



Regional Municipality of Durham
Finance Department
Finance Policies & Procedures

Title: Budget Management Policy	
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Approved by: Regional Council	

1. Preamble

A goal of the Corporate Strategic Plan of the Region of Durham is to continue the development of sound fiscal policies and long range financial planning of Regional services. The Budget Management Policy is one of the fiscal policies that addresses the balancing of expenditures for the delivery of Regional services with the availability of funding, both on a current and long-term basis.

The Budget Management Policy is designed to work in conjunction with other Regional Policies and Provincial legislation that mandates the responsibility of the Treasurer for the discharge of financial duties. This Policy should be reviewed in concert with other fiscal policies of the Region.

2. Objective

This policy provides a guideline for the expenditure of funds, provides an accountability framework that establishes the extent of authority for spending decisions, both planned and unplanned and outlines the discretion permitted in the spending decisions within the authority as delegated by Regional Council.

The policy:

- Links accountability with the responsibility for service delivery;
- Provides the mechanisms to deal with the exceptions from planned service delivery;
- Provides the mechanism to give early warnings of budget deficits and surpluses and to identify opportunities to redirect allocated funding; and,
- Enhances corporate and financial integrity while maintaining the ability to deliver services effectively and efficiently.

3. Roles and Responsibilities

- 3.1 The Finance Department shall monitor the annual current and capital budgets and report to the C.A.O., Finance & Administration Committee and Regional Council on the overall budget status of all Regional operations and projects. The Finance and Administration Committee and Regional Council shall be informed on a timely basis of any material variance between budgeted and actual expenditures, revenues or service levels.

- 3.2 A Department Head has the responsibility to provide the budgeted level of service approved by Regional Council within the approved net expenditure current budget and within the corresponding discretionary spending authority as outlined in this policy. The Finance Department is further charged with the responsibility of ensuring the necessary funding is available to finance the expenditures within the parameters of Regional Council approvals.
- 3.3 The Finance Department has responsibility to define from time to time, in consultation with Regional Departments, current and capital cost centres for the purposes of preparing and managing budgets.
- 3.4 The Finance Department shall have overall responsibility for the coordination and implementation of systems for financial service level indicators. The definition of these financial service level indicators shall be the responsibility of the Regional Departments.
- 3.5 The Works Department shall retain the responsibilities related to the administration of capital construction projects and the Purchasing Division of the Finance Department shall participate in the tendering related aspects of capital construction projects, the execution of the necessary contracts and the processing of required amendments.
- 3.6 The requirements of this policy also apply to programs for which 100% subsidy is received. References to Annual Budgets refer to the specific fiscal year for the program.

4. Consultation Process

- 4.1 Standing Committee reports must include a Financial Implications section whenever there are significant financial issues, budget impacts or funding requirements. The Financial Implications section will be reviewed with concurrence indicated by the Commissioner of Finance and further, all Durham Regional Police Services Board reports with financial implications will be referred to Finance Department staff for a report before consideration by the Finance and Administration Committee.
- 4.2 Approvals required by this policy must first be reviewed with the Finance Department to ensure the accuracy of financing and conformance with Regional financial policies. The request for approval shall be in a format deemed appropriate by the Finance Department.
- 4.3 All business case applications for subsidy or other related funding from senior levels of government or external organizations with respect to Regionally operated programs shall be co-ordinated with the Region's Finance Department to ensure corporate financial accountability in expenditure management and reporting requirements.

5. Acquisition of Goods and Services

- 5.1 The acquisition of all goods and services is addressed by the Purchasing By-Law of the Regional Municipality of Durham.
- 5.2 Goods and services for operating expenditures shall be expensed in the year in which they are actually received, in accordance with generally accepted accounting principles.
- 5.3 A Department shall not incur any exceptional or new expenditure that materially alters the budgeted objectives or level of service unless the Standing Committee, the Finance and Administration Committee and Regional Council approve such expenditure.

- 5.4 A proposed lease will be material when it extends beyond the term of Regional Council and/or requires annual lease payments of \$150,000 or greater. Property leases with a term greater than 5 years will also be considered material. For each material lease, the Commissioner of Finance will prepare a report for Committee and Council which will assess each material lease, including any possible extensions or renewals, on the following basis:
- An assessment of the costs, financial and other risks including comparing fixed and estimated costs of the proposed lease with other methods of financing;
 - A lease versus buy net present value analysis;
 - A calculation of the effective rate or rates of financing for the lease;
 - The ability for the lease payment to vary and a sensitivity analysis showing the impact of possible rate changes, including methods and calculations;
 - A statement outlining any contingent payment obligations that would result in a material impact including lease termination provisions, equipment loss and/or damage, replacement options and guarantees and indemnities;
 - A summary of all assumptions applicable to any possible variations in the lease payment and contingent payment obligations; and
 - Any other matters the Treasurer or Council considers advisable.
- 5.5 Non-material leases with a total value greater than \$50,000 will require the appropriate Department to produce a report containing a clear term and schedule of all fixed payments. This report will be forwarded to the Finance Department to:
- Update the calculation of the Regional debt and financial obligation limit;
 - Determine whether the lease is classified as an operating or capital lease and determine the appropriate accounting treatment; and
 - Determine the most advantageous method of financing, considering both internal and external leasing arrangements, rentals or other methods of financing.

6. Personnel Services Expenditures

- 6.1 The complement of regular full-time employees for each Department shall be provided to the Finance Department annually for budget purposes. The Annual Budget will include the approved complement as a description of the resources for each budgeted program.
- 6.2 Permanent additions to the staffing complement of regular full-time employees will be reported through the Annual Budget process. Changes to the complement subsequent to the approval of the Annual Budget shall be reported to the Finance Department. Any staffing changes occurring during the year, not included in the current year budget, shall be noted in the following year's budget in the description of resources.
- 6.3 If it is projected that changes in staffing levels will create an over expenditure in the cost centre, then the Department shall propose a plan to reduce expenditures and/or to obtain additional financing to cover the expected deficit. Details of the plan shall be provided to the Finance Department.
- 6.4 This section is subject to the reallocation provisions of Section 11 of this policy.

7. Expenditures Prior to Budget or Subsidy Approval

- 7.1 Prior to the approval of the Annual Budgets, Regional Departments shall be allowed to incur operating costs, excluding capital assets from current funds, in each cost centre to a level of 50% of the budgeted amount of the prior year.
- 7.2 Prior to the approval of the Annual Budgets, capital asset expenditures and capital projects deemed essential by a Department shall be approved by the appropriate Department Head, Treasurer, C.A.O., applicable Standing Committee, Finance & Administration Committee and Regional Council prior to the purchase or undertaking. This Section is subject to the provisions of Section 13, Emergency Purchases.
- 7.3 For any new program initiative or enhancement to an existing program proposed to be 100% financed from Provincial subsidies or related revenues and included in the Regional Business Plans and Budgets, staffing or capital related expenditures or other related costs will not be committed until such time as written confirmation is received from the respective Provincial Ministry indicating that the Province will provide the subsidy and the Finance and Administration Committee and Council are advised accordingly in conjunction with the Region's Budget Management Policy.

8. Capital Expenditure from Current Funds and Other Sources

- 8.1 A Department shall not incur capital asset or capital project expenditures and the Finance Department shall not process purchase requisitions for such expenditures unless the expenditure is included in the annual current budgets as approved by Regional Council.
- 8.2 Unbudgeted capital asset expenditures may be incurred or unbudgeted capital projects may be undertaken provided that the following approvals are obtained prior to the purchase.
- 8.2.1. The Treasurer and C.A.O. are permitted to approve expenditures up to \$25,000, for those acquisitions that are financed from current sources or subsidy.
- 8.2.2. Expenditures in excess of \$25,000, or those to be financed from other sources, require the approval of the Treasurer and C.A.O. and the applicable Standing Committee, the Finance & Administration Committee and Regional Council. Other sources of financing include, but are not limited to, reserves, reserve funds, leases and financing from third parties.

9. Capital Project Approval

- 9.1 New capital projects undertaken by Regional Departments and the Durham Regional Police Service require pre-budget capital cost control measures as follows:
- A review of revenue sources, financing, and capital and operating costs in a consolidated cash flow analysis spanning the life cycle of a proposed capital project;
 - Financial risk analyses, with sensitivity analysis around major assumptions, including inflation, schedule and timing risk, and cost risk factors over the project's useful life;
 - From the initial design phase of a capital project, Finance Department participation, to ensure adequate scope for business case analyses, appropriate financial assumptions for key indicators, and an adequate assessment of present and future financial impacts/risks, at the same time, ensuring capital projects are not unduly delayed.

- 9.2 Capital projects are to be jointly recommended to Regional Council by the applicable Standing Committee (Project Approval) and the Finance & Administration Committee (Financial Approval) when the Annual Budget is presented for approval. The recommendations on each capital project will include, but are not limited to, the following information:

From the originating Department:

- Description of the project and location
- Department Head's report detailing the need for the project and an estimated expenditure budget

From the Finance Department:

- Treasurer's report indicating the sources of financing
- An update of the Regional debt and financial obligation limit and a statement of compliance with the prescribed debt service levels for those projects where debenture financing may be utilized.

- 9.3 Regional Council's budget approval for capital project expenditure and financing will be sufficient authority to proceed to tender and the award of the contract in accordance with the Purchasing By-Law provided that:

- The cost of the project and the required financing will not exceed the Regional Council's approved budget for the project;
- The budgeted percentage from each source of financing does not change;
- No additional sources of financing become available for the project;
- Debenture financing is not required.

- 9.4 In the event that any of the above conditions are not met for any capital project, or at the discretion of the Treasurer, an updated approval by the applicable Standing Committee (Project Approval), the Finance & Administration Committee (Financial Approval), and Regional Council is required prior to the award of the applicable contract.

- 9.5 These capital project approval requirements will apply for the award of construction contracts where the capital project is financed entirely by third parties.

10. Consulting Services

For contracts where the award of consulting and professional services has been approved by Regional Council in accordance with the provisions of the Purchasing By-Law as amended from time to time, a Department Head may authorize additional expenditures for unexpected requirements for amounts up to 10% of the original contract value, to a maximum of \$50,000. Where it is estimated that the expenditure limits will be exceeded and funding is available within the project, a quarterly information report shall be submitted by the Commissioner of Finance to the Committee.

11. Reallocations of Current Budget Provisions

- 11.1 Cost centres, as defined by the Finance Department in consultation with Regional Departments, are not to be over expended without the approval of the Treasurer, C.A.O., applicable Standing Committee, Finance & Administration Committee, and Regional Council.

- 11.2 A Department Head may authorize the reallocation of current budget provisions between accounts within a cost centre on the condition that an over expenditure in one account within a cost centre will not over expend the total of all accounts for that cost centre.
- 11.3 The written approval of the appropriate Department Head, Treasurer and C.A.O. shall be required to reallocate current budget provisions to a maximum of \$100,000 between cost centres within a Department.
- 11.4 The approval of the appropriate Department Head, Treasurer, C.A.O., applicable Standing Committee, Finance & Administration Committee and Regional Council shall be required for reallocations of current budget provisions in excess of \$100,000 between cost centres within a Department and for reallocations between Departments.
- 11.5 Reallocations that change the budgeted objectives or service levels of a Department shall require written approval of the Department Head, Treasurer and C.A.O. up to a departmental expenditure level of \$100,000. Reallocations in excess of \$100,000 will also require approval of the applicable Standing Committee, Finance & Administration Committee, and Regional Council. This includes changes to objectives or service levels that may be mandated by senior levels of government and which may be financed in whole or in part by others.

12. Capital Project Expenditures Anticipated to Exceed Contract or Project Approvals

- 12.1 For capital projects, the Department Head shall be authorized to make commitments to contractors performing extra work under a contract, where such commitments do not increase the total contract, as established at the time of the award of the tender, beyond the following limits, provided additional project financing as outlined in section 12.2 is not required.

Contract value	Additional expenditure limit
Up to \$1,000,000	10% of contract value
\$1,000,000 to \$3,000,000	Minimum value - \$100,000; Maximum value - the lesser of 7% of the contract value or \$200,000
Over \$3,000,000	Minimum value - \$200,000; Maximum value - the lesser of 5% of the contract value or \$400,000

- 12.2 Additional commitments for a capital project shall not be authorized if the value of the work will cause the project to be over expended by more than \$150,000.
- 12.3 The Finance Department shall be advised of the commitment for extra work and the required reallocation of financing to cover the additional expenditure up to the limits specified in Section 12.1.

- 12.4 Where it is estimated that the expenditure limits specified in Section 12.1 will be exceeded and funding is available within the project, a quarterly information report shall be submitted by the Commissioner of Finance to the Committee. As well, requests for additional funding must contain the original contract, outline additional costs and also list original bidders. The approval shall be obtained prior to the commitment of the additional funds.

13. Emergency Purchases

Expenditures of an emergency nature shall be subject to the provisions of the applicable clause of the Purchasing By-Law.

14. Capital Commitments at Year End

- 14.1 Where a budgeted capital asset has been ordered but delivery will not be made until early in the subsequent budget year, the amount of the financing required to fund the commitment shall be set aside in accordance with the Regional Equipment Reserve By-Law #97-80.
- 14.2 Similarly, for capital projects that have received project approval in accordance with Section 9 of this policy and are in progress, the unexpended financing shall be set aside in the Reserve for Capital Project Commitments.

15. Unexpended Funds and Unanticipated Revenues

- 15.1 At the end of a fiscal year, unexpended funds in the Annual Budget of any Department and not otherwise dealt with by Regional Council shall at the end of the year become part of the Regional surplus for the applicable fund (i.e. general levy, water supply, sanitary sewer or solid waste management).
- 15.2 All unanticipated revenue will become part of the Regional surplus for the applicable fund (i.e. general levy, water supply, sanitary sewer or solid waste management), unless approval has been obtained to use the revenue. Approval of the appropriate Department Head, Treasurer, C.A.O., applicable Standing Committee, Finance & Administration Committee and Regional Council shall be required to expend unanticipated revenues.

16. Delegation of Authority during Recesses of Regional Council

- 16.1 The Treasurer be authorized to recommend project financing to the Regional Chair and Chair or Vice Chair of the applicable Standing Committee for approval during a recess of Regional Council.
- 16.2 The Regional Chair or C.A.O. and the Chair or Vice-Chair of the applicable Standing Committee be authorized to approve the acquisition of unbudgeted capital over \$25,000 during a recess of Regional Council. A report on such acquisitions shall be submitted for information to the applicable Standing Committee, Finance & Administration Committee and Regional Council following the recess.
- 16.3 In order to facilitate the awarding of Prequalification Request for Proposal, the Commissioner of Finance be authorized to approve the recommended list of prequalified suppliers, during a Council recess, subject to the agreement of the applicable Department Head and C.A.O., and the availability of sufficient funding.

- 16.4 In order to facilitate the awarding of RFP's and approval of sole source negotiations over \$125,000, the Commissioner of Finance be authorized to act on behalf of Regional Council, subject to the agreement of the applicable Department Head and C.A.O. and the availability of sufficient funding and the Commissioner of Finance be authorized to execute any resultant Agreements for the goods and services required.
- 16.5 In order to facilitate the negotiation and approval of leases considered to be material (i.e. extension beyond the terms and/or annual payments \$150,000 or greater) the Commissioner of Finance be authorized to act on behalf of Regional Council, subject to the agreement of the applicable Department Head and C.A.O. and the availability of sufficient funding and the Commissioner of Finance be authorized to execute any resultant leases required.
- 16.6 The Commissioner of Works be authorized to approve the acquisition of real property interests exceeding the \$50,000 threshold, subject to the approval of the appropriate funding by the Commissioner of Finance.
- 16.7 Department Heads be authorized to obtain professional, consulting, engineering and/or architectural services in excess of \$50,000 during recess period subject to approval by the Commissioner of Finance and C.A.O. in accordance with established procedures and the provisions of the Purchasing By-Law.
- 16.8 The appropriate Department Head, the Commissioner of Finance and the Chief Administrative Officer be authorized to approve amendments to professional, consulting, engineering and/or architectural service agreements during the recess period subject to the approval of the appropriate funding by the Commissioner of Finance in accordance with established procedures and the provisions of the Purchasing By-Law.
- 16.9 The Regional Chair and Clerk be authorized to execute the required agreements and amendments.
- 16.10 A report providing details of such awards be made to the Committees and Regional Council within 30 days after the recess period.

17. Definitions

Capital Asset

Capital asset expenditures consist of any expenditure incurred to acquire or improve land, buildings, engineering structures, and to purchase machinery and equipment. It includes vehicles, office furniture and software applications. Normally, an expenditure conveys a benefit lasting more than one year and results in the acquisition or extension of the life of a fixed asset or the betterment of an existing asset.

A capital expenditure is determined by the nature of the transactions, not by the method by which it is financed. The expenditure will be considered as capital if it is in excess of \$1,000. The methods of acquisition may include purchase, rental, lease or similar arrangements.

Cost Centre

A cost centre represents a major service delivery area of a Department and a program or group of programs as defined for Annual Budget purposes.

Summary of Budget Management Policy Requirements

Situation	Current Budget Expenditures	Capital Asset Expenditures	Capital Project Expenditures
Overall Policies governing expenditures	3. Roles & Responsibilities 4. Consultation Process 5. Goods and Services 6. Personnel Services	3. Roles & Responsibilities 4. Consultation Process 5. Goods and Services	3. Roles & Responsibilities 4. Consultation Process 5. Goods and Services
Expenditures prior to Budget Approval	7.1 Up to 50% of the prior year's budget for the cost centre	7.2 Approval of Standing, F&A and Council required for any acquisition	7.2 Approval of Standing, F&A and Council required for any acquisition
Expenditure not included in Approved Budget	6.3 Impact of staffing level changes that would create over expenditure of cost centre requires the creation of a plan to offset the over expenditure 11.2 Department Head approval to reallocate funds between accounts in the cost centre 11.3 Between cost centres in a Department on Department Head, Treasurer & CAO authority 11.4 Reallocations >\$100,000 between cost centres or between Departments requires approval by Committees and Council 13. Emergency Purchases	8.2 Expenditures require the prior approval of the Department Head, Treasurer and CAO for amounts up to \$25,000. Over \$25,000 requires approvals of Committees and Council 13. Emergency Purchases 16.2 Approval for expenditures > \$25,000 during recess	8.2 Expenditures require the prior approval of the Department Head, Treasurer and CAO for amounts up to \$25,000. Over \$25,000 requires approvals of Committees and Council 13. Emergency Purchases 16.1 Regional Chair and Committee Chair or Vice Chair to approve financing during recess
Contract exceeds the amount provided in the approved budget or contract award for a capital project would create a variance from the project approval, work not yet started	11. Reallocations of budget provisions and approval requirements to be considered	11. Reallocations of budget provisions and approval requirements to be considered	9.2 Project approval to be obtained at the time of approval of the budget 9.3 Insufficient project financing, debenture financing or a change in anticipated financing requires approval of the Standing Committee (Project Approval), F&A Committee (Financial Approval) and Regional Council prior to starting the project

<p>Expenditure on contract is expected to exceed original value of contract</p>	<p>10. Additional expenditures for consulting contracts up to 10% of original contract value to a maximum of \$50,000 are permitted. When expenditure limits are expected to be exceeded and funding is available within the project, a quarterly information report regarding the use of funding shall be submitted by the Commissioner of Finance to the Committee 11.2 Department Head approval to reallocate funds between accounts in the cost centre 11.3 Reallocations between cost centres in a Department up to \$100,000 permitted on approval by Department Head, Treasurer & CAO 11.4 Reallocations >\$100,000 between cost centres or between Departments requires approval by Committees and Council</p>	<p>10. Additional expenditures for consulting contracts up to 10% of original contract value to a maximum of \$50,000 are permitted. When expenditure limits are expected to be exceeded and funding is available within the project, a quarterly information report regarding the use of funding shall be submitted by the Commissioner of Finance to the Committee 11.2 Department Head approval to reallocate funds between accounts in the cost centre 11.3 Reallocations between cost centres in a Department up to \$100,000 permitted on approval by Department Head, Treasurer & CAO 11.4 Reallocations >\$100,000 between cost centres or between Departments requires approval by Committees and Council</p>	<p>12.1 Department Head can authorize additional commitments on contracts up to:</p> <ul style="list-style-type: none"> • 10% of contract value for contracts up to \$1,000,000 • For contracts between \$1,000,000 and \$3,000,000: Minimum - \$100,000; Maximum - lesser of 7% of the contract value or \$200,000 • For contracts over \$3,000,000: Minimum - \$200,000; Maximum - lesser of 5% of the contract value or \$400,000 <p>12.2 Additional commitments shall not be authorized if value of the work will cause project to be over by more than \$150,000 12.4 When expenditure limits are expected to be exceeded in 12.1 and funding is available within the project, a quarterly information report regarding the use of funding shall be submitted by the Commissioner of Finance to the Committee</p>
<p>Expenditure is expected to cause over expenditure of Cost Centre or Capital Project</p>	<p>11.3 Reallocations between cost centres in a Department up to \$100,000 permitted on approval by Department Head, Treasurer & CAO 11.4 Reallocations >\$100,000 between cost centres or between Departments requires approval by Committees and Council</p>	<p>11.3 Reallocations between cost centres in a Department up to \$100,000 permitted on approval by Department Head, Treasurer & CAO 11.4 Reallocations >\$100,000 between cost centres or between Departments requires approval by Committees and Council</p>	<p>12.2 Additional commitments shall not be authorized if value of the work will cause project to be over by more than \$150,000 13. Emergency Purchases are subject to the provisions of the Purchasing By-Law</p>

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