

HALTON REGION

Budget and Business Plan 2018

Policies & Procedures



Policies and Procedures

Presentation of Halton Region's financial information

General guidelines

Halton Region prepares and presents financial statements in accordance with Generally Accepted Accounting Principles (GAAP) for local governments as recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada.

Basis of accounting and financial reporting

Halton Region follows the full accrual basis of accounting and recognizes:

- revenues as they are earned; and
- expenditures as they are incurred and measured through the receipt of goods or services and a legal obligation to pay.

As required at year-end, revenues and expenses that have not yet been processed are recognized and then reversed in the following year when the transaction is processed. Effective January 1, 2009, Halton Region reports tangible capital assets on annual financial statements as required by PSAB3150, Tangible Capital Assets.

Halton Region's Fund-Based budget is converted to full accrual basis accounting in the following way:

1. The Capital Fund is reported through the Tangible Capital Asset accounts in the Consolidated Statement of Financial Position.
2. Reserves and Reserve Funds are reflected in the Consolidated Statement of Financial Position as "Accumulated Surplus".
3. The Operating Fund is reflected in the Consolidated Statement of Operations (which is adjusted to reflect interest on debt only), the amortization expense, gain or loss on disposal of tangible capital assets, post-employment benefits and solid waste landfill closure and post-closure expenses.

Basis of budgeting

The operating budget includes annual expenditures for personnel costs, materials and supplies, purchased services, rent and financial expenses, debt charges, reserve transfers, subsidy revenue and program fees.

Halton Region's capital budget includes expenditures and financing sources to acquire, construct, upgrade and rehabilitate Regional capital assets such as Regional facilities, roads, bridges, paramedic stations, long-term care facilities and water and wastewater treatment plants, along with the water distribution and collection systems and waste management facilities. The capital budget is established on a project-by-project basis, where the costs usually span more than one fiscal year.

Regional Council approves the operating and capital budgets each year for the period of January 1 to December 31.



The *Municipal Act*, O. Reg. 284/09 requires municipalities to budget for amortization expenses, post-employment benefits, solid waste landfill closure and post-closure expenses. If the municipality does not budget for these items, it must advise Council of these exclusions. Halton Region does not budget for these items; however, staff reports on how these expenses will be funded are presented to Council before Council adopts the annual budget.

Halton Region uses modified service-based budgeting, reflecting expenditures and revenues based on service delivery and responsibility. Halton applies the framework established by the Ontario Municipal Benchmarking Initiatives (OMBI) best practices in budgeting by allocating corporate support costs to service delivery departments. Corporate support costs are allocated to programs in accordance with the OMBI framework. Program chargebacks (Direct Program Chargebacks) are allocated to various service areas where direct service delivery costs are accumulated based on demand/usage. Corporate management and governance costs (Corporate Sustaining Chargebacks) are also allocated to all service areas based on a pro-rata share of the three most recent years' net controllable costs.

The use of this chargeback allocation method results in the distribution of net corporate support costs to direct-service delivery areas.



Fund structure and budgeting

Halton Region uses Fund Accounting for budgeting purposes, in which a self-balancing group of accounts is provided for each accounting entity established, as the basis for recording and reporting all financial transactions. The Regional budget is composed of two primary funding sources—Tax Supported Services and Rate Supported Services.

Operating Fund: Activities are budgeted annually for each program based on the estimated operating costs. The factors considered in developing these budgets include inflation, growth, service quality, mandated requirements and customer needs. At the end of any given budget year as part of the year-end closing, any surplus or deficit is transferred to or from reserves and/or reserve funds in accordance with Council-approved policies, ensuring a closing balance of zero dollars in the operating fund.

Capital Fund: Capital projects can be budgeted in one year or several years depending on the requirements of the project (i.e., design, land purchase, construction, etc.). The corresponding expenditures may materialize over several years as the project is completed. Upon completion, each project is closed through a semi-annual variance closure reporting process and any surplus or deficit is transferred to or from the appropriate reserves, reserve funds or Capital Holding Account in accordance with Council-approved policies.

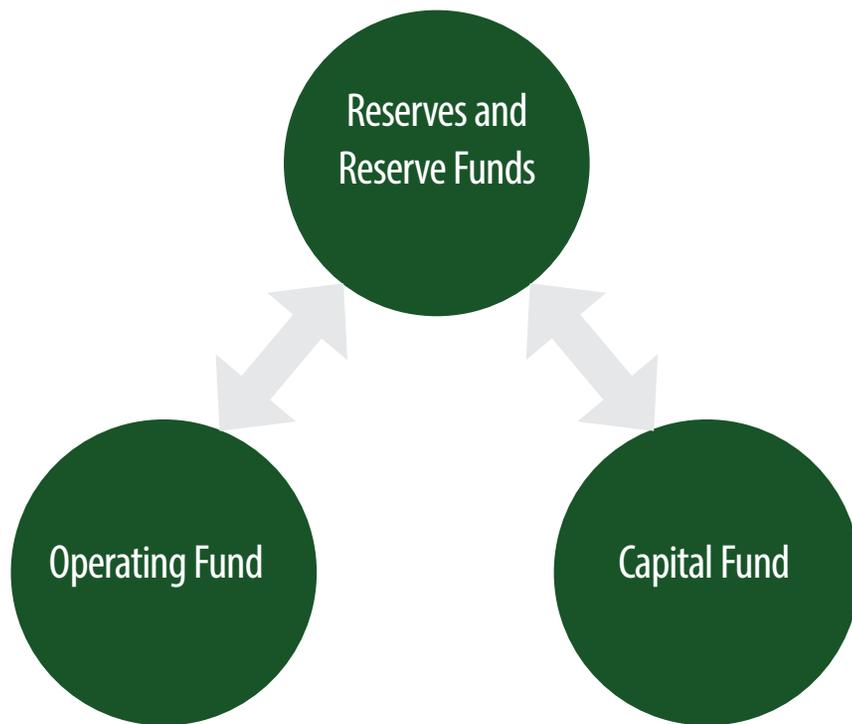
Reserves and Reserve Funds: The use of reserves is an integral part of the budget planning process and is an important financial tool in developing short- and long-term fiscal policies. Prudent use of reserves mitigates fluctuations in taxation and rate requirements and assists in stabilizing the impact of unanticipated occurrences as set out in Council Report CS-83-02, re: Regional Reserve Policy. General principles relating to the use of the reserves are set out in the front section of this document. Budgeted reserve transactions flow through either the operating or capital budgets.

Regional Council approves the creation of Reserves and Reserve Funds for specific liabilities, contingencies and other specific uses. Policies dictate the use of certain Reserve Funds for designated purposes and prevent monies from being diverted to any other use.

The Region also collects development charges (DC) as provided for in the *Development Charges Act, 1997*. These funds are maintained in separate Reserve Funds that are restricted in use and applied to eligible growth-related capital projects in accordance with the legislation and Regional DC by-laws.

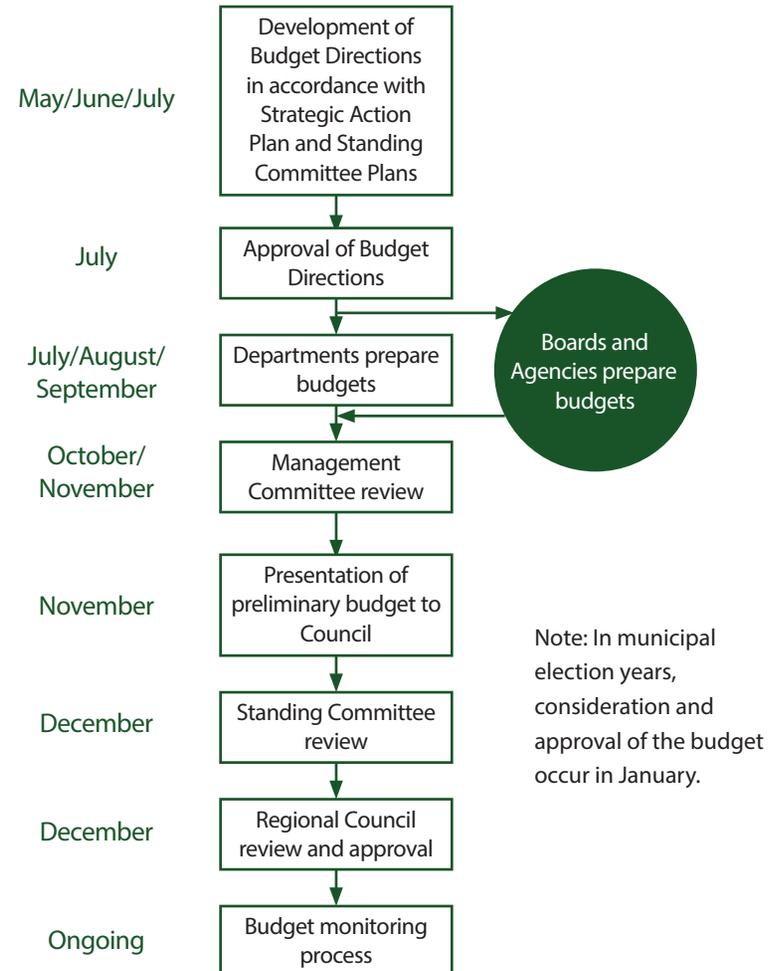
Fund relationships

The activities in the Operating and Capital Budgets are mutually exclusive. However, in some cases transactions occur between them as shown below.



Halton Region's Budget Process

As illustrated below, Halton Region's budget preparations begin in late spring. Based on a Council-approved Action Plan and annual Standing Committee Plans, the Region develops the Budget Directions Report in early spring. The Budget Directions Report is a policy document that establishes Council's program and fiscal priorities for the following year's budget, and is considered by the Standing Committees and Regional Council. Staff also use this as a guide in developing the following year's budget process.



Operating departments prepare their preliminary budget requests based on the Council-approved Budget Directions Report and Strategic Action Plans. Preliminary budgets are prepared by all Regional departments with the help of the Financial Planning & Budgets Division of the Region's Finance Department. Regional staff prepare an annual Budget Information Package, which recommends cost and revenue increases for various budget components (e.g., general inflation, interest, etc.). This package also includes specific technical information to assist in the budget preparation and outlines how to input information into the Region's financial system.

Departments include base budget adjustments and strategic investment requests in their preliminary budgets. Strategic investment requests are required for any significant change in direction for the program, changes to funding sources or any change in staffing levels. Preliminary budgets are renewed by Financial Planning & Budgets Division staff, as well as the Management Committee, which is comprised of the Region's most senior staff.

Budget review meetings are held in September and October with senior staff in each department. At this time, Financial Planning & Budgets Division staff also receive budget requests from the boards and agencies funded through the property tax levy. These requests are reviewed with the consulting boards and agencies, and are then incorporated into the proposed budget.

The proposed budget document is compiled and presented to Council in late November. Each of the three Standing Committees reviews the document prior to Council approval in December. In an election year, the committees begin reviewing the budget in January, with adoption targeted for late January. The Standing Committee reviews provide for public participation in the budget process.

Proposed Budget: The proposed budget is prepared based on the Council-approved Budget Directions Report, the most recent program pressures and economic data, and iterative refinements and reviews by the Management Committee. Operating and Capital Budgets are prepared for services funded from property taxes (Tax Supported) and from water and wastewater utility rates (Rate Supported).



Budget adoption: Regional Council adopts the Budget by resolution as the Region's annual Budget for the year beginning January 1 after it receives the recommendations from the Health and Social Services Committee, the Planning and Public Works Committee and the Administration and Finance Committee.

The Committee and Council meetings are open to the public and are advertised in the local newspapers as well as on the Regional website. The following are dates for the review and consideration of the 2018 Budget and Business Plan:

November 15, 2017	• 2018 Budget and Business Plan Council Information Session
December 5, 2017	• 2018 Budget review by Health and Social Services Committee
December 6, 2017	• 2018 Budget review by Planning and Public Works Committee
December 7, 2017	• 2018 Budget review by Administration and Finance Committee
December 13, 2017	• 2018 Budget approval by Regional Council

Halton Region's Financial Policies

Balanced budget

The operating budget is balanced with revenues equal to budgeted expenditures. Any shortfall in budgeted revenues versus budgeted expenditures for a budget period will be funded by tax levies or utility rate revenues equal to the shortfall, which will result in a balanced budget.

Deficit avoidance

In accordance with the *Municipal Act*, municipalities are prohibited from budgeting for a deficit. The annual budgets continue to show fiscal restraint to meet expenditure and revenue targets. When actual revenue shortfalls or unforeseen expenditures appear to be more than temporary occurrences, both the capital and operating budgets are reviewed. Alternatives are then identified to minimize the Region's financial risks including drawing from reserves, reallocating budgets and expenditure constraints.

Amendments to approved budget

The approved budget may be amended at the direction of Council, provided the amount to be collected from property taxes or user rates remains unchanged. Operating budget amendments commonly occur as a result of provincial funding initiatives for fully subsidized operating programs. The capital budget is revised in May/June after the Local Municipalities' budgets are approved in order to align Regional programs with Local Municipalities' work. The capital budget is also amended throughout the year as a result of the public tendering process which formalizes the estimated costs and related financing to undertake specific projects.



Budget monitoring and reporting

The Region uses a real-time, enterprise-wide financial system. Financial reports are available on demand for all appropriate staff to monitor actual expenditures and revenues. Operating budget variance reports are presented annually to Council for year-to-date and year-end projections on April 30, August 31 and December 31. Capital budget (life-to-date) variance and project closure reports are presented twice annually on June 30 and December 31.

Operating fund balance

Any actual surplus or deficit arising at year-end is transferred to or from a Tax or Rate Stabilization Reserve or other reserves as directed by Council. The targeted balances in the stabilization reserves are 10 per cent of total operating expenditures for tax-supported programs and 15 per cent for water and wastewater programs. These reserves are used to mitigate the effect of any large variations in major sources of revenue or expenditure. Given that personnel services account for approximately 31 per cent of the Region's total gross expenditures for all services, excluding the Halton Regional Police Service (HRPS), any increase in staff complement must be explicitly approved by Council. New positions, whether temporary or permanent, are approved through the Region's budget process.

Master Plans and Asset Management Plans

Master Plans support the long-term program needs for Regional services, including the Official Plan and the Asset Management Plans that ensure Regional assets are maintained in a state-of-good-repair. These plans are developed and updated regularly for specific programs, including housing, Regional facilities, Paramedic Services, transportation and water and wastewater, which then provide the basis for the annual budget and forecast requirements.

Operating budget forecasts

Operating budget forecasts are prepared and reviewed annually for each program for a 10-year period, based on recommendations included in approved Master Plans, Asset Management Plans and requirements to maintain service levels. The forecasts are designed to provide sustainable funding to maintain existing levels of service and Regional assets in a state of good repair.

Capital budget forecasts

Capital budget forecasts are presented annually to forecast expenditures on a project-by-project basis. The capital 10-year forecast includes major works required to upgrade, replace or construct capital infrastructure based on Master Plans and Asset Management Plans. The ongoing maintenance of this infrastructure is included in the operating budget. Financing of the forecast capital program (Master Plans and Asset Management Plans) is undertaken at a detailed level and established as a long-term financing plan. The long-term financing plan is then reviewed and approved through the annual budget process and presented at a summary level in the budget.

Use of one-time revenues

The Region does not utilize one-time revenues for ongoing expenditures. However, one-time revenues may be used to fund non-recurring expenditures subject to Council approval. One-time revenue is transferred to the appropriate reserves in accordance with Council's direction.

User fees and alternate revenue sources

The Region establishes cost-recovery policies for user fees to determine whether fees collected are sufficient to recover the cost of providing certain goods or services. These policies determine the percentage of full-service cost to be recovered through fees. The level of cost recovery is reviewed and adjusted annually through the budget process to ensure that fees are current, equitable, competitive and sustainable.

Uses of unpredictable revenues

Certain revenues fluctuate widely year-to-year. At year-end, favourable revenue variances are transferred to the Stabilization Reserves or other reserves as approved by Council.

Use of supplementary tax revenue

Supplementary taxes are generated by property tax revenue from new assessments added in-year to the property tax roll. This revenue source is estimated annually and reflected in the Region's operating budget.

Debt capacity

The Province sets a debt capacity guideline for municipalities of 25 per cent of own revenues. The Region's own guidelines (10 per cent of gross operating expenditures) translate to approximately 13 per cent of the Region's own revenues. The current projected debt capacity for the next 10 years remains well below these targets.

Penny rounding

As the Royal Canadian Mint is no longer distributing pennies as of February 4, 2013, and pennies are gradually being withdrawn from circulation, Halton Region adopted the Government of Canada's rounding guidelines for cash transactions.

Reserve and Reserve Funds

Halton Reserve Policy Summary (CS-83-02)

Stabilization Reserves:	
Purpose	To address in-year, uncontrollable or unanticipated changes in economic conditions, funding or costs
Target	Tax stabilization 10% of gross expenditures Rate stabilization 15% of gross expenditures
Funding	Shortfalls from the target should be funded from annual operating surpluses Balances in excess of target can be used to finance one-time programs or to address deficiencies in other reserves
Authority to Access	Council authority required to access funds
Interest Allocation	No interest to be allocated to these reserves
Program-Specific Reserves:	
Purpose	To fund specific programs
Target	Financial plan required for each reserve and reviewed annually
Funding	Based on a financial plan
Authority to Access	Council authority required to access funds, normally established within annual budget or specific Council resolution
Interest Allocation	No interest to be allocated to these reserves
Vehicle/Building and Equipment Reserves:	
Purpose	To fund the maintenance and replacement of Regional assets
Target	Based on lifecycle costs of assets
Funding	Annual operating budget provisions Shortfalls in funding may require funding from annual operating surpluses or transfers from other reserves
Authority to Access	Council authority required to access funds, normally established within annual budget or specific Council resolution
Interest Allocation	Interest allocation at year-end based on actual interest earnings
Capital Reserves:	
Purpose	To finance the Region's capital program
Target	Based on capital programs
Funding	Annual operating budget provisions Supplementary taxes Annual operating budget surpluses
Authority to Access	Council authority required to access funds, normally established with annual budget or specific Council resolution delegating authority to staff (e.g., project closures or tender awards)
Interest Allocation	Interest allocation at year-end based on actual interest earnings

Commodity Price Hedging Policy

The goal of the Commodity Price Hedging Policy is to allow the Regional Treasurer to enter into a fixed price agreement for the future delivery of any or all portions of a commodity, when it is deemed advantageous for the Region to do so. The Treasurer must report annually on all commodity price hedging agreements in place in accordance with the *Municipal Act, 2001*, Regulation 653/05, and Halton's Commodity Price Hedging Policy as approved through Council Report No. CS-19-07.

The Region considers procuring price hedging agreements for electricity, natural gas, gasoline and diesel, as discussed below:

- Halton Region did not enter into a fixed price agreement for electricity in 2017 as it was determined that the Hourly Ontario Energy Price (HOEP) was the lowest cost option at the time.

- For natural gas, Halton Region has an annual fixed price contract expiring on October 31 of each year. In 2017, approximately 30 per cent of the annual volume was purchased on contract with the remaining 70 per cent purchased at the spot market price.
- Gasoline and diesel fuel are purchased in bulk for vehicles and back-up generators through a competitive bid process. Paramedic Services uses the bulk fuel and also purchases gasoline and diesel fuel at retail outlets with procurement cards when needed. Halton Region is currently in the final renewal year with Canada Clean Fuels and Valero Energy Inc. for bulk gasoline and diesel fuel purchases.

Staff will continue to work with consultants to determine the best procurement strategy by reviewing market conditions. As shown below, commodity costs have increased for electricity. Natural gas and diesel prices have decreased with price fully offset by demand increases. Gasoline has increased with price partially offset by demand decreases.

Commodity (\$000s)	2014 Actual	2015 Actual	2016 Actual	2017 Budget	2017 Projected Actual	2018 Requested Budget	Change in Budget (2018-2017)
Electricity	10,189	17,379	20,322	19,875	19,751	19,954	170
Natural Gas	511	649	539	720	711	720	-
Gasoline and Diesel	1,322	1,188	1,070	1,330	1,267	1,325	(4)