

## **Policy Statement (optional)**

1. The City recognizes the value of a multi-year capital plan as a key tool to support its Strategic Plan, long-term financial planning and asset management strategies.

## **Purpose**

2. The purpose of this policy is to outline the guidelines and procedures for the preparation, approval, amendment and reconsideration of the Multi-Year capital plan for the City of Owen Sound.

## **Scope**

3. This policy applies to all departments and divisions of the City of Owen Sound that are governed by City Council and/or funded in whole or in part through the municipal tax levy.

## **Definitions**

4. For the purposes of this policy,
  - “aggregated capital spending” means all spending on capital including the levy allocated directly to capital, reserve transfers for future capital and debenture payments;
  - “betterment” means subsequent expenditures on capital assets that increase previously assessed physical output or service capacity, lower associated operating costs, extend the useful life of the asset, or improve the quality of the output;
  - “capital asset” means an item with physical substance or software application that is used on a continuing basis in the City’s operations, has useful lives extending beyond one year and are not held for resale in the ordinary course of operations;
  - “capital detail sheet” means a form that accompanies each capital project and includes relevant attributes and information about the project.
  - “capital levy” means the annual amount raised each fiscal year to be allocated to capital asset spending;

“capital plan” means the multi-year document that details capital investment plans for a five-year period commencing in the current fiscal year;

“capital project priority matrix” means a scoring tool that weights various attributes (such as impact to population sizes, health and safety, climate etc...) to determine a total priority score for each individual capital project.

“City” means the City of Owen Sound, and a reference to the City is a reference to the geographical area or The Corporation of the City of Owen Sound as the context requires;

“control project costs” means the updated cost of a project after the purchasing of goods, services, or construction has been completed and may include favourable or unfavourable variances from the detailed cost estimate;

“detailed cost estimate” means estimates generated by staff or third parties using updated preliminary cost estimates supported by project planning exercises, market checks, specification development and in consideration of other internal and external factors. These estimates are supported by documentation such as draft specifications, form of tenders or proposals, or other benchmarking activities;

“ongoing maintenance” means any expenditure not considered a betterment and includes but is not limited to painting, mechanical maintenance and replacement of existing parts. Ongoing maintenance is anticipated and ensures an asset will reach its estimated useful life, however it does not extend useful life. Ongoing maintenance is expensed in the operating budget; and

“preliminary costs estimate” means the estimation of total costs made early in the planning or design process, before more detailed costing, such as that received through request for tender becomes available.

## **Policy**

### **Budget Preparation**

5. The Director of Corporate Services will oversee the implementation of this policy.
6. The Manager of Corporate Services will prepare detailed instructions on the following in preparation for the capital budget:
  - a. budget development;
  - b. cost estimate formulation;
  - c. project detail communication; and

- d. timelines.
7. Each division responsible for maintaining and replacing capital assets will prepare a capital plan, which is separate from the corporate multi-year capital plan and forecasts required capital investments for a minimum of five years into the future.
8. Each project will be supported by a capital detail sheet which will include, at a minimum:
  - a. project name;
  - b. priority score per the capital project priority matrix;
  - c. project lead;
  - d. project type (enhancement, study, replacement, etc.);
  - e. budget amount and anticipated annual cash flows;
  - f. anticipated project timing;
  - g. funding sources (to be suggested by the division and be confirmed by Corporate Services);
  - h. project location;
  - i. a photo or visual representation;
  - j. the rationale for the project that clearly identifies the:
    - i. need;
    - ii. scope of the solution;
    - iii. alternatives considered; and
    - iv. justification for the solution presented; and
  - k. a sign off from the department head indicating that the detail sheet has been reviewed.
9. Each Department head will approve the divisional capital plan and all capital detail sheets prior to the review and inclusion of projects into the corporate multi-year capital plan.
10. The multi-year capital plan will be prepared using a priority-based budget principle. The Manager of Corporate Services will review the priority score suggested by the division for consistency purposes as projects will be prioritized for funding based on the priority score generated by the capital project priority matrix.

11. The capital project priority matrix will be reviewed and updated by Council at least once per term. Updates may amend the attributes included in the matrix and the weighting applied to each attribute. The updating of all affected capital detail sheets will be completed prior to the next comprehensive review of the multi-year capital plan.
12. In the circumstances that a project is removed from the approved multi-year capital plan, any capital reserve funding allocated to that project will be reconsidered for funding alternate projects on a city-wide priority basis or will remain in the capital reserve for future projects. Any divisional or asset-specific dedicated reserve funding allocated to that project will be reconsidered for funding alternate projects within that division or asset class or will remain in the dedicated reserve for future projects.

### **Minimum Capital Project Threshold**

13. Capital Projects with a minimum annual dollar amount of \$10,000 (before any internal staff time or overhead) will be included within the multi-year capital plan.

### **Project scope within the multi-year capital plan**

14. The multi-year capital plan may include capital projects that fall within the following categories:
  - a. the acquisition, rehabilitation, replacement, or disposal of capital assets;
  - b. studies and master plans that are not done on a cyclical basis (i.e. that are not done on a cycle of less than five years);
  - c. hiring a consultant (or architect) that will inform a future project to acquire, rehabilitate, replace, or dispose of a capital asset; and
  - d. betterments.
15. For greater clarity, routine maintenance, transfers to reserves, and debt payments on prior-year capital projects are recorded in the operating budget.

### **Total Project Cost**

16. The total project cost included in the budget must include all planned expenditures necessary to complete the project.
17. An overhead allocation for internal engineering may be added, but it must be offset by a matching credit in the operating budget.
18. Hourly and other salaried staff time is not budgeted for as these costs are fully anticipated in the operating budget; however, actual staff time is coded to capital to capture true project costs. For greater clarity, any project cost

variance that is due to internal staff time is not considered to be a budget overage.

19. Projects that require debt financing will include a budget for financing costs at current borrowing rates.
20. Projects that span multiple years and whose actual costs will exceed the approved budget will include a financing strategy for the overage in future years' budget presentations.
21. Departments that are developing capital projects with the potential for uncontrollable circumstances or events to occur may include a contingency amount in the project estimates provided that the specific risks are clearly identified.

### **Total Project Cost Classifications**

22. Staff will identify preliminary cost estimates in the capital budget for years three (3) to five (5).
23. Staff will identify detailed cost estimates for the current year and year two (2) capital budget and provide the Director of Corporate Services with supporting documentation for review.
24. Staff will identify control project costs at the award of purchases of goods, services, or construction and these costs will be updated by the Director of Corporate Services on reporting documents.

### **Financing Capital Budget**

25. Every year, one per cent (1%) 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%.
26. Each year's budget will identify funding sources for all projects that are to be commenced within that budget year. Capital projects that have been approved in the multi-year capital plan and include third-party funding cannot proceed until a contribution agreement has been approved by the Director of Corporate Services.
27. The use of debt financing will comply with the scope and limits of the City's Tax Funded Debt Policy and Rate Funded Debt Policy.
28. The use of reserves will comply with the scope, limits and purposes defined by the City's Reserve and Reserve Fund Policy.
29. All project funding will be identified in the draft multi-year capital plan that is presented to Council.

## **Budget Approval**

30. The approval of a multi-year capital plan will relate to the five-year plan as it is presented.
31. Until the multi-capital plan has been approved by Council, no department will begin any capital project that was not authorized in the multi-year capital plan unless the project meets the requirements of the City's Purchasing Policy and:
  - a. approval has been granted outside of the budget process; or
  - b. the project is considered an emergency.
32. Once approved, a capital project may begin prior to the proposed start date provided that the total estimated project scope and cost are consistent with the details included when the multi-year plan was approved by Council.
33. Once approved, a capital project must begin within twenty-four (24) months of the proposed start date. If the project does not commence within this time frame, it must be resubmitted for approval by Council either in a stand-alone report or as part of a subsequent budget submission.
34. Once approved, the procurement of goods, services, or construction required for the completion of a capital project must be conducted in accordance with the City's Purchasing Policy.

## **Reconsideration of Capital Projects**

35. Once the multi-year capital plan and the capital projects therein have been approved, criteria for reconsideration of a capital project include:
  - a. a change of twenty per cent (20%) or more to the project which includes but is not limited to the size, 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 reevaluation; and
  - d. an opportunity to leverage additional funding or cost-sharing with other entities.
36. 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. rational for reconsideration;
- b. impact on the overall capital plan;
- c. budgetary implications and funding sources; and
- d. revised project timelines.

## **Reporting**

- 37. Council will complete a comprehensive review of the multi-year capital plan at the end of Q2 each year.
- 38. Staff will present a capital plan update to coincide with operating budget preparation in Q4 each year.
- 39. Staff will provide Council with updates on current capital spending, funding variances and final project costs at each capital update as well as part of the year-end financial report.

## **Policy review**

- 40. The Manager of Corporate Services will review this policy:
  - a. every five (5) years to ensure effectiveness and compliance with current business processes; or
  - b. sooner, if required, based on legislative or other internal policy changes.
- 41. The Manager of Corporate Services is authorized to make such administrative changes to this policy as appropriate to keep the policy current. Any revision to the policy's intent must be presented to Council for consideration.

## **Related Information and Resources**

### **Internal**

- 42. Debt Financing Policy
- 43. Reserve and Reserve fund Policy
- 44. Purchasing Bylaw
- 45. Tangible Capital Asset Policy
- 46. Procedural Bylaw

### **External**

- 47. [Municipal Act, 2001](#)

## Appendices

48. N/A

### Revision History

<b>Authority</b>	<b>Date</b>	<b>Approval</b>	<b>Description of Amendment</b>
Council	2021-07-19	By-law No. 2021-092	
Council	Click or tap to enter a date.	By-law	
Choose an item.	Click or tap to enter a date.	Choose an item.	