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Town of Aurora

Memorandum

Finance

Re: Council Budget Principles Policy

To: Finance Advisory Committee

From: Sandeep Dhillon, Sr. Financial Advisor

Date: April 11, 2023

Recommendation

1. That the memorandum regarding Council Budget Principles Policy be received; and
2. That the Finance Advisory Committee comments regarding the Council Budget Principles Policy be received and referred to staff for consideration and further action as appropriate.

Background

The establishment of operating and capital budgets are a very significant activity of every municipal Council. Aurora's Council Budget Principles outlines the key principles that guide the Town in its development of its operating and capital budgets. The budget principles policy has been carefully prepared to ensure all participants in the process, whether staff, elected officials, community groups or residents, can understand the foundations of the budget and the full process of reviews applied to the budget details.

Analysis

The budget principles policy supports the fiscal strategy objective of financial sustainability

The budget principles policy provides detailed guidelines on delivering a fiscally responsible and balanced budget for the Town. A budget for a municipality provides an overview of how the tax levy and user rates/fees are used to pay for the services that the community relies on, including waste collection, community recreation programs for all ages, snow plowing, safe drinking water, parks and trails, community planning and

traffic safety. The budget should be informed by studies and master plans to manage year-to-year fiscal impacts with the goal of achieving long-term financial stability.

Aurora follows a multi-year operating budget approval process

Multi-year budgets are more strategic and provide the following benefits to the Town:

- Better coordination of budgeting and strategic priorities
- Greater certainty for departments in managing expenditures and service levels
- Improved fiscal discipline of the organization
- Streamlined budget reviews that focus on key changes in assumptions and the reasons driving such changes
- Allowing staff to develop budgets with fixed targets in place, allowing early response to circumstances and budget constraints of such targets
- Reduced uncertainty about future year tax levies

Aurora's multi-year budget process will align with the four-year term of Council. In the first year, Council should be provided with a proposed operating budget for one year and an outlook for the next three addressing upcoming pressures and risks. In the second year, Council should be presented with a three-year proposed operating budget for consideration and approval. In the last two years of the Council term, the budget should focus on the changes to the approved budget from the previous year, for the remaining years in the term. Council then should reaffirm the previously approved budget or approve changes to the budget. This meets the requirement in the Municipal Act for Council to approve or reaffirm the budget on an annual basis.

The levy increase relates to inflationary pressures, new services and capital reserve contributions

The net tax-funded operating budget identifies the gross expenditures and is reduced by the non-tax revenues. The net value is the amount of taxes needed to be collected for the year. The year-over-year increase is made of two components:

- **Inflation**– Staff and Council should refer to the annual Municipal price index as the annual tax increase approximating to inflation are necessary to support the existing services and operations. Maximum inflation related levy increase should not be higher than two percent except in years of high inflation.
- **New services** – Staff and Council may identify and prioritize new services which are legislatively required.

- **Reserve contributions** – Annual contributions to the tax levy funded reserves to be determined based on the asset management plan and future asset requirements.

Growth should pay for growth

Growth reflects growth in the assessment base, including new properties or changes to existing properties. These funds are used to pay for growth in the budget to maintain the existing service level. Any available growth revenues will firstly be directed toward growth driven expenditures such as the extension of existing Town services to new communities, residents, and businesses.

Capital budget should be built upon the four pillars of fiscal strategy

The capital budget is a project budget that should/shall include capital asset management, developing new assets and other projects including studies.

The strategy includes four main pillars upon which the fiscal objectives for long-term financial sustainability are built: Capital Planning, Reserve Management, Debt Management and Revenue Management. The budget shall be built upon the policy objectives in the Fiscal Strategy.

Budget engagement and approval shall be open and transparent

The Town of Aurora should/shall hold a public session to gather input from the public on the budget. In addition, the Town's budget process should/shall include an online engagement survey for community input as determined by the Finance Advisory Committee. Each year, staff should strive to increase engagement over the previous year.

The Budget review process

The proposed budget should be tabled annually at Council and then reviewed in detail at budget committee meetings which focus on operating or capital budgets. All budget committee meetings shall be open to the public, except those aspects which are permitted and appropriate to be held in closed sessions such as but not limited to discussions regarding Town's cybersecurity projects, collective agreement negotiations provisions, personnel matters, or litigations. All relevant tabled and approved budget materials, presentations, summaries and reports shall be updated to the Town's webpage.

Reporting and adherence to the policy

Another important component of the budget principles policy is reporting and adherence to the policy by the Town staff. The effectiveness of the budget principles policy can be ensured through alignment to the long-term financial sustainability objective of the fiscal strategy. The implementation of the policy in the development of town's budget will be monitored through the annual budget review process.

Attachments

Budget Principles Policy