

Staff Report

Report To: Corporate Services Committee
Report From: Kate Allan, Director of Corporate Services
Meeting Date: September 12, 2024
Report Code: CR-24-090
Subject: AF006 Capital Budget Policy Update

Recommendations:

THAT in consideration of Staff Report CR-24-090 respecting AF006 Capital Budget Policy Update, the Corporate Services Committee recommends that City Council directs staff to bring forward a by-law to approve the policy as presented.

Highlights:

- The adoption of a multi-year capital budget policy supports fiscal responsibility, adherence to strategic objectives and agility in capital planning for the City of Owen Sound.

Strategic Plan Alignment:

[Strategic Plan](#) Priority: This report supports the delivery of Core Service.

Climate and Environmental Implications:

This supports the objectives of the City's Corporate Climate Change Adaptation Plan by considering climate adaptation in the development of the City's strategies, plans, and policies.

Previous Report/Authority:

N/A

Background:

A multi-year capital budget offers several advantages compared to an annual budget that is approved each fiscal year, particularly within the context of municipal governance and planning in Ontario.

1. Long Term Planning and Stability

- a. **Predictability:** Provides a clear financial roadmap which aids in managing large projects that span multiple years.
- b. **Strategic Vision:** Enables alignment with strategic goals over a five-year period, ensuring that long-term objectives are consistently pursued.

2. Funding and Financial Management

- a. **Optimized Funding Strategy:** Facilitates better scheduling of debt issuance, use of reserves and avoids concentration of large expenditures in a single year.
- b. **Cash Flow Management:** Helps in smoothing cash flows and managing timing for revenue collection and expenditure.

3. Operational Efficiency

- a. **Project Management:** Enhances project management by allowing for the phased implementation of projects and continuous funding without the disruption of annual approvals.
- b. **Administrative Streamlining:** Reduces the administrative burden of building an annual budget, allowing staff to focus more on project execution.

4. Economic Considerations:

- a. **Cost Efficiencies:** allows staff to commence projects ahead of the approval of the levy, locking in project costs earlier and issuing tender documents will in advance of project construction timelines which potentially results in better pricing.
- b. **Transparency and Accountability:** Improves transparency through a longer-term view of commitments and delivers a stronger basis for accountability.

The previous capital budget policy was approved in July of 2021 and was the first policy that governed a transition for single year capital budgets to a multi-year capital plan. This update moves the policy into the current template and builds on framework of the previous version.

Analysis:

Through three fiscal year cycles of a multi year capital plan, staff and Council have become familiar with the process. One area that has been identified for clarity in updates to the policy is the approval process. In the first iteration of the capital policy a bi-annual review process was proposed. The mid year review was intended to be the comprehensive update to the plan where an additional year is added and the projects anticipated for the next fiscal year are reviewed in greater detail. A subsequent review in the fall/winter of each year would provide an opportunity for minor changes to the plan based on staff recommendations as well as give Council an opportunity to confirm their intent to move forward with the projects previously approved. At the time of both reviews, it was communicated that any project not yet commenced could be open for discussion.

In practice, this broad opportunity to amend the capital plan made it difficult to realize the full advantages of a multi year capital plan. There was a lack of confidence that an approved project would not be removed in a future review therefore limiting staff's ability to move forward with project planning. Administratively each review included significant changes that did not reduce the burden of building and balancing an annual budget including the generation of project detail sheets and scoring matrices.

To address these issues the updated policy includes language that provides criteria for reconsideration of a capital project. That new section reads as follows:

Reconsideration of Capital Projects

1. Once the capital plan and the capital projects therein have been approved, criteria for reconsideration of a capital project include:
 - a. significant changes in project scope, costs or timing (including cancellation);
 - b. new information that influences the feasibility or priority of the project, including a material change in the priority score resulting from Council's amendment to the capital project priority scoring matrix;
 - c. emergency situations or unforeseen circumstances requiring project re-evaluation; and
 - d. an opportunity to leverage additional funding or cost sharing with other entities.

2. Once the capital plan and the capital projects therein have been approved, reconsideration requests made by staff must be highlighted in the multi-year capital plan presentation and require a detailed report to Council including the:
 - a. rationale for reconsideration;
 - b. impact on the overall capital plan;
 - c. budgetary implications and funding sources; and
 - d. revised project timelines.

By clarifying the circumstances under which previously approved projects may be amended it is felt that the full benefits of a multi-year capital plan can be realized over time.

To complement the added clarity around reconsideration of capital projects an amendment to the procedural bylaw has been approved by Council. From report CR-24-077, Recommendation #13 was passed and approved: *"Add that any revision to the multi-year capital plan in the budget confirmation years, as defined in the Budget Policy, shall not be deemed a reconsideration."*

As such, once the criteria for reconsideration has been met, any change to the previously approved capital plan is not deemed a reconsideration and does not require 2/3 council approval.

Financial Implications:

There are no financial implications to approving this policy. The city's approved current multi year plan includes over \$80,000,000 in funded capital projects in years 2025 to 2029 inclusive.

Paragraph 24 which states that every year, one percent of the prior year's total levy will be allocated to capital charges such that year over year, the aggregated capital spending grows by a dedicated 1% will be reviewed in conjunction with the presentation of the updated asset management plan, facility condition assessments and as part of the overall levy approval planned for presentation to Council on December 9th, 2024.

Communication Strategy:

Staff will be informed of the updated capital policy through regular working sessions focused on budget development.

Consultation:

Senior Leadership Team

Attachments:

Policy AF006 Capital Budget

Recommended by:

Kate Allan, Director of Corporate Services

Submission approved by:

Tim Simmonds, City Manager

For more information on this report, please contact Kate Allan, director of corporate services at kallan@owensound.ca or 519-376-4440 ext. 1238.