



SAINT JOHN

**Title: Operating Budget Policy**


Subject: <b>Operating Budget</b>	Category: <b>Finance and Administrative Services</b>
Policy No.: <b>FAS-004</b>	M&C Report No.: <b>2018-129</b>
Effective Date: <b>April 27, 2018</b>	Next Review Date: <b>As required</b>
Area(s) this policy applies to: <b>Cross Corporate</b>	Office Responsible for review of this Policy: <b>Finance and Administrative Services</b>
Related Instruments: <b>FAS-001</b> Asset Management Policy <b>FAS-002</b> Investment Policy <b>FAS-003</b> Reserves Policy <b>FAS-005</b> Capital Budget Policy <b>FAS-006</b> Debt Management Policy	Policy Sponsors: <b>Commissioner of Finance and Administrative Services</b>
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Common Clerk's Annotation for Official Record

I certify that the Operating Budget Policy Statement was adopted by Common Council on April 23, 2018.

I certify that the Operating Budget Policy was approved by the City Manager on April 27<sup>th</sup>, 2018


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Common Clerk

April 27<sup>th</sup>, 2018

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Date

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## 1. OPERATING BUDGET POLICY STATEMENT

- 1.1 The purpose of this policy is to outline the financial principles governing the funding of the City operating budget;
- 1.2 Operating budget planning shall comply with all relevant provisions of the Local Governance Act and all other applicable legislation;
- 1.3 The City's objectives with respect to the Operating Budget Policy are as follows:
  - 1.3.1 Strengthen Financial Sustainability by budgeting recurring expenditures with recurring revenues and allocating one time revenues to one time expenditures or reserves;
  - 1.3.2 Reduce Financial Vulnerability by gradually decreasing reliance on sources of revenue outside its controls such as operating grants from other government sources.

## 2. DEFINITIONS

**Operating Budget** – a Council approved plan containing the revenue and expenditure allocations required to provide City programs and services for the current fiscal year which must be aligned with a Council Approved Long Term Financial Plan;

**Basis of Budgeting** – All budgetary procedures will conform to Provincial regulations;

**Structurally Balanced Budget** – a budget for which recurring operating revenues are sufficient to fund recurring operating expenses;

**Non Recurring Revenues** are revenues that the City cannot reasonably expect to receive on an ongoing basis. The source is most likely one-time if any of the followings applies:

- Has a set ending date ranging between 12-36 months with the exception of intergovernmental funding agreements designed to improve long term sustainability;
- Revenue spikes due to higher than normal transactional activity;
- One time transactions, such as the sale of assets.

## 3. PRINCIPLES AND STRATEGIES

- 3.1 The City will utilize the following principles and strategies in making decisions related to the operating budget:
  - 3.1.1 **Alignment with Strategy** – the City's budgeted operations shall be in line with agreed upon Council priorities and the Long Term Financial Plan;

- 3.1.2 **Affordability** – the City must be able to bear the budgeted costs of providing services without incurring financial difficulty or risking other undesirable consequences;
- 3.1.3 **Innovation** –implementation of operational efficiencies, continuous improvement initiatives, and new revenue generation strategies will be considered when planning the operating budget;
- 3.1.4 **Sustainability** – the operating budget will be produced with a long-term focus of achieving a structurally balanced budget; giving taxpayers a better representation of the link between financial resources and services that can be delivered over the long term;
- 3.1.5 **Diversification** – the City will seek to improve its mix of operating budget revenues to the extent feasible within the confines of the Local Governance Act, and other applicable legislation.

#### 4. **AUTHORITY**

- 4.1 The operating budget establishes the spending authority for all Service Area activities and initiatives;
- 4.2 Operating budgets, at the Service Area level, cannot be reallocated without Council approval;
- 4.3 Service Area Commissioners are responsible for managing within their existing budget;
- 4.4 In cases where significant budget overruns are expected due to Emergencies such as severe weather conditions or EMO events, such cost overruns can be approved by the City Manager in advance and must be reported back to the Finance Committee as per Section 8 of this Policy together with recommended mitigation measures.

#### 5. **USE OF NON-RECURRING REVENUES**

- 5.1 Non-recurring revenues shall be directed to onetime uses and away from funding ongoing services. Examples of non-recurring revenues would include one-time sale of assets. Examples of acceptable uses would include funding Pay-As-You-Go for capital expenditures that would otherwise be funded by debt, funding the infrastructure deficit, or to build up capital or operating reserves;

- 5.2 Short term revenue spikes should be treated in a similar way to non-recurring revenue.

## **6. USER CHARGES AND FEES**

- 6.1 The City will seek to balance the need for services and the ability to raise fees, charges, and taxes to support those services. User fees will be assessed relative to the cost of providing the services;
- 6.2 Service areas should assess the cost of activities supported by user fees on an annual basis to identify the impact of inflation and other cost increases;
- 6.3 Council may decide against full cost recovery in cases where greater public benefit is demonstrated;
- 6.4 Factors suggesting a higher level of cost recovery include (1) the service is similar to services available in the private sector or through another agency; (2) there is a strong nexus between the amount paid and the benefit received; (3) the goal is to discourage use of a service or limit demand; (4) the service is regulatory.
- 6.5 Factors suggesting a lower level of cost recovery include (1) there is a community wide benefit to the service; (2) the fee will discourage compliance with regulation; (3) there is a weak correlation between the amount paid and benefit received; (4) collecting the fee is not effective; (5) is an emergency service that may depend on no notice.
- 6.6 Service areas should develop cost recovery policies that will be used as a basis for setting the charges or fees, as well as the service cost recovery goals based on quantitative targets (percentage recovery targets) and how the charges and fees will be levied and collected.

## **7. GRANTS**

- 7.1 Inter-Governmental funding opportunities will be pursued for initiatives that are in line with Council priorities, the approved budget, and the Long Term Financial Plan;
- 7.2 Any opportunities falling outside the criteria in 7.1 will require Council approved adjustment to the budget and the Long Term Financial Plan and be supported by a business case.

## **8. VARIANCE REPORTING**

- 8.1 The Finance Committee shall be informed on a timely basis on all significant unfavourable financial matters and will receive, as a minimum, quarterly financial budget variance reports;

- 8.2 Service Area Commissioners are responsible to present a quarterly report analyzing material variances and causes of such variances to the Finance Committee.

**9. ROLES AND RESPONSIBILITIES**

9.1 Council shall:

- 9.1.1 Approve the operating budget as recommended by the Finance Committee;
- 9.1.2 Establish priorities through the Long Term Financial Plan.

9.2 The Finance Committee shall:

- 9.2.1 Review the operating budget and make recommendations for Council approval;
- 9.2.2 Ensure the operating budget is aligned with the Long Term Financial Plan.

9.3 The City Manager shall:

- 9.3.1 Direct the preparation and presentation of the operating budget;
- 9.3.2 Exercise financial control over all corporate operations in conjunction with the Finance Commissioner to ensure compliance with the operating budget approved by Council.

9.4 The Finance Commissioner and Finance Team shall:

- 9.4.1 Prepare long range revenue and expenditure forecasts;
- 9.4.2 Review departmental budgets with individual departments;
- 9.4.3 Analyze and make recommendations on budget requests;
- 9.4.4 Review the consistency and alignment between budget requests and overall budget goals;
- 9.4.5 Consolidate all budget requests and their impact into a package that clearly communicates the City's budget objectives, pressures, and linkage to the City's Long Term Financial Plan.