

THE CITY OF GREATER SUDBURY POLICIES AND PROCEDURES

DEPARTMENT:

Finance

SECTION:

All Sections

TITLE:

Capital Budget Policy

APPROVED BY:

Executive Leadership Team

DATE:

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1.0 CONTEXT AND NEED FOR A POLICY

The purpose of this policy is to provide fiscal control and accountability related to the preparation and monitoring of the capital investment plan which includes the Capital Budget and the Capital Outlook. The Municipal Act requires municipalities to prepare and adopt budgets for each year.

The Capital Budget includes estimated Capital Project revenue and expenses required to permit, design, build, replace and maintain Capital Assets owned by the City of Greater Sudbury. The Capital Budget includes projects that have been recommended based on an enterprise risk approach to prioritization. Capital Projects may extend over multiple years. The approval of a Capital Project in the Capital Budget approves all expenditures and funding sources for the Capital Project for the current year and all future years by year on an expected cash required basis. In the following year Council will have the ability to reaffirm the cash flow and funding sources previously approved or approve changes required to accomplish the remainder of the Capital Project previously approved.

The Capital Outlook includes a projection of timing of expenditures and amounts by individual project that are not included in the approved Capital Budget.

This policy deals with the preparation of the capital budget, monitoring of the capital budget, variance reporting, adjustments and budget reallocations.

1.1 Definitions

- i. "Capital Assets or Expenditures" are non-financial assets having physical substance that:

- a) Are held for use in the production or supply of goods or services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets.
 - b) Have useful economic lives extending beyond one year.
 - c) Are to be used on a continuing basis.
 - d) Are not held for sale in the ordinary course of operations (i.e. inventory).
- ii. “Capital Budget” means the annual Council approved plan of the City of Greater Sudbury for expenditures and revenues to acquire, construct or rehabilitate capital assets. The Capital Budget is distinguished from the annual operating budget which normally provides for the day to day expenditures of the municipality for items such as salaries, heat, hydro, maintenance etc.
 - iii. “Capital Outlook” means the projection of expenditures for years beyond the capital budget approval year in which the outlook is made. Generally the outlook will project Capital Projects for the next four years.
 - iv. “Capital Prioritization Tool” means a standardized tool which is used by many Departments to score each Capital Project on criteria including strategic priority, financial considerations, risk management and asset renewal. This tool is used to select which Capital Projects are selected to be funded and presented to Council for approval.
 - v. “Capital Project” means an undertaking for which capital expenditures are made or are to be made including expenditures to acquire, improve, repair, replace, construct or extend life of land, buildings, structures, machinery and equipment, computers, software, infrastructure, linear assets, and studies.
 - vi. “Capital Program” is a group of similar Capital Projects that are minor or routine that can be grouped together.
 - vii. “Deficit” means the shortfall of funding between a Capital Project budget and the total actual Capital Project costs.
 - viii. “Department” means an organizational unit of the City of Greater Sudbury headed by an Executive Leadership Team (ELT) member.
 - ix. “Holding Account” means an account set up in the Reserves that will be used for project savings that can be used to fund over-expenditures from other Capital Projects based on established materiality thresholds.
 - x. “Repairs and Maintenance Expenses” are costs undertaken to maintain existing assets in working condition and do not extend the useful life of the asset.
 - xi. “Surplus” means the excess of funding between a Capital Project budget and the total actual Capital Project costs.

2.0 CAPITAL BUDGET PREPARATION

2.1 Identification of Capital Projects

Each year, Directors are required to identify capital projects required for the next five year period and documented in the Capital Budget and Capital Outlook. A capital project must be supported by a business case and associated

documentation, in accordance with the process established by ELT.

The Capital Budget and Capital Outlook must be reviewed and approved by ELT, prior to submission to Council.

2.1.1 Annual Contributions from the Operating Budget

The City establishes capital contributions, which are funded from the municipal tax levy (available for all City capital projects excluding water/wastewater funded from user fees and Fleet, Parking, Parks Equipment, Paramedic Services and Police funded from their respective reserve funds), and water/wastewater user fees.

The following are the Council approved capital contributions:

Capital Contribution Name	Description
General	All capital needs of City assets excluding Water, Wastewater, Police, Communication Infrastructure, City Fleet Equipment, Parks Equipment, Paramedic Services (EMS), and Parking
Waste Water	All capital needs of waste water plants, linear systems and related equipment
Water	All capital needs of water plants, linear systems, and related equipment
Healthy Community Initiative (HCI) Fund	To support the promotion of Greater Sudbury as a healthy community where funds are issued to projects that promote community growth and contribute to the quality of life in Greater Sudbury. Funds of \$600,000 (\$50,000 per ward) for all twelve wards have been set aside from the overall capital contribution to be used for the HCI Fund in accordance with By-Law 2018-129.

Each year, the capital contributions are increased by the greater of 2% or the first quarter (or most recent quarter, if the first quarter is not available at the time of preparation of the annual budget direction report to Finance and Administration Committee) Non-Residential Building Construction Price Index (for Ottawa) as reported by Statistics Canada.

Council will approve the capital contributions during the budget deliberations.

Capital Financing Plan

Finance will review all available funding sources and propose to ELT a comprehensive financing plan to support the annual capital budget.

Council will approve the capital financing plan as part of budget deliberations.

3.0 CAPITAL BUDGET MONITORING AND VARIANCES

3.1 Monitoring of Capital Budget

If budget variances are anticipated, Directors responsible for managing the Capital Project must notify Finance as soon as possible, so that funds can be reallocated in accordance with Section 3.3.1 below. In addition, if a variance cannot be funded, the CFO and CAO shall be made aware of the anticipated over expenditure.

If an emergency situation should arise, requiring an unplanned funding expenditure, the operating department should use their best judgment in assessing the situation, however, the authority to make the appropriate expenditure is granted through the Purchasing By-law, and a report to Council must follow. The funding source for the emergency will be the relevant Holding Account or capital financing reserve fund.

If a Capital Project has not had any activity for 24 months the project will be closed and the remaining project funds will be transferred to the Holding Account or relevant capital financing reserve fund where applicable. The ELT member can request that the CAO approve an extension in exceptional circumstances.

3.2 Capital Budget Reporting

3.2.1 Completed Capital Projects Report

The CFO will provide the Finance and Administration Committee or Council with a Capital Variance Report after each quarter end as follows:

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

The capital variance report will identify capital projects in excess of \$200,000 which have been completed during the quarter.

If changes in project circumstances provoke discussions about continued funding of a capital project (due to changes in priorities and potential reprioritization in a future year), these changes will be disclosed in the variance report and funds will be either transferred to the relevant Holding Account in accordance with Section 3.3 below, or transferred to the respective capital financing reserve fund.

3.2.2 Capital Status Update Report

The CFO will provide the Finance and Administration Committee or Council with a Capital Status Updates Report annually. This report is projected to be completed prior to the end of March and provided to the Committee in April. This report will include the following:

1. Detail all outstanding capital projects and a brief comment on status (when completion is anticipated, expected final surplus/deficit, etc.).
2. For larger projects (over \$3.0 Million for Roads, Water and Wastewater and over \$1.0 Million for all other Departments), a complete commentary is required that will detail project highlights, accomplishments, expected timeline to completion, funding sources, etc.
3. Provide a summary of all projects completed from the prior Capital Status Update Report, including information on surpluses and deficits.
4. Update the balances remaining in the Holding Account and the transactions since the last report.

3.2.3 Mid-Year Capital Status Presentation

Staff will provide the Finance and Administration Committee or Council with a mid-year capital status presentation. This presentation is projected to be done prior to the end of September. This presentation will include the following:

1. Detail all major capital projects and a brief comment on status (when completion is anticipated, project highlights, accomplishments, expected timeline to completion, funding sources, etc.).
2. Provide a commentary on all major projects completed.

3.3 Capital Project Variances

Capital Project budgets will be based on guidelines approved by ELT for quality and completeness, and reflect all available information at the time the project is submitted for consideration. Project variances compiled and reported throughout the project will be based on best available estimates.

3.3.1 Holding Accounts

Holding Accounts will be created as reserves and will be funded by surpluses on Capital Projects and will be used to fund over-expenditures on other Capital Projects, subject to limits.

Finance will be responsible for administering the Holding Accounts.

Holding accounts will have target balances as follows:

- Capital General Holding Account \$4,000,000
- Water Rate Holding Account \$1,500,000
- Wastewater Rate Holding Account \$1,500,000

3.3.2 Capital Project Surplus – Transfer to Holding Accounts

If a surplus arises or is anticipated from an existing Capital Project, staff will contact Finance who will record and transfer the surplus to the appropriate holding account or capital financing reserve fund.

3.3.3 Capital Project Deficit – Use of Holding Account Funds

A Capital Project deficit can be funded by the relevant Holding Account or capital financing reserve fund to a limit of the greater of 10% of the original Council approved project budget or \$100,000. If the additional funding requirement is greater than noted above, a report providing the funding source is required for Council approval. If the parameters of the Capital Project change significantly (due to an increase in complexity or unanticipated timing related issues) and immediate approval for the sound investment of capital is required, the CAO has the discretion to use the relevant Holding Account or capital financing reserve fund to fund a project deficit of up to 20% of original Council approved project budget.

Previous use of the Holding Account or capital financing reserve fund to fund a project's overrun must be added to the new use of the Holding Account or capital financing reserve fund to calculate the limit of excess over budget in aggregate.

Any Capital Project deficits funded by the Holding Account will be reported to Council in the next quarterly Completed Capital Projects Report.

3.3.4 In Year Investment Opportunities – Use of Holding Account Funds

If an investment opportunity arises to leverage external funding the Holding Account will be the funding source. This is to decrease the impact on other

previously approved priority projects. ELT member approval is required for projects that require up to \$100,000 in funding. The CAO may approve a request for up to \$250,000 in funding. Any amounts above \$250,000 will require Council approval.

There will be other investment needs during the year that are not an emergency situation but are sound investments of Capital. The CAO has the approval to fund required studies or projects from the Holding Account up to a maximum of \$100,000 per project. Any projects invested in will be reported to Council in the next quarterly Completed Capital Projects Report.

3.4 Scope Change - Capital Project Surplus

Where opportunities exist to improve project outcomes, reduce anticipated future costs or achieve a related but previously unanticipated outcome, unexpended project funds that would otherwise be deemed to be surplus may be redirected to capture such opportunities. Such changes cannot increase the overall Capital Project budget beyond the Council approved amount. Investments up to a limit of the greater of 10% of the original Council approved project budget or \$100,000 can be approved by the ELT member, the CAO may approve a request for up to \$250,000 in funding and if the scope change is greater than above, the approval of Council is required. Any remaining surplus after any scope changes will be transferred to the Holding Account or reserve fund.

For unit price contracts for roads, water and wastewater linear projects, the quantities are estimated when the specifications are drafted, and payments for increased or decreased quantities may be required due to actual field conditions. Any total project over-expenditure on these projects would fall under the provisions of Section 3.3.3. above.