budget Policies 5320, 5320.02, 5320.03

1. Budget Entries

All budget entries made upon Council approval require the entry be balanced to zero within each capital job and if required, within the operating budget.

Each department is responsible for making budget entries in the JA ledger. Financial Services is responsible for making budget entries in the J2 ledger.

2. Variance Reporting

Financial Services will send out a Capital Budget variance at various times during the year.

Each variance request may address one or more of the following:

- Council approved budget vs. the budget entered in the JA ledger
- Council approved budget vs. actual revenues and transfers
- Council approved budget vs. actual expenditures
- Expected completion year of the project

3. Capital Report to Council

A paper trail of the capital budget changes must be kept to ensure that the budgeted amount for the jobs is accurately reported.

Definitions – Capital Budget Policies

CAPITAL PROJECT refers to a capital asset or a group of capital assets with a scope that includes one or more of the following elements: acquisition of a site and/or existing structure, program or site master planning, design and environmental analysis, design, construction, major equipment acquisition, reconstruction, demolition or a major alteration.

CAPITAL ASSET as defined in the Capitalization Policy.

CASH FLOW is the amount expected to be expensed during the year

SCOPE OF A PROJECT is represented by a defined set of planned outcomes including one or more capital assets that are mutually exclusive. When the work is subdivided by project phases such as a Preliminary Design Phase then each phase must clearly be separated by a deliverable such as an approved Preliminary Design Review document. If requirements are not completely defined and described and if there is no effective change control in a project, scope or requirement creeps may ensue.