

# CITY OF SASKATOON COUNCIL POLICY

NUMBER

C03-036

<b>POLICY TITLE</b> <i>Multi-Year Business Plan and Budget Policy</i>	<b>ADOPTED BY:</b> <i>City Council</i>	<b>EFFECTIVE DATE</b> <i>April 1, 2019</i>
		<b>REVISED</b>
<b>ORIGIN/AUTHORITY</b> <i>Item 8.5.1 – Governance and Priorities Committee Report – Council Meeting – March 25, 2019</i>	<b>CITY FILE NO.</b> <i>CK. 1700-0, X 430-72</i>	<b>PAGE NUMBER</b> <i>1 of 20</i>

## 1.0 PURPOSE

To establish the approach and other necessary requirements for planning and approving multi-year business plans and budgets.

## 2.0 DEFINITIONS

2.1 Indicative Rate – A targeted property tax rate used for Business Plan and Budget preparations as determined by City Council that provides Administration and the public with parameters around spending limits. It gives an indication and direction as to acceptable changes for property tax and other rates based on current financial forecasts and strategic direction.

## 3.0 SCOPE AND EXCEPTIONS

### 3.1 Scope

This Policy applies to all City Departments, Divisions and Offices.

This Policy is subject to any specific provisions of *The Cities Act*, or any other relevant legislation, City Bylaw, or Collective Agreement, which, in cases of conflict, shall override this policy.

### 3.2 Exceptions

Unless the applicable Board adopts this Policy, it does not apply to the Statutory Boards, Controlled Corporations, the Board of Police Commissioners or the Saskatoon Public Library Board.

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## 4.0 GENERAL APPROACH

- 4.1 The City of Saskatoon shall take a multi-year approach to business planning and budgeting for all operating and capital programs, unless otherwise directed by City Council.
- 4.2 Subject to City Council approval, the term of a Multi-Year Business Plan and Budget shall not exceed four years.
- 4.3 The term of a Multi-Year Business Plan and Budget shall be for four years with the first year of the business plan and budget aligning with the second full year of a City Council term, unless a shorter term is agreed to by City Council.
- 4.4 In the year of general election, City Council shall, after being officially sworn-in, adjust and confirm the final year of an adopted Multi-Year Business Plan and Budget at a designated public meeting.
- 4.5 Each individual year of a Multi-Year Business Plan and Budget must be balanced with no negative or positive variances. Surpluses or deficits whether corporately, departmentally or program related cannot be rolled into subsequent years.

## 5.0 APPROVALS

- 5.1 City Council shall develop and approve its Strategic Priorities in the first full year of a Council term.
- 5.2 City Council shall approve indicative rates prior to compilation and presentation of the Multi-Year Business Plan and Budget.
- 5.3 Prior to the approval in subsection 5.2, the Administration shall present information to City Council, in a designated public meeting, sufficient for City Council to approve business plan and budget indicative rates and fees.

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- 5.4 City Council shall approve a Multi-Year Business Plan and Budget in the year prior to the first year that the business plan and budget comes into effect.
- 5.5 Subject to the limitations listed in subsection 6.3, City Council shall approve an operating and capital budget in each subsequent year of a Multi-Year Business Plan and Budget.

## 6.0 ADJUSTMENTS

- 6.1 In each year of an approved Multi-Year Business Plan and Budget, City Council may make adjustments to the current and future years of the business plan and budget. Adjustments shall be made once per year, near the end of the current fiscal year during specified dates as listed in an approved meeting calendar.
- 6.2 Notwithstanding subsection 6.1, Capital Budget adjustments may be made throughout the year subject to City Council's approval.
- 6.3 Annual adjustments to the Operating and Capital Budgets shall be limited to the following circumstances, which may change previously approved future property tax rates:
- 6.3.1 City Council-directed changes to its Strategic Priorities and/or the City's Strategic Plan that have significant financial impacts on service delivery.
- 6.3.2 Significant changes to operating impacts resulting from Capital Budget adjustments.
- 6.3.3 Unanticipated external factors such as:
- a) budgetary, legislative or regulatory changes made by federal and provincial governments;

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- b) changes imposed on pension plan contributions, negotiated collective bargaining settlements and interest rates;
- c) changes to economic forecasts that impact budgetary expenditures or revenues, including assessment growth; or
- d) any other significant external factors as deemed by the City Manager or Chief Financial Officer.

## 7.0 REPORTING

- 7.1 The Administration shall provide mid-year, third quarter and year-end reports to City Council, through a designated Standing Committee of City Council, on the performance of the Corporation in relation to achieving City Council's Strategic Priorities and approved business plans and budgets.

## 8.0 ENGAGEMENT

- 8.1 Prior to tabling the Multi-Year Business Plan and Budget with City Council, the Administration shall undertake a community engagement process to obtain public input on the business plan and budget.
- 8.2 If the term of the Multi-Year Business Plan and Budget is four years, the Administration shall undertake a subsequent community engagement process at the mid-point of the cycle to help guide the final two years of the Business Plan and Budget.

## 9.0 PROCEDURES

- 9.1 This Policy delegates authority to the City Manager and/or Chief Financial Officer to adjust any necessary procedures as outlined in Appendix A of this document to ensure compliance with this Policy, except for City Council's approval requirements and limits.

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## RELATED REFERENCES AND RESOURCES

*The Cities Act*  
*The Cities Regulations*  
*Bylaw No. 6774, The Capital Reserve Bylaw*  
*Council Policy No. C03-003 Reserve for Future Expenditures*

## REVISION HISTORY

Revision Date	Description

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## APPENDIX A – MULTI-YEAR BUSINESS PLAN AND BUDGET PROCEDURES

### 1. PURPOSE

The Multi-Year Business Plan and Budget procedure is intended to provide guidance to operationalize the Multi-Year Business Plan and Budget Policy.

### 2. DEFINITIONS

2.1 Budget Documents – The primary budget documents shall include:

- a) Multi-Year Operating Business Plan and Budget; and
- b) Capital Budget and Five-Year Capital Plan.

2.2 Indicative Rate – A targeted property tax rate used for Business Plan and Budget preparations provided by City Council that provides Administration and the public with parameters around spending limits. It provides an indication and direction as to acceptable changes for property tax and other rates based on current financial forecasts and strategic direction.

2.3 Operating Impact – Future costs that are required as a result of a capital project. This impact shall include all operating costs including, but not limited to, maintenance requirements, anticipated utility charges, programming costs or other life cycle costs. An annual allocation for future replacement shall be included as required in *The Capital Reserve Bylaw* (Bylaw No. 6774) or at the discretion of the City Manager or Chief Financial Officer.

### 3. OPERATING BUDGET

The City's Operating Business Plan and Budget process will be Business and Service Line oriented with emphasis placed on the approval and delivery of prescribed service levels within annual expenditure limits set by City Council.

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The City will utilize a modified cash basis of accounting for the Operating Budget which includes the following:

- a) Operating revenues and expenditures to be budgeted for in the year that the expense or revenue relates to, not necessarily when the cash is received or paid;
- b) Amortization expense will not be included in the Operating Budget, and future capital requirements will be funded based on the actual estimated future requirements, timing and ability to pay; and
- c) Transfers to Reserves will be identified as an expense in the Operating Budget.

### 3.1 First Year Operating Budget Process – Overview

The Multi-Year Business Plan and Budget process involves the following steps in the first year of the process:

- a) The estimating of expenditures and revenues in order to maintain the existing service level, including committed cost and Administrative Portfolio Priorities. The following process will be utilized:
  - i) corporate assumptions will be provided by the Finance Division regarding common assumptions such as fuel and utility rates, salary and benefit changes based on collective bargaining agreements, or any other relevant corporate estimates as deemed necessary by the Director of Finance;
  - ii) departmental budgets for revenue and expenses will be calculated based on provided corporate assumptions, department-specific revenue rate and volume impacts, as well as expenditure growth, legislative, committed costs, regulatory and inflation impacts;

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- iii) calculated budget requests will be reviewed and refined by the City Manager, Chief Financial Officer and other appropriate senior management; and
  - iv) estimates will then be presented to the appropriate Standing Policy Committee early in the year as a basis for determining the appropriate Indicative Rate.
- b) Development of Corporate Business Plan Options aimed at achieving Administration's and City Council's Strategic Priorities within the approved Indicative Rate. The following process will be utilized:
- i) Business Plan Options will be reviewed and refined by the City Manager, Chief Financial Officer and other appropriate senior management, utilizing the Indicative Rate as a threshold for affordability; and
  - ii) options will be presented to the appropriate Standing Policy Committee and prioritized for inclusion in the Business Plan and Budget process within the previously directed Indicative Rate.
- c) The preparation and approval of official budget documents.

## 3.2 Subsequent Year Operating Budget Process – Overview

Subsequent years of the City's Multi-Year Business Plan and Budget will follow an abbreviated process which will include:

- a) An administrative review of the proposed Multi-Year Business Plan and Budget which will consider any required adjustments related to the following circumstances:
  - i) City Council-directed changes to its priorities and/or the City's Strategic Plan that have financial impacts on service delivery;



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- ii) changes to operating impacts resulting from Capital Budget adjustments; and
- iii) unanticipated external factors such as:
  - (1) budgetary, legislative or regulatory changes made by federal and provincial governments;
  - (2) changes imposed on pension plan contributions, negotiated collective bargaining settlements and interest rates;
  - (3) changes to economic forecasts that impact budgetary expenditures or revenues such as assessment growth; and
  - (4) any other significant external factors as deemed by the City Manager or Chief Financial Officer.
- b) Any significant identified changes will be brought forward to City Council's Business Plan and Budget Reviews as part of a Proposed Adjustments document for consideration.
- c) The originally approved Multi-Year Business Plan and Budget document will not be updated based on changes made in subsequent years, but will instead be supplemented with the City Council-Approved Adjustments document, which will provide an overview of adjustments to the property tax, operating expenditures, operating revenues and capital projects.

### 3.3 Estimating Operating Expenditures Guidance

The preliminary estimating of operating expenditures will occur within the first quarter of the year as directed by the Chief Financial Officer or designate. These will be based on estimates to maintain existing service levels and will consider all cost aspects, including salaries, equipment, transfers to reserve and other operating costs. These operating expenditure estimates will consider the following factors:

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- a) Defined Service Levels – All applicable Divisions and associated Business and Service Lines will define their existing service levels which will be approved in the first year of a Multi-Year Business Plan and Budget cycle as included in the Business Plan and Budget document.
- b) Impact of Inflation – Identification of increases or decreases in prices and costs that have an impact on operating expenditures, including required reserve impacts. These impacts are required to be specifically defined and justified. For example, specific inflation drivers need to be identified such as contractual increases for snow and ice removal, wage increases as a result of collective bargaining agreements, and utility rate changes need to be identified instead of a blanket inflation assumption (CPI inflation to all operating expenditures).
- c) Consumption – Historical results and future estimates of consumption as part of the estimating of operating expenditures. Examples of common changes to consumption include fuel, utilities, employee training and special/contracted services.
- d) Growth Impacts – Identification of specific growth impacts that will result in additional costs in order to maintain the existing service levels. These estimates will be based on relevant specific growth drivers such as: kilometers of roadway added for road maintenance costs, *The Capital Reserve Bylaw* and policy requirements, new hectares of park/green space for parks maintenance costs, population increases for grants tied to per capita ratios or impacts of previously approved and constructed capital projects, as outlined in subsection 4.3(c) of this Appendix. These impacts will be verified annually to reaffirm the underlying assumptions.

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- e) Continuous Improvement – Identification of cost decreases as a result of efficiencies or continuous improvement initiatives anticipated by the appropriate Division.

### 3.4 Estimating Operating Budget Full-Time Equivalents

As part of the estimating of operating expenditures, any new full-time equivalents (FTEs) will be identified as part of this process. FTE requests resulting from growth or inflation requirements are required to be identified as part of the Indicative Rate process as outlined in subsection 3.1 (a) of this Appendix. The City Manager has the ability to implement new FTEs during the year; however, these must be included in the following years' Business Plan and Budget approval process. The following definitions and guidance will apply:

- a) If work demands and circumstances warrant an additional operational permanent position that will be required beyond a 36-month duration, it must be identified and included for approval as a permanent FTE through internal budget reviews.
- b) Positions not anticipated to be required beyond a 36-month duration and can be funded through existing budget allocations or external funding sources such as grants are not required to be included in the operating expenditure estimates as these positions are temporary in nature. These temporary positions must have a start and end date identified.
- c) In exceptional circumstances and where a solid business case exists, at the end of a three-year term, positions may be renewed once for an additional 12 months with the approval of the Chief Human Resources Officer and Chief Financial Officer. Exceptions to these guidelines must be submitted by the Department Head to the Chief Human Resources Officer and Chief Financial Officer for review and comment, and to the City Manager for approval.

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## 3.5 Estimating Operating Revenues

The preliminary estimating of operating revenues will occur within the first quarter of the year as directed by the Chief Financial Officer or designate. These estimates will consider all aspects impacting revenues including:

- a) Impact of Rates – The Administration will analyze current rates and include the impact of any proposed rate changes as part of the estimating of operating revenues.
- b) Impact of Volumes – The Administration will consider the impact of volumes/admissions as part of the estimating of operating revenues.
- c) New Types of Revenue – The Administration will identify and include any proposed new revenue sources as part of estimating operating revenues.

## 3.6 Operating Budget Accountability

The appropriate Director will be responsible for implementing and delivering programs and will be held accountable for achieving approved service levels within the approved budget.

The Finance Division will lead a monthly internal budget monitoring process to identify and address any projected budget variances.

The Administration will provide the Standing Policy Committee on Finance a mid-year forecast as at June 30 and September 30, as well as a comprehensive year-end report outlining the final operating surplus/deficit forecast and associated recommendations.

## 3.7 Exceptions to the Approved Operating Budget

As part of the monthly budget monitoring process undertaken by the Finance Division, any Service Line that is projected to exceed its budget within the following thresholds will require a remediation plan:

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- a) for net operating budgets greater than \$1,000,000 any variance greater than the lesser of \$250,000 or 5% of the net operating budget; or
- b) for net operating budgets less than \$1,000,000 any variance greater than \$50,000.

This remediation plan shall include options such as, but not limited to, the deferral of hiring as well as the deferral or elimination of major expenses or reserve transfers. The remediation plan requires approval of the appropriate Department Head(s) and the Chief Financial Officer.

If a remediation plan cannot be identified within the Service Line to offset the projected deficit while still providing the approved service levels, this projected deficit must be reported to the appropriate Standing Policy Committee as part of the Corporate mid-year and third quarter updates if it is expected to be greater than \$250,000 of the approved budget. This report must include rationale as to why the negative variance exists, remediation options that have been explored and/or implemented, service level change options and funding strategy such as fiscal stabilization or offsets in other applicable Service Lines.

Where negative variances exist that are less than the \$250,000 of budget threshold, the City Manager, Chief Financial Officer and Department Head will be responsible for mitigating these variances and ensuring they can be absorbed within the City's overall Operating Budget.

#### 4. CAPITAL BUDGET

The Capital Budget outlines all the City's proposed capital funding projects, the costs and funding sources. The Capital Budget shall capture the full cost of an entire component of the project in the approval year and not presented on a cash flow basis. A decision to undertake a capital project will be made objectively, with full knowledge of all relevant facts, including operating impact considerations in the request as outlined in subsection 4.3(c).

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## 4.1 First Year Capital Budget Process

The Multi-Year Business Plan and Budget process for the Capital Budget involves the following steps in the first year of the process:

- a) The divisional preparation of an internal 10-year Capital Budget in order to align with approved service levels (rehabilitation and maintenance for example) and provide insight into the City's long-term capital requirements. Five years of this Capital Plan will be included in the Budget document, in alignment with City Council's Strategic Priorities.
- b) The Administration will review all proposals and recommend program and capital projects to City Council through the Multi-Year Business Plan and Budget document.
- c) The preparation and approval of official budget documents.

## 4.2 Subsequent Year Capital Budget Process

Subsequent years of the City's Multi-Year Business Plan and Budget will include an abbreviated process which will include:

- a) An administrative review of the proposed Capital Multi-Year Business Plan and Budget which will consider any required adjustments related to the following circumstances:
  - i) City Council-directed changes to its Strategic Priorities and/or the City's Strategic Plan that have impacts on the prioritization of capital projects; or
  - ii) unanticipated external factors such as new or adjusted Federal or Provincial Funding Programs, or any other significant factor as determined by the City Manager and Chief Financial Officer.

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- b) Any identified changes will be brought forward to City Council's Business Plan and Budget Reviews as part of a Proposed Adjustments document for consideration.
- c) The originally approved Capital Multi-Year Business Plan and Budget document will not be updated based on changes made in subsequent years, but will instead be supplemented with the City Council-Approved Adjustments document.

#### 4.3 Estimating Project Costs

Capital projects proposals are to be accompanied by complete, reliable and realistically attainable estimates and include the following:

- a) Each estimate will be based on the most current information available. The Project Manager is responsible and will be held accountable for providing City Council with accurate project estimates.
  - i) Where Capital Budgets extend out further than 1 year in the overall Capital Plan, the Project Manager will estimate the future cost considering expected inflation rates, which will be provided by the Finance Division.
- b) Proposals will identify appropriate source(s) of funding.
  - i) All Capital Projects that have identified external or internal borrowing require approval of the Chief Financial Officer, or designate, prior to inclusion in the Capital Budget review process.
- c) Each proposal should indicate what the life cycle costs are of the project and the impact on future operating budgets (i.e. cost to operate and maintain the capital asset) to be known as operating impacts. The operating impact shall identify how these costs will be funded.

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- i) The first year of an operating impact shall be identified to be required in the year following completion of construction or implementation and account for appropriate projected inflation.
  - ii) Operating impacts are to be considered as a planning tool and will need to be re-justified during the year the budget ask is requested. Although operating impacts are identified, they may not be included in future budgets as they may be offset due to construction timing, continuous improvement, changes in market conditions or other efficiency gains.
  - iii) An Operating Impact Statement will be required in the budget document even if there is no operating impact. For example, roadway rehabilitation projects may have no operating impact as existing operating funds already exist for future maintenance.
  - iv) The operating impact shall include all operating requirements including, but not limited to, maintenance requirements, anticipated utility charges, programming costs, or other contracted costs. An annual allocation for future replacement shall be included as required in *The Capital Reserve Bylaw* (Bylaw No. 6774) or at the discretion of the City Manager or Chief Financial Officer.
- d) Each capital construction project shall include, where necessary, reasonable provision for contingencies.
- i) The amount set aside for contingencies shall correspond with industry standards and shall not exceed 10% (or a percentage determined by City Council) of the total project estimated cost.



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- ii) The contingency fund may, unless otherwise directed by City Council, be used only to compensate for unforeseen circumstances that arise requiring additional funds to complete the project according to the approved project scope and approved identified needs.

#### 4.4 Estimating Capital Full-Time Equivalents

As part of the estimating of capital projects, any new full-time equivalents (FTEs) will be identified as part of this process. The City Manager has the ability to implement new FTEs during the year; however, these must be included in the following years' Business Plan and Budget approval process. The following definitions and guidance will apply:

- a) Capital full-time equivalents, in general, should be temporary in nature and tied to specific projects which have a defined start and end date. These temporary positions do not require identification in the Business Plan and Budget document.

Capital positions that are permanent in nature and relate to ongoing/annual capital rehabilitation/maintenance or are deemed to be a permanent requirement for other reasons, as identified by the Director, shall be included in the Business Plan and Budget document, including justification and rationale for the position.

#### 4.5 Exception to Approved Capital Budgets

Each change in the approved Capital Budget requires the appropriate prior authorization. The following authorizations shall apply:

- a) Scope Changes – City Council's approval is required for all changes in capital project scope. Examples of scope changes include changes of purpose or objectives, and these changes are significant enough to affect the service level of the associated program(s) from that approved in the capital estimates.

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Changes which do not affect the capital project scope require the appropriate Department Head's approval.

- b) Over-Expenditures – Prior City Council's approval is required to over-expend previously approved capital projects where the anticipated over-expenditure exceeds \$100,000 and cannot be balanced by other components within the same capital project. All other over-expenditures require City Manager's approval.

All over-expenditure requests should be accompanied by a summary of all previous changes to the approved budget.

- c) Under-Expenditures – Under-expenditures of capital funds resulting from projects completed below budget shall be returned to the source in the same ratio as the original contribution.

In the case of capital projects which have not been substantially started (i.e. in the opinion of the Director of Finance) by the end of the fiscal year, all financing shall be returned to the original source, as specified above, and the project shall be subject to reconsideration via the Capital Budget process.

#### 4.6 Capital Budget Accountability

The appropriate Project Manager and Director will be responsible for implementing and delivering projects on time and within the approved Capital Budget.

As per subsection 4.5(b), if a capital project is anticipated to be overspent by \$100,000 and cannot be balanced by other components within the same capital project, the Project Manager, with the assistance of the Finance Division, shall be required to report to the appropriate Standing Policy Committee the background on the project, the variance and recommended funding solution or scope change to balance the project.

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The Administration shall provide City Council, at a minimum annually, with a Capital Project Status Report that provides information on all outstanding capital projects, including project expenditure projections, expenditures-to-date, variance-to-approved budget and projected expenditures and any other relevant notes.

## 5. RESPONSIBILITIES

### 5.1 City Council is responsible for:

- a) approving the final budget and the corresponding allocation of funds among programs; and
- b) reviewing performance in relation to approved budget.

### 5.2 City Manager is responsible for:

- a) approving over-expenditures as per sections 3.7 and 4.5 of this procedure;
- b) providing a corporate review of all budget proposals before submission to City Council; and
- c) reviewing expenditures, revenues, and forecasts in relation to approved budgets and taking appropriate action.

### 5.3 Chief Financial Officer is responsible for:

- a) providing a corporate review of all budget proposals before submission to City Council; and
- b) reviewing expenditures, revenues, and forecasts in relation to approved budgets and taking appropriate action.

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5.4 Director of Finance is responsible for:

- a) coordinating the preparation of annual budget documents for City Council's approval;
- b) ensuring budget proposals comply with the Multi-Year Business Plan and Budget Policy and Procedures; and
- c) providing objective commentary on budget submissions.

5.5 Civic departments are responsible for:

- a) preparation of annual departmental budgets within the corporate guidelines prescribed by the Multi-Year Business Plan and Budget Policy and Procedures;
- b) preparing and submitting quarterly forecasts of expenditures and revenues; and
- c) reporting anticipated over-expenditures and/or revenue shortfalls.