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Town of Aurora

## Council Budget Principles Policy

Contact: Senior Advisor, Financial Management

Approval Authority: Council

Effective: May 23, 2023

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### Purpose

The Council Budget Principles policy is a guiding document for the preparation, annual review, and approval of the operating and capital budget for the Town of Aurora along with its fiscal strategy.

### Scope

This policy applies to all aspects of development and execution of town's multi-year operating and capital budget.

### Definitions

**Asset Management** - In the context of the budget, capital projects which maintain/extend the life cycle of a capital asset.

**Budget** - A policy and a financial plan that puts resources in place to implement goals and priorities of the organization, ensuring reliable public service delivery.

**Capital Budget** – The Town's overall budget plan to purchase, build, maintain, repair, and replace assets including infrastructure. Capital assets also directly and indirectly impact the operating budget as funds are needed to cover day-to-day operating expenses associated with the newly created asset. Also includes study projects that support asset development and long-term objectives.

**Capital Budget Authority (CBA)** – The total value of capital project budget approval, including prior inception-to-date spending, the current year forecast and budget for future years that requires contractual commitments.

**Capital Program:** Capital programs are Council approved groups of capital projects of a like funding source together. The capital program budget is the total of the budget approved for all projects within the program. The program then provides the flexibility to manage the variances to budget between projects. So, if one project costs less than budgeted, these funds can be used to cover the costs of projects that cost more within the same program while not exceeding the total budget approval for the program.

**Fiscal Strategy** – The Town’s long-term financial strategy focused on financial sustainability by balancing four pillars: capital planning, reserve management, debt management and revenue management.

**Multi-Year Operating Budget** – An operating budget seeking the approval of two or more years.

**Municipal Price Index (MPI)** – The MPI is an internally-derived measure that examines the Town specific “basket” of goods and services and applies a specific inflationary factor to each item in the basket.

**Operating Budget** – Outlines the spending and revenues to support the costs to deliver services and the funding of capital reserves.

**Reserve, fund balance, reserve fund** - Money designated for a particular purpose that is held separately from other financial assets in reserves. Interest earned on reserves is held within the reserve fund. There are two types of reserve funds. Obligatory reserve funds are required under provincial statute, while discretionary reserve funds are created by Council. The reserve fund balance is the amount of money in a reserve fund at a given date.

**Tax Levy** – The portion of funds that are collected through property taxes on taxable and payment-in-lieu assessment of the residential, farm, commercial, industrial, and other categories of property.

**Town** – Refers to the corporation of the “Town of Aurora”.

**User Rate(s)** – Refers to the revenues and expenditures associated with water, wastewater and storm services for the Town.

## **Policy**

The development of the multi-year operating budget and the 10-year capital plan should consider maintaining consistent level of services to residents and businesses that rely on, also ensuring it is prudently planning for the asset management of the Town’s infrastructure.

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. In addition to these services, The Town of Aurora also manages and maintains a significant number of diverse assets including recreation facilities, roads, water and sewer pipes, storm water ponds and sidewalks. The followings principles shall be applied in the development, annual review and evaluation for approval of the operating and capital budgets for the Town:

## **The budget must consider the needs of current and future residents**

The budget should focus on delivering the consistent level of services based on the needs of current and future residents. 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.

## **Diversity and inclusion are important for Aurora**

Town's budget should include initiatives to support diversity and inclusion. The Town's [Diversity, Equity & Inclusion Strategic Action Plan](#) addresses key areas including employee recruitment, retention, training and development, marketing and advertising, partnerships, data collection and accountability. The work on diversity, equity and inclusion should continue to be an integral part of the Town's annual budget.

## **Master and strategic Plans**

Master and strategic plans inform the development of the operating and capital budget. The actions of the plans are subject to budget approval.

## **Operating Budget**

The Town of Aurora develops the budget on a modified-accrual basis of accounting, where the audited financial statements are prepared under a full-accrual basis of accounting following the Public Sector Accounting Standards. The modified-accrual basis balances the budget based on the timing of when the expense or revenue occurs, but expenses such as amortization are not included. This method is used for municipal budgeting as it enables the municipality to track all inflows and outflows of cash and reserves making it easier to calculate the annual tax levy and user rates to support current operations and reserve contributions.

## **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 operating budget shall determine the tax levy and user rates**

The year-over-year change in the operating budget determines the change to the tax levy and user rates for water, wastewater and storm water.

### **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**– Inflation reduces the amount of goods and services that the Town is able to purchase; it is important that this deterioration of purchasing power be minimized .Staff and Council should refer to the annual Municipal price index as the annual tax increase approximating to inflation is 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 part of the Town’s master plans or are legislatively required.
- **Reserve contributions** – Annual contributions to the tax levy funded reserves will be determined to ensure an affordable asset management plan and to enable future asset requirements.

### **Growth should pay for growth**

Tax growth results from 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.

### **User rates shall be determined on a cost recovery basis**

The operating budget shall include budgets specific to water, wastewater, and storm water services. These services have their own user rates and do not impact the tax bill.

Water and wastewater user rates are determined by distributing the budget over the estimated volume of water to determine a price per cubic meter. Storm water is based

on the type of property (residential and non-residential) and distributed based on the number of accounts. The user rate services are all included on the water bill which is billed every two months for non-residential and quarterly for residences.

### **The operating budget shall be balanced and fiscally responsible**

The net tax funded operating budget should be balanced as outlined in the Ontario Regulation 284/09. The regulation allows for exclusions from municipal budget accounting estimates such as amortization, and post-employment benefit liabilities. The impact of these excluded items should be presented separately as part of the budget submission as required by the regulation. To deliver a fiscally responsible budget following principles must be applied:

- The Town shall not rely upon prior year operating surpluses to fund or balance the operating budget.
- The one-time or short-term temporary funding sources to fund or balance the operating budget, unless directly associated with corresponding temporary expenses for events or special purpose programs shall be prevented.
- Council and staff shall work together to focus on continuous improvement of Town's process and procedures to deliver the municipal services while managing year-to-year fiscal impacts with goal of achieving long-term financial sustainability. Where necessary, capital investments required to achieve such improvements should be prioritized.
- The annual operating budget shall not be impacted by year-to-year fluctuations of the fiscal year capital budget approval. Capital projects should be funded via Town's reserves or debt financing as approved by Council.
- Contribution to the Asset Management reserves from operating budget shall be made annually to ensure funding is in place to meet the future asset replacement requirements. Annual contributions to the Asset management reserves should be determined by the Asset Management Plan requirements as outlined in the Town's fiscal strategy. Such increases should be included in the Fiscal Strategy budget area.
- Significant permanent tax pressures can be phased in over multiple years using tax stabilization or user rate reserves where necessary. Foreseen significant pressures, such as the operating costs for a facility under construction, may be phased-in in advance where possible. Unforeseen pressures should be phased-in as promptly as appropriate. Phasing of such tax pressures may result in tax rate increases which are in excess of inflation so as not to adversely impact the delivery of existing services and facilities. Where appropriate, growth revenues should be allocated toward new costs such as these.
- Alternative non-tax revenue funding sources will be maximized.

- Existing level of service increases, or the introduction of a new service will only be considered if deemed affordable
- In the event that previously established operating budget directives are sought to be reduced by Budget Committee or Council, a balanced approach should be used whereby roughly 50% of such amount should be through internal cost reductions which have minimal impact on service levels, with the remaining amount through new revenue streams, fee increases exceeding inflation, or definitive service or program reductions identified by Budget Committee.

## **Capital Budget**

The capital budget is a project budget that includes capital asset management, developing new assets and other projects including studies.

### **The Fiscal Strategy sets the framework for budget development**

The [Fiscal Strategy](#) was approved on June 22, 2021. 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.

### **The capital budget includes multiple types of approvals**

The capital budget includes a complex set of approvals that ensure the total commitment for a project is accounted for while at the same time the planned cash outflows are managed.

Capital budget authority (CBA) is used to manage commitments to capital projects. CBA reflects the total spent on a project to date, plus the forecast for the current year and, the budget commitment needed for future years. The amount of future commitment needs to be approved to award multi-year procurement contracts.

Council should approve the capital budget in the following ways:

- Approval of each new capital project and their requested CBA
- Approval of changes to previously approved CBA by project
- Approval of the total planned 2023 spending subject to adjustments related to the variances carried forward from the 2022 forecast (both over and under spending)
- Approval of the capital program groups, subject to the rules outlined for their use
- Approval of debt authority for specific projects

Note: Capital spending planned for the first budget year may be adjusted for the current year forecast variances.

## **Capital Programs**

Capital programs will enable staff to manage variances of capital projects and reduce the delays needed to seek additional CBA more effectively when tenders come in higher than expected. In turn this should result in staff being able to improve the delivery of capital program associated projects resulting in project delivery efficiencies.

Capital programs and capital project budget authority must be approved by Council prior to any expenditure or commitment being made on a capital project, or the processing of any CBA amendments. The capital program budget development will be coordinated with the operating budget process.

The use of the capital programs is subject to the following rules:

- The savings applied to other projects should represent true savings and not a deferral that will need to be re-budgeted in future years
- There is permanent reduction in the scope of donor project
- The project scope must remain the same as originally approved by Council
- The projects must have the same funding source
- Capital Budget Authority may be shared between projects located under different capital programs provided their funding sources are the same
- The capital budget authority for the program cannot be exceeded
- The overall planned capital spending (cash flow) for the budget year cannot be exceeded
- Capital programs must be approved by Council
- Any excess capital budget authority should be identified during completion of the contract award form or through the formal budget or forecast update during the year.

There is no limit on the amount that can be transferred between projects within a capital program if all the above-mentioned rules are met.

## **Budget engagement and approval shall be open and transparent**

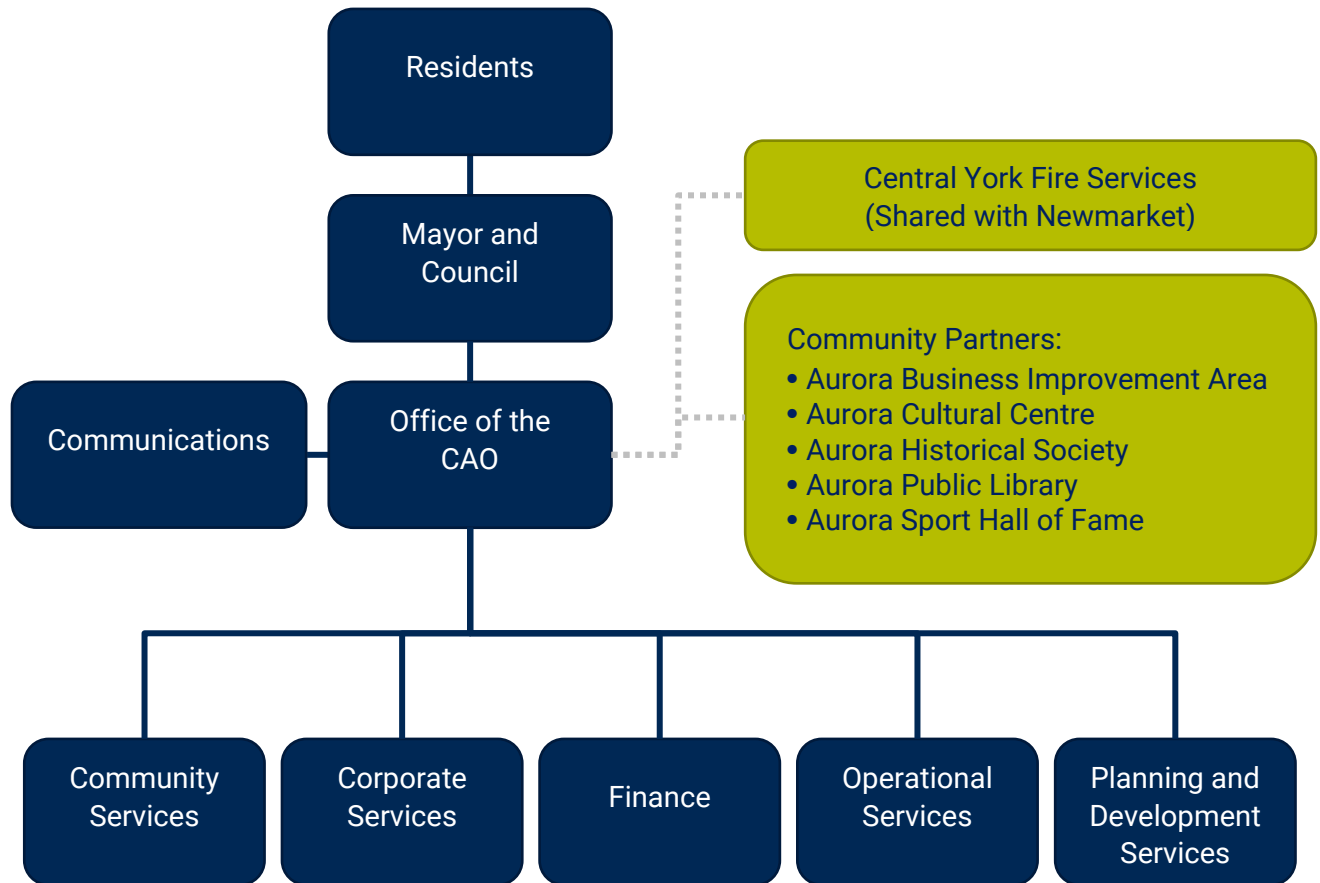
The Town of Aurora should/shall hold a public session to gather input from the public on the budget. In addition, the Town's budget process should/shall include an online engagement survey for community input as determined by the Finance Advisory Committee. Each year, staff should strive to increase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

In making comparisons to other municipalities in respect to processes, performance, service levels, cost, revenue rates or any other basis, the Town shall have regard to, at minimum, the following municipalities:

- All other lower tier municipalities of York Region.
- Municipalities in the Durham Region, Peel Region, and Region of Halton Hills which have populations within 30% of the Town’s population.
- York Region where applicable.
- Ontario Municipal Benchmarking Initiative materials where applicable.

**The budget shall include Town departments and community partners**

The Town delivers a number of services and some in partnership with other organizations, including community non-profit organizations and Central York Fire Services which is a shared service with Newmarket.



**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.



An overview of these meetings is provided below.

## **Budget meetings summary**

### **Council – Tabling**

- Overview of tax and rate impacts along with high-level risks and pressures
- Overview of impact on reserves and debt management

### **Budget Committee – Operating Budget**

- Departmental review of operating budget changes
- Community partner presentations of budgets

### **Budget Committee – Capital Budget**

- Review of individual capital projects

### **Council Approval**

- Approval of the Budget

### **Election Year budget approval**

For a budget in respect of the year following a municipal general election, the budget review process should begin early in the new budget year, as required by statute.

## **Responsibilities**

### **All Staff & Council**

To adhere to the Budget Principles policy and its associated annual budget guidelines

## **Monitoring and Compliance**

The policy should ensure that the Town's operating and capital budget fiscal impact year-over-year should be moderate and are manageable. 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.

## **References**

- [Fiscal Strategy](#)
- [Town-of-Aurora-2nd-Generation-AMP--Final.pdf](#)
- [Diversity, Equity & Inclusion Strategic Action Plan](#)

## **Review Timeline**

This policy will be reviewed in the first year of the Council term after the initial approval date.