

Request for Decision

Operating Budget Policy

Presented To:	Policy Committee
Presented:	Wednesday, Aug 10, 2011
Report Date	Tuesday, Aug 02, 2011
Type:	Managers' Reports

Recommendation

THAT Policy Committee adopt the Operating Budget Policy as outlined in the report dated August 10, 2011 from the Chief Financial Officer.

Background

The purpose of this report is to seek Council's approval of the proposed Operating budget Policy. The City currently operates with the absence of a comprehensive Operating Budget Policy. Budget reallocations between accounts and departments are defined within the Purchasing Bylaw. Monitoring and reporting on budget variances are performed based on past practices as there is no written policy which addresses this. This policy also identifies the roles and responsibilities of all staff and Council.

See attached for the proposed Operating Budget Policy.

Contents of the Operating Budget Policy

Section 3 deals with the internal budget monitoring process and sets parameters for operating departments regarding over and under expenditures in their cost centres and at which threshold level that they must contact Finance. It also directs Finance on its role of providing the Senior Management Team (SMT) with high level variance reports as well as identifying variances to operating departments and SMT. The Senior Management Team member is tasked with attempting to mitigate the effects of variances.

Section 4 deals with budget variance reporting to Finance Committee and Council. The Finance Division is responsible for providing Council or Committee with four quarterly reports and additional reports, if requested by Council. The variance explanations will address all variances in excess of \$200,000. SMT will be responsible for identification of potential mitigation measures to offset over expenditures. Finance Committee or Council will be responsible for reviewing the variance reports and providing direction to staff if necessary.

Section 5 deals with adjustments to the base budget. Items included in this area are as follows:

Signed By

Report Prepared By

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Recommended by the Department

Lorella Hayes
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Recommended by the C.A.O.

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1. Externally funded projects or programs,
2. New service levels or projects approved during the year,
3. Reductions to budget during the year,
4. Housekeeping of the budget in the General Ledger,
5. Budget reallocations.

Direction is provided in this policy when dealing with the above items.

Section 6 deals with the three year forecast. Finance, in conjunction with the operating departments, formulate this forecast. The SMT reviews the forecast and provides direction on potential revisions. City Council reviews the forecast and may provide direction on mitigation procedures to curtail future potential tax increases.

Summary

The attached policy provides clear roles and responsibilities when dealing with the approved operating budget. Staff is recommending approval of the policy.

THE CITY OF GREATER SUDBURY
POLICIES AND PROCEDURES

DEPARTMENTS: All Departments

SECTION: All Sections

TITLE: Operating Budget Policy

APPROVED BY:

DATE:

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Policy Statement

The purpose of this policy is to provide fiscal control and accountability related to the approved operating budget.

1.0 Introduction

The Municipal Act requires municipalities to prepare and adopt budgets for each year. The operating budget includes estimated operating expenditures and revenues required to allow the municipality to deliver all functions approved by Council. Once the budget has been approved, no service level changes causing a budget impact may occur without subsequent Council approval.

This policy deals with the monitoring of the operating budget, variance reporting, adjustments to the operating budget and budget reallocations, all while ensuring that the same service level approved by City Council is being delivered.

This policy does not deal with the preparation of the operating budget as these procedures are covered off in the Budget Preparation Policy which will not form part of this policy. As well, this policy will not address capital issues as they are included in the capital policy.

2.0 Definitions

- i) "Account" means a classification of expenditure or revenue within a Cost Centre to which an estimated budget value and actual expense or revenue amount is assigned;
- ii) "Category" means a grouping of accounts similar in nature to each other. (ie: "salaries" include salaries, fringe benefits, overtime, etc.)
- iii) "Current Year Forecast" means the projection of all expenditures and revenues to determine an estimate of the municipal fiscal position to December 31st of the current year;
- iv) "Three Year Forecast" means the projection of expenditures, revenues, staffing levels and service levels for three years beyond the current operating budget approval year in which the forecast is made;
- v) "Operating Budget" means the annual council approved plan of the City for expenditures, revenues, staffing levels and service levels for operations of the City taking place from January 1st to December 31st of each year.

vi) "Emergency" means a situation or the threat of an impending situation which may affect the environment, the life, safety, health and/or welfare of the general public, or the property of the residents of the City of Greater Sudbury, or to prevent service damage, disruption of work, or to restore or to maintain essential services to a minimum level.

vii) "Net Expenditure" means the expenditures less the revenue for any section.

viii) "Cost Centre" means a component of the divisional financial summary for revenue and expense accounting purposes, having its own distinct name and number. Also referred to as department ID's in the PeopleSoft accounting system.

ix) "Division" means part of a department headed by a Director.

x) "Department" means an organizational unit of the City of Greater Sudbury, headed by a Senior Management Team member.

3.0 Internal Budget Monitoring

Roles and Responsibilities

3.1 Operating Departments

Once the budget is approved, monitoring expenditures and revenues on a regular basis should be undertaken by SMT members, Directors, Managers and any other staff with budget responsibilities.

They are responsible to ensure that the net expenditures are within the approved budget. Individual expense categories may be over budget and/or revenue categories under budget as long as the net expenditures are within the approved budget for their cost centre.

If a cost centre or section is over budget, the Director and/or SMT should ensure that the overall Division's net expenditures are within the approved budget.

Unanticipated revenues of greater than \$50,000, other than those identified in 5.1, should not be used to expand service levels or used to fund unplanned expenditures unless approved by City Council.

If net over expenditures are anticipated, operating departments should plan for mitigation measures to offset the potential variance, however, if these variances cannot be mitigated, and if the variance is \$50,000 and 10% in any cost centre, the Financial Support and Budgeting section must be notified as soon as

possible. In addition, if a variance (greater than \$200,000) cannot be mitigated, the CFO and CAO shall be made aware of the anticipated over expenditure.

Operating departments will provide Finance with year end projections and accurate explanations for variances for each quarter end.

If an emergency situation should arise, the individual should use the best judgment in assessing the situation, however, the authority to make the appropriate expenditure is granted through the Purchasing Bylaw, and a report to Council must follow.

3.2 Finance Division

Finance will provide a high level variance report monthly beginning with the March quarter end to the Senior Management Team (SMT) which reflects annual budget, year to date budget, year to date actual and current variances.

Operating departments are in constant communication with the Financial Support and Budgeting Section and provide the first formal year end projection for all accounts based on the results of the six months ended June 30th, and updates to these projections as required. Commencing with the June month end, Finance will provide this report to SMT with the inclusion of a year end projection column, which the Chief Financial Officer (CFO) will review with the SMT and highlight significant variances.

Finance staff will assist departments with a review their departments' monthly cost centre reports, and if major potential variances are identified by Finance, they will be discussed with the individuals responsible for that area. Finance may assist the operating departments to develop a plan to mitigate anticipated over expenditures.

Finance is also responsible for determining and allocating the following Program Support costs (Human Resources, Information Technology, Financial Services, Mail Room) to all service delivery areas in accordance with OMBI methodology.

3.3 Senior Management Team (SMT)

Each member is accountable for the fiscal health of their respective departments or divisions and SMT members should conduct regular meetings with Directors and Managers to discuss potential variances between budgets and actual expenditures. When a potential variance is identified, the SMT member should follow up with the appropriate Director or Manager to develop a plan to mitigate the variance.

4.0 Budget Variance Reporting to Council

Roles and Responsibilities

4.1 Finance Division

The monthly financial report outlined in Section 3 will be the basis for the development of the variance report to Council and the CFO will provide Finance Committee or Council with a report after each quarter end as follows:

- a) March month end
- b) June month end
- c) September month end
- e) December year end

Additional variance reports will be provided at the request of Council, or as determined necessary by the CFO.

The March month end is the first variance report to Council and it provides information on potential variances within the municipality while not necessarily providing information on the current year forecast. The June variance report is the first formal year end projection provided to Council and it is based on considerable input from all departments of the municipality. The September variance report to Council provides more up to date forecasts of the year end position. The December year end variance report identifies the final budget variances for the municipality and this is provided to Finance Committee or Council after the completion of the year end external audit.

Variance explanations are provided to Council for all variances in excess of \$200,000 within a division or section.

4.2 Senior Management Team/Operating Departments

The SMT will review the Council reports prepared by the Finance Division to ensure they are aware of variance, agree with the variance explanation and prepare a plan to mitigate the effects of the potential variance.

The CAO and CFO, in consultation with the SMT will develop and approve the corporate plan to offset over expenditures if necessary.

4.3 Finance Committee / City Council

Finance Committee and/or City Council will receive and review the variance reports and provide direction to staff relating to the operating budget if required.

4.4 Media

Media inquiries will be handled in accordance with the City's Corporate Communication Policies.

5.0 Amendments to the Base Budget

The budget is a plan based on a set of assumptions that may not always match actual results. Thus, variances between budget and actual results will exist. Generally budgeted amounts would not be amended or reallocated to compensate for an existing or anticipated net over expenditure in the current year.

However, from time to time the budgets for some line accounts must be restated to reflect the current state of operations.

5.1 Externally Funded Projects or Programs

When a new project or program receives funding from an external source (for example - FedNor, HRDC, donations) the budgets for the affected accounts should be restated to reflect the expenditure and revenue budgets. Unless otherwise approved by Council, both the expenditures and revenues associated with the project/program must have matching budgets so as to have no affect on the City's year end surplus (deficit).

Funding agreements must be entered into in accordance with the Delegations By-law. There must be appropriate documentation provided to Finance prior to the adjustments of budgets, which will serve as the audit trail for the budget amendment.

5.2 New Service Levels or Projects Approved during the Year

In limited circumstances, Council may approve a new service level or project during the course of a year. Both the expenditures and revenues associated with the new service level or project must have matching budgets so as to have no affect on the City's year end surplus (deficit) unless otherwise approved by Council. If approved by Council as a permanent service level enhancement, it will be included in the subsequent year's base budget.

The Council resolution and report will serve as the audit trail for the budget amendment.

5.3 Reductions to Budget during the Year

In certain circumstances or in a period of fiscal restraint, it may be necessary for the Council to approve reductions to the budget during the fiscal year. The budget would be amended for any reductions approved by Council.

The Council resolution and report will serve as the audit trail for the budget amendment.

5.4 Housekeeping of the Budget in the General Ledger

If a correction is required in the General Ledger relating to budgets, it can be corrected in the current year if it does not affect the tax levy.

Staffing issues that do not affect the tax levy can be corrected in the budget document prior to finalization with the approval of the SMT member responsible for that area.

Administrative types of changes resulting from a reorganization, a change in reporting requirements or a correction of errors may be made if it does not affect the tax levy.

If a budgeting error is identified that would have impacted the tax levy, and if it is greater than \$50,000 and 10%, it should be reported to Council.

5.5 Other Amendments to the Budget during the Year

In some cases, there may be merit to make a permanent reallocation of the budget between accounts.

The following reasons would facilitate a formal permanent reallocation:

- a) Variances resulting from the difference between actual costs versus budget costs, which continue to occur on a permanent basis,
- b) A service can be provided for in a more efficient manner than it is currently being performed.

In order to proceed with this reallocation, the following conditions must be met and procedures should be employed:

- i. The budget is to be reallocated from another account or accounts approved by Council in the yearly approved budget, except as outlined in 5.5.1,

- ii. The reallocation is initiated by completion of the appropriate form (attached to this policy) by the Manager or Director with approvals of their SMT member or both Senior Management Team members if the reallocation crosses departments. The form is sent to Finance for the CFO's approval,
- iii. The CFO or designate must provide approval to the availability of funds not committed to be reallocated and as to the overall budget position, so that any reallocation would not put the municipality into a deficit position or worsen a deficit position,
- iv. A reallocation in excess of \$200,000 must first be approved by the CAO and then by City Council,
- v. Once the process is completed, Finance will adjust the affected accounts in the general ledger budget,
- vi. This reallocation process is not to be used to increase permanent staffing. Only City Council has the authority to increase permanent staff.

5.5.1 Salaries and Fringe Benefits Reallocations

Authorized permanent staff, temporary hours, overtime hours, and crew hours may be transferred between departments if determined necessary by the SMT members and the appropriate budget reallocation form must be completed. Council approval is required to increase the permanent staff complement or if a change in staffing levels will impact service levels.

6.0 Three Year Forecast

Finance Committee or City Council may receive a Three Year Operating Budget Forecast prior to receiving the draft operating budget. This forecast will provide Council with estimates of tax increases for the upcoming budget year and the two subsequent years.

Roles and Responsibilities

6.1 Finance Division

Finance is responsible for coordination of process by building the application and determining estimates of inflationary increases through researching projections relative to interest rates, oil prices, utility prices, material prices, contract prices and general inflation. Finance receives benefit information from the Human Resources / Organizational Development Division. All of these increases are

applied to the existing operating budget to determine the values in the upcoming operating budget fields.

Finance will remove all one time expenditures and revenues that are contained in the existing operating budget, add known contractual increases to these estimates, and add annualized impacts of in year adjustments and new in year approvals.

6.2 Operating Departments

The operating departments responsible for providing input regarding known changes such as legislative changes that may affect the projection, review their sections of the three year forecast to ensure accuracy, and provide information for other known contractual obligations and changes in service delivery.

6.3 Senior Management Team

The SMT is responsible to review the three year forecast, meet with their Directors and Managers and provide feedback, and review and provide directions on potential revisions, deletions and modifications.

6.4 Finance Committee / City Council

Finance Committee and/or City Council will review the three year forecast and may provide direction to staff on the development of the upcoming operating budget. Based on the three year forecast, Council will provide direction on developing a plan to mitigate future years' potential tax increases.