

# THE CITY OF VAUGHAN

## CORPORATE POLICY

**POLICY TITLE:** CAPITAL BUDGET

**POLICY NO.:** 12.C.12

<b>Section:</b>	Finance & Budgets		
<b>Effective Date:</b>	October 21, 2021	<b>Date of Last Review:</b>	August 16, 2024
<b>Approval Authority:</b> Council	<b>Policy Owner:</b> DCM, Corporate Services, City Treasurer & Chief Financial Officer		

### POLICY STATEMENT

The City of Vaughan’s (“City”) capital budget is a primary component of the City’s annual Budget and Financial Plan, enabling it to fulfill its commitment to service excellence in governance and fiscal responsibility.

The City’s Budget and Financial Plan is consistent with the goals and objectives set out in the Term of Council Strategic Priorities.

The capital budget plans support economic growth, maintain infrastructure, respond to changing needs, and are fiscally responsible.

### PURPOSE

This policy establishes a framework to guide the development of capital budgets and to facilitate informed decision making regarding the acquisition, development, construction, and lifecycle maintenance of capital assets and resulting financial resource implications while promoting stakeholder participation.

### 1) GUIDING PRINCIPLES

Financial sustainability guiding principles provide a conceptual approach to making responsible budget decisions, including:

- a) Consideration towards existing service levels
  - i) The City will strive to maintain existing infrastructure and services in a climate of increasing costs by leveraging efficiencies and preparing for anticipated future needs through reserves and contingencies.

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- b) Growth pays for growth
  - i) Infrastructure and services that support new growth should be funded, to the fullest extent possible, through new property tax and growth-related revenues.
- c) New initiatives that enhance the City
  - i) Investments in new initiatives should enhance service levels, improve efficiencies, mitigate risk, address new regulatory requirements, support service excellence, or enhance the quality of life for residents while remaining within the City's financial means.

## **2) BUDGET OBJECTIVES**

- a) Ensure that capital projects proceed in accordance with capital project budget approvals and adhere to other City policies.
- b) Foster and maintain public accountability and transparency, and provide detailed information about each capital project, including costs, funding sources and outcomes.
- c) Apply capital budgeting best practices and responsible financial controls.

## **SCOPE**

This policy applies to all expenditures and funding sources included in the City of Vaughan approved capital budget.

## **LEGISLATIVE REQUIREMENTS**

The Municipal Act, 2001 ("Act") sets out provisions and minimum standards for municipal budgets. Municipalities have flexibility regarding the format and level of detail of their budgets.

Section 290 of the Act stipulates provisions applicable to local municipalities and establishes minimum standards of what the budget must contain. Section 290(1) states that for each year, a local municipality shall, in the year or the immediately preceding year, prepare and adopt a budget including estimates of all sums required during the year for the purposes of the municipality. Section 290(1.1) further states that a budget for a year immediately following a year in which a regular election is held, may only be adopted in the year to which the budget applies.

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Section 291 of the Act allows (but does not mandate) multi-year budgets of two to five years. Notwithstanding the adoption of a multi-year budget, it is mandatory to review the second and every subsequent year annually.

Section 23.3 (1) of the Act outlines powers and duties that cannot be delegated including “the power to adopt or amend the budget of a municipality”; Section 23.3 (2) of the Act allows the delegation of a municipality’s administrative powers.

## **DEFINITIONS**

- 1) Administrative Amendment:** Fiscally neutral adjustments to the approved capital budget as reflected in the City’s budget and financial systems, to reflect organizational changes, Scope Changes, and/or reallocation of budget, for the effective financial management, reporting and monitoring of the City’s programs and services.
- 2) Capital Budget:** The City’s overall budget plan to purchase, build, maintain, repair, and replace assets including infrastructure. Capital assets also directly and indirectly impact the City’s operating budget as funds are needed to cover day-to-day operating expenses associated with the asset. Department Capital Budget is the consolidation of projects applicable to and to be administered by a Department.
- 3) Capital Project:** The planning, acquisition, replacement, upgrade, or expansion of capital assets. Capital projects can also be for engineering and planning projects, assessments, studies, and Non-Tangible Capital Assets. The length of the project will depend on the complexity of the project or asset. A capital project has a lasting benefit beyond one year and a gross cost exceeding \$20,000.
- 4) Capital Program:** A series of projects or program of work. A capital program can include projects from the tax-supported and/or the non-tax-supported budget. *For example, the Road & Water Rehab/Replacement Capital Program includes projects from Roads and Water/Wastewater that make up the program.*
- 5) Chief Financial Officer and City Treasurer (“CFO”):** The employee appointed by Council as the City Treasurer and Chief Financial Officer.
- 6) City:** The Corporation of the City of Vaughan.
- 7) Contingency:** A provision made in an approved budget for an unforeseen event or circumstance that gives rise to an increase in cost. This includes an

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unbudgeted cost, increase in contract price and/or Scope Change.

- 8) Debt:** Any obligation for the repayment of money. For Ontario municipalities, long- term debt would normally consist of debentures, capital, or financing leases, as well as notes or cash loans from financial institutions, but could also include loans from Reserves and Reserve Funds, sinking funds, or an endowment fund. Debentures issued through Infrastructure Ontario are also considered debt.
- 9) Deputy Treasurer:** The second most senior official(s) that oversees the management of the City's financial affairs.
- 10) Fiscally Neutral Budget Adjustment:** An adjustment that maintains the approved funding source, compliant with the Consolidated Reserve Policy, does not increase debt or current-year net budget, does not increase permanent staff complement, and does not alter the ability to deliver Council priorities as approved in the budget.
- 11) Infrastructure:** The equipment and structures the City owns including, but not limited to, roads, bridges, parks, libraries, buildings, and facilities.
- 12) Non-Tangible Capital:** Project costs associated with capital assets that are not recorded as Tangible Capital Assets or amortized for financial reporting purposes. Examples include studies, historical treasures, works of art and natural resources.
- 13) Recognized Capital Project:** A capital project that is part of the capital plan for a future budget year, which is included for information, but is not approved as part of the annual budget.
- 14) Reserves and Reserve Funds:** Designated accounts established to set aside funds for future purposes or unanticipated events. A reserve is an allocation of accumulated net revenue, whereas a reserve fund is segregated and restricted for a specific purpose.
- 15) Scope Change:** Any change to the scope of a contract to accommodate a need not originally provided for in the contract and which may include the purchase of additional deliverables or the extension of the term of the contract and which may require an adjustment to the contract price.
- 16) Tangible Capital Assets:** Non-financial assets having physical substance with

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an expected useful life of more than one year.

**17) Tax-Levy:** The amount the City decided to raise in its budget for the year under s.290 of the Municipal Act, 2001 (also general local municipality levy).

**18) User Fees:** Fee or charge to an individual, business, or identifiable group for using a service provided by the City which they directly benefit from.

## **POLICY**

### **1) Requirement to Set a Budget**

- a) The Mayor shall present a capital budget and capital plan to Council for consideration.
  - i) The Mayor may delegate the City Manager or Chief Financial Officer (CFO) to present the budget.
- b) The approved capital budget is the spending authority for capital projects and reflects implementation of the City's capital plan, which can be expended over multiple years.
- c) Capital programs and capital project budgets, including non-administrative budget amendments, must be approved by Council prior to any expenditure or commitment being made on the capital project, or processing amendments. Capital budget development will coordinate with the operating budget process and the capital budget year will run concurrently with the operating budget year.
- d) Planned capital projects with future budget requirements included in the annual budget are considered Recognized Capital Projects
- e) Budget guidelines are prepared annually and provided as a budget development tool for departments. The guidelines will include the necessary and relevant instructions for preparing the budget submission, which may include, but is not limited to updates or changes to the budget process, timelines, templates, instructions, and assumptions.

### **2) Types of Capital Projects**

- a) Infrastructure renewal or replacement projects are for the purpose of preserving existing capital assets and preventing costly replacement in the future, or lifecycle replacement of existing assets.

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- b) Growth-related capital projects are for the purpose of acquiring new capital assets to provide an established level of service within the City due to growth and development. All growth-related capital projects proposed in the capital plan shall meet the City's long-term needs and priorities, as identified in the City's Master Plans, which are informed by the Official Plan and Secondary Plans.
- c) City Building and other new capital projects include expansion or purchase of a capital asset to provide a higher-level of service to the community, maintain the same service to more existing residents or businesses, or adding a new service; Other capital projects include, but are not limited to studies, technology systems, software upgrades, and Non-Tangible Capital Assets.

### **3) Funding Capital Projects**

- a) Funding strategies for capital projects include:
  - i) Pay-as-You-Go strategy is a provision of tax funding that is transferred from operating to capital in the year the project is funded. Pay-as-you-go reduces reliance on debt and provides a mechanism to fund ongoing capital needs of assets that have a shorter lifecycle.
  - ii) Reserves/Reserve Funds strategy includes annual transfers from the operating budget (sourced from Tax-Levy, User Rates and Fees, grant funding, or development charges (DCs),) to capital reserves or reserve funds to build a source of funds for future capital projects and to smooth tax levy requirements.
  - iii) Debt financing a capital project and the type of debt financing instrument will be informed by evaluating the cost-benefits of using debt, and considering factors such as fiscal sustainability, fiscal health, aversion to debt, the expected useful life of the asset. Such financing must comply with legislation and the Corporate Debt Policy (12.C.09).
- b) Funding strategies for capital project costs, including future lifecycle costs and other operational cost impacts, will align with the Financial Sustainability Guiding Principles, and related fiscal policies:
  - i) Infrastructure renewal or replacement projects are eligible to be funded by pay-as-you-go, reserves/reserve funds and/or debt financing.
  - ii) Growth-related capital projects are eligible to be funded by reserves/reserve funds and/or debt financing.

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- iii) City building and other new capital projects may be funded through existing budget off-sets, pay-as-you-go, or reserves/reserve funds as applicable. Eligibility for debt financing, if required, is guided by the Corporate Debt Policy.

#### **4) Budget Controls**

- a) The budget as adopted establishes the capital spending authority, subject to applicable City policies that govern procurement, project management and finances, and relevant laws and legislation.
- b) Capital project budget amendments must be approved by Council unless the amendment is fiscally neutral and of an administrative nature.
- c) Budget amendments that materially change the scope of a Council approved capital project, change in funding type/source, cancel an approved project, add a new capital project, or are otherwise non-administrative require Council approval.
- d) The CFO has the authority, subject to applicable legislation and policy, to determine the appropriate funding source(s) for capital budgets.
- e) Delegated authority to approve or recommend administrative budget amendments is outlined in Appendix A of this policy.
- f) Allocation of remaining balances for a capital project after project completion is at the discretion of the CFO, subject to any legal requirements that may dictate how remaining funds should be spent.
- g) When an approved capital project is cancelled or closed, the unused funding and remaining funding commitment will be returned to its original source.

#### **5) Budget Monitoring and Reporting**

- a) The CFO will report bi-annually to Council on the status of capital projects, in-year administrative capital budget amendments, and performance versus budget.
- b) Department Heads, in consultation with Finance Staff, will prepare and submit a Report to Council to approve all non-administrative amendments to approved capital project budgets, unless it is included in the annual budget approval.

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**ADMINISTRATION**

*Administered by the Office of the City Clerk.*

<b>Review Schedule:</b>	3 Years <small>If other, specify here</small>	<b>Next Review Date:</b>	August 15, 2027
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<b>Related Policy(ies):</b>	12.C.09 – Corporate Debt, 12.C.10 – Consolidated Reserve and Reserve Fund, 12.C.11 – Operating Budget, 15.C.03 – Corporate Procurement
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<b>Related By-Law(s):</b>	
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<b>Procedural Document:</b>	PRC-26 – Capital Budget Amendment
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**Revision History**

<b>Date:</b>	<b>Description:</b>
2-Dec-22	Revised to update reference to PRC.26
16-Aug-24	Updated responsibility for budget presentation to reflect the Strong Mayors, Building Homes Act, 2022; recognizing the City's multi-year budgeting practice; and making minor updates to definitions.
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# THE CITY OF VAUGHAN

## APPENDIX

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**APPENDIX NO.: A**

<b>APPENDIX</b>	
<b>Responsibility</b>	<b>Budget Amendment Authority</b>
Council	Approve budget amendments which are not administrative in nature. These include budget amendments that are not fiscally neutral, or which materially change the scope of an approved capital project.
City Manager, or delegate	Approve administrative budget amendments necessary to create or reorganize departments of the City.
Deputy City Manager, or delegate	Authorize and recommend to the CFO and Deputy Treasurer capital budget administrative amendments between capital projects.
Chief Financial Officer and City Treasurer, or delegate	Approve administrative capital budget amendments recommended for approval by the Deputy Treasurer.
Deputy Treasurer, or delegate	Recommend administrative capital budget amendment requests to the CFO for approval, and authorize capital budget changes in the budget or financial systems, as required
Director, or delegate	Authorize and recommend to the Deputy City Manager for approval, administrative amendments to capital project(s) for which they are responsible.