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# Annual Budgeting Process

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Resolution: 2017-11-30-03

Review Date: November

Related Bylaws: N/A

Amendments: 2020-09-17-224; 2023-11-09-708

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## **Purpose**

The *Municipal Government Act* requires that each year the Village must adopt an annual budget. In addition the Village must prepare a three year financial plan and five year capital plan. This policy provides council, administration and the public with direction in regards to the annual budgeting process for the Village.

## **Definitions**

“Annual budget” means a combined operating budget and capital budget for the calendar year determined on a basis consistent with accounting standards and the *Municipal Government Act*.

“Capital Plan” means the five year capital spending plan of the Village.

“Financial Plan” means the three year operating spending plan of the Village.

“Interim Budget” means a temporary operating budget. An interim budget ceases to have any effect when the annual budget for that calendar year is adopted.

“Strategic Plan” means the four to ten year plan that identifies the critical priorities and outcomes to be achieved by the Village during that time.

## **Process**

A summary of the Village’s annual budget process is as follows:

1. Review of the Strategic Plan
2. Updating of the Financial Plan
3. Adoption of the Interim Budget
4. Updating of the Capital Plan
5. Adoption of the Annual Budget

## **STRATEGIC PLAN**

The Strategic Plan guides the Village along a path and provides focus and purpose to all decisions. Strategic planning is used to determine long-term vision and goals, and to develop the action plan to achieve those goals. It is also a good method for the Village to communicate strategic priorities to staff and citizens.

The Village's Viability Report and 10 Year Capital Plan will be incorporated into Strategic Plan.

Every four years, after the general municipal election, council and staff will meet to renew the Strategic Plan. This renewal process will include the following:

1. Review of the previous Strategic Plan.
2. Discussion on new services, projects or upgrades to be included in the Plan. This discussion may include input from council, staff, community groups, and residents.
3. Prioritization of items within the Strategic Plan. Council will determine which items they would like to complete within the next four years. They may determine in which year they would like to complete each item. All other items will be discussed as to whether they will be included in the plan as "future projects" or if they will be removed from the plan.
4. Review and adoption of the Strategic Plan. Administration will draft the Strategic Plan based on those priorities chosen by Council. The draft plan will be presented to Council for discussion and adoption by resolution.

The Strategic Plan, upon adoption, becomes the guideline for all other financial planning and budgeting decisions for the Village.

Cost estimates are not required to be included in the Strategic Plan. However, cost estimates, as well as direction for funding sources, may be included to help guide other decisions regarding items within the Plan. (For instance, an item may be prioritized within the Strategic Plan but have with it a condition that it must include a specific percentage of grant funding, or that each year a specific amount of revenue be placed in reserves for the project.)

In each year following the adoption of the Strategic Plan, Council will review the plan to ensure that it continues to meet the priorities of the Council and the Village. Minimal changes should be made to the plan at this time.

### **FINANCIAL PLAN**

The Financial Plan is the three-year operating plan for the Village. The three-years referred to do not include the current budget year.

The Financial Plan is drafted by Administration based on reasonable assumptions for future cost and revenue estimates, as well as by including priorities from the Strategic Plan. Council must approve the Financial Plan by resolution.

The Financial Plan must include anticipated total revenues and total expenses by major category, the anticipated annual surplus or deficit, and the anticipated accumulated surplus or deficit.

The Financial Plan will be developed as a rolling plan, meaning that earliest year of the Financial Plan should become the Interim Budget for that year, and an additional year will be added to the end of the Plan. Minor adjustments may be made to the other years if necessary.

**INTERIM BUDGET**

The Interim Budget must be adopted by Council by December 31<sup>st</sup> of the previous year. This is to allow Administration to continue to make expenditures prior to the adoption of the Annual Budget.

The Interim Budget is that years' portion of the Financial Plan, with minor adjustments if necessary. It is an operating budget only.

In addition to those items required to be included in the operating budget portion of the Annual Budget, the Interim Budget document presented to Council for adoption will include a comparison of the previous years' budget, the previous years' actual, and the current year budget amounts.

The initial presentation and adoption of the Interim Budget will not include a year-to-year comparison of the tax rate of the Village. However, future budget deliberation and discussion may include a comparison.

**CAPITAL PLAN**

The Capital Plan is the five-year capital infrastructure plan for the Village. The five-years referred to do not include the current budget year.

The Capital Plan is drafted by Administration based on priorities from the Strategic Plan. Council must approve the Capital Plan by resolution.

The Capital Plan must include planned capital property additions and allocated or anticipated funding sources. Property includes land, land improvements, buildings, engineered structures, and equipment.

The Capital Plan will be developed as a rolling plan, meaning that earliest year of the Capital Plan should become the capital budget for that year, and an additional year will be added to the end of the Plan. Minor adjustments may be made if necessary.

**ANNUAL BUDGET**

The Annual Budget includes both the operating and capital budgets for the Village and must be adopted by Council no later than June 20<sup>th</sup> of that year. This is because of the requirement for the mailing of the combined Tax/Assessment Notices.

The Annual Budget is drafted by Administration and is a result of the Interim Budget, including any adjustments as required by Council, and the capital budget. The capital budget is that years' portion of the Capital Plan, with any required adjustments.

The Interim Budget and capital budget may be reviewed and adjusted by Council as often as Council feels is necessary prior to the adoption of the Annual Budget. During this review Council must be presented with a year-to-year comparison of the tax rate and assessment data for the current year and previous year. This comparison must be provided no later than during the final budget discussions prior to the presentation of the Annual Budget.

The operational portion of the Annual Budget must include:

- The amount needed to provide for the council's policies and programs (general operations)
- The amount needed to pay debt obligations
- The amount needed to pay for requisitions
- The amount to be transferred to reserves
- The amount to be transferred to the capital budget
- The amount of annual amortization expenses of tangible capital assets
- The amount needed to recover any shortfall as required by the *MGA*
- The amount of tax revenue
- The amount of grant revenue
- The amount transferred from accumulated surplus funds or reserves
- The amount of any other sources of revenue

The capital portion of the Annual Budget must include:

- The amount needed to complete the capital projects
- The anticipated sources of revenue to pay the costs of the projects
- The amount to be transferred from the operating budget

The Village may not budget for a shortfall (deficit) in the operating portion of its budget. However, for the purposes of determining this shortfall, the amount of annual amortization is not included as it is a non-cash expense.

### **Budgeting Considerations**

The Financial Plan, as well as Interim Budget and Annual Budget will include an annual contingency amount to provide for unanticipated expenditures. Council approval is required before expending the contingency.

The Village will utilize conservative estimates when determining revenues, other than taxation revenues. Review revenue sources to ensure an appropriate balance between property taxes, special taxes, local improvement taxes, franchise fees, and user fees exist.

Council will review the CAO's hours of work and Administrative Policy 5.1 Office Hours of Operation to ensure that tasks associated with customer service and those associated with the administration of the Village are completed efficiently and effectively

Utility rates will be reviewed annually and adjusted to recover the full cost of expenses associated with the service, including garbage, water and sewer services. Council should include a contingency amount within these user fees for unexpected expenditures.

An expenditure may only be made if it is included in the Annual Budget, if it is for an emergency, or is legally required to be paid. If an expenditure is not included in the Annual Budget it must receive approval by council resolution.

The Village will complete capital projects using the highest amount of grant funding available. The Village will attempt to fund all capital projects 100% through grants and reserves where possible.

**Service Capacity Review**

To align:

- program and service levels
- council and residents' expectations
- available resources and funding

And communication to residents of the importance of full-cost recovery in the operation of village utilities.