

The Corporation of the City of Kawartha Lakes

Council Report

Report Number CORP2017-011

Date: April 18, 2017

Time: 2:00 p.m.

Place: Council Chambers

Ward Community Identifier: All

Subject: Capital Close Policy

Author/Title: Mary-Anne Dempster

Signature: 

Recommendation(s):

RESOLVED THAT Report CORP2017-011, **Capital Close Policy**, be received;
and

THAT the policy entitled **Capital Close Policy** appended to Report CORP2017-011 be adopted, numbered and inserted in the Corporate Policy and Procedures Manual; and



THAT the following policy and appended forms be rescinded and removed from the policy manual:

C187 FIN 018 Capital Close and Administration Policy

Department Head:

Corporate Services Director / Other:

Chief Administrative Officer:

Background:

At the February 2, 2017 Executive Committee, the CAO and Director of Corporate Services requested a Council Committee be established to review the existing Council Financial Policies. The Committee was established with Councillor Dunn appointed as Chair and Councillor Elmslie, Councillor Junkin and Councillor Pollard were appointed as Committee members. The Committee commenced meetings on February 21, 2017.

On March 21, 2017 the Committee reviewed the attached Policy and recommended forwarding the Policy to Executive Committee for support. The Executive Committee provided support and a recommendation to forward the Policy to Council for consideration on April 6, 2017. This report is in support of the proposed Capital Close Policy which will replace the existing Capital Close Policy.

Rationale:

The proposed Capital Close Policy attached does not contain any major changes with intent and application. The updated policy has been structured in accordance with Council adopted Policy Structure document. There have been minor language changes, but Departments still have 18 months to complete a project, with the exception of multi-year projects. This was the original intent of developing the existing Capital Close Policy. The only change to the process is with respect to whom is completing the report to request additional time for project completion. The existing policy states the Department would make the request, but the City has moved to a singular report from Corporate Services. The only time a Department would write the report is if they did not meet the deadline to include in the combined report. The proposed Policy has been updated to reflect the current practice.

Other Alternatives Considered:

Not applicable

Financial Considerations:

Not applicable

Relationship of Recommendation(s) To The 2016-2019 Strategic Plan:

This report is in alignment with the City's strategic plan with respect to

-- Responsible Fiscal Resource Management.

Review of Accessibility Implications of Any Development or Policy:

Not applicable

Servicing Comments:

Not applicable

Consultations:

Council Appointed Financial Policy Review Committee
Executive Committee

Attachments:

Recommended Policy



Capital Close
Policy.doc

Policy to be Removed from the Policy Manual



C-187 FIN 018 -
Capital Close and Adr

Phone: 705 324 9411 x1274

E-Mail: cnorris@city.kawarthalakes.on.ca

Department Head: Mary-Anne Dempster

Department File:

Council Policy #:	
Council Policy Name:	Capital Close Policy
Date Approved by Council:	
Date revision approved by Council:	
Related SOP, Management Directive, Council Policy	

Policy Statement and Rationale:

The Corporation of the City of Kawartha Lakes is committed to providing the effective and efficient use of financial resources.

Scope:

The requirements of this policy apply to all Municipal capital project awards and financing.

Definitions:

"An asset" is defined as a resource controlled by the City and from which future economic benefits are expected to flow to the City from which services are delivered.

"Capital project" shall consist of projects that lead to the creation or betterment of an asset for the Corporation with a lifespan covering multiple years, in accordance with the Public Sector Accounting Board.

"Operating budget" shall include all the costs to operate and maintain services delivered by the City and the capital assets owned by the Corporation.

"Public Sector Accounting Board (PSAB)" shall mean a federal board who establishes generally accepted accounting principles (GAAP) for Governments and governmental organizations that include government not-for-profit organizations such as schools, universities, colleges and hospitals.

"Change in Scope" shall mean when the description and word for an approved capital project changes .

"Material Change" is defined as a change that significantly alters the outcome/end result of the project as originally approved by Council in the Capital Budget and/or at the time of contract award.

"Development Charges" shall mean a charge paid by developers which is used to pay for the majority of the cost of new capital projects required as a result of growth (e.g., new roads, parks, trails, community centers, fire stations, etc.) in accordance with the adopted by-law.

"Obligatory Reserves" shall mean a reserve created whenever a statute requires revenue received for special purposes to be segregated from the general revenues of the municipality.

"Tax Levy" shall mean revenue collected from the taxpayers to provide programs and services and use towards the betterment of the municipalities assets.

"Debt" shall mean the borrowing of funds from an entity and repaying the funds back over a period of time.

"Surplus/Deficit" shall mean the positive or negative budget balance in a capital project upon completion.

"Contingency" shall mean a unforeseen circumstance.

"Funding Source" shall mean the type of funding used to fund a capital project.

1.0 General Principles:

- 1.1 The purpose of the Capital Close Policy is to ensure that appropriate approvals are acquired and funding sources identified and to ensure that projects are closed on a timely basis.
- 1.2 Expenditures related to a capital project shall not be charged to the operating budget.
- 1.3 The capital budget shall only consist of projects that lead to the creation or extends the life of an asset for the Corporation as per the standards and guidelines under the Public Sector Accounting Board (PSAB).
- 1.4 A material change in scope to a capital project must be reviewed and approved by Council.

2.0 Capital Close

- 2.1 Capital projects may remain open until June 30th of the following fiscal year after budget approval.
- 2.2 A Council report shall be provided prior to June 30th to extend a capital project beyond the June 30th date.
- 2.3 All capital projects shall be deemed complete and funding returned to the original funding source for all projects exceeding the June 30th deadline that do not have a Council resolution to extend.
- 2.4 Capital project surplus/deficit funded from tax support shall be transferred to/from the City Capital Reserve.
- 2.5 Capital project surplus/deficit funded from the user rate shall be transferred to the Water and Water Infrastructure Reserves.
- 2.6 Multi-year defined projects are exempt from the capital close policy until the final year of the project.

- 2.7 Surpluses from one project shall not be transferred to another project without Council Resolution.
- 2.8 When a request for a surplus to be transferred from one project to another is request, the request shall also include the closure of the capital project the funds are being transferred from.
- 2.9 The deficit threshold shall be \$10,000. All projects exceeding the threshold shall be individually listed with explanation from the department responsible for the project and a recommended funding source.
- 2.10 The capital close will be presented to Council by the Treasurer within 60 days of the following closing dates:
 - June 30
 - December 31
- 2.11 The capital close report shall include project status and completion date for each project.
- 2.12 In situations whereas a project is deemed complete once the tender is awarded, the project shall be recommended for closure.

3.0 Contingencies:

- 3.1 Contingencies may be included in tender awards.
- 3.2 The use of the contingency is subject to the following general rules:
 - a. Contingencies shall not be used to expand the scope of a project or to fund an item excluded at the time of the original award.
 - b. Contingencies are not mandatory and their use is based on an evaluation of the risks associated with each capital project.
 - c. The use of the contingency shall be tied to the specific risks of a project.

4.0 Holdbacks

Holdbacks and final inspection fees will be accrued by Treasury, with final approval by the department, on every applicable project and closure will not be delayed due to the timing of the holdback period and payment.

4.0 Responsibilities

- 4.1 Council is responsible to establish the City's philosophy through this policy.
- 4.2 The Chief Administrative Officer is accountable to approve the detailed management directives that establish the operational framework.
- 4.3 Corporate Services is responsible to ensure that the City's Policy and Management Directive are adhered to.

Revision History:

Revision	Date	Description of changes	Requested By

CORPORATE POLICY AND PROCEDURES MANUAL

Policy No:

C

187

FIN

018

Policy Name:

CAPITAL CLOSE AND ADMINISTRATION POLICY

DEVELOPED BY: Carolyn Daynes, Treasurer
Leanne Mitchell, Junior Accountant

DATE: November 27,
2012

DEPARTMENT: TREASURY

ADOPTED BY: Council

DATE: Nov. 27/2012

RESOLUTION NUMBER: CR2012-1356

EFFECTIVE: Nov. 27/2012

CROSS-REFERENCE:

REVISIONS:

POLICY STATEMENT AND RATIONALE:

The purpose of the Capital Close and Administration Policy is:

- 1) to ensure that appropriate approvals are acquired and funding sources identified for:
 - Capital expenditures exceeding the approved budget as awarded by Council
 - A material change in the scope of projects
- 2) to ensure that projects are closed on a timely basis and according to the capital procedure (see attached)

SCOPE: The requirements of this policy apply to the all City department capital project awards and financing.

DEFINITIONS:

“Capital project” shall consist of projects that lead to the creation or betterment of an asset for the Corporation with a lifespan covering multiple years, in accordance with the Public Sector Accounting Board.

“Operating budget” shall include all the costs to operate and maintain services delivered by the City and the capital assets owned by the Corporation.

“Public Sector Accounting Board (PSAB)” shall mean a federal board who establishes generally accepted accounting principles (GAAP) for Governments and governmental organizations that include government not-for-profit organizations such as schools, universities, colleges and hospitals.

“Change in Scope” shall mean when the department describes what the project consists of and then changes the description after Council has adopted the budget.

“Development Charges” shall mean a charge paid by developers which is used to pay for the majority of the cost of new capital projects required as a result of growth (e.g., new roads, parks, trails, community centers, fire stations, etc.)

“Obligatory Reserves” shall mean a reserve created whenever a statute requires revenue received for special purposes to be segregated from the general revenues of the municipality.

“Tax Levy” shall mean revenue collected from the taxpayers to provide programs and services and use towards the betterment of the municipalities assets.

“Debt” shall mean the borrowing of funds from an entity and repaying the funds back over a period of time.

“Surplus/Deficit” shall mean the remaining balance in a capital project as to whether the project went over or came in under budget.

“Contingency” shall mean a unforeseen circumstance.

“Funding Source” shall mean the type of funding used to fund a capital project. There are many funding sources such as, tax levy, reserve, ect.

POLICY, PROCEDURE AND IMPLEMENTATION:

ADMINISTRATION

- 1) Under no circumstances shall expenditures related to a capital project be charged to the operating budget.**
- 2) The capital budget can only consist of projects that lead to the creation or extends the life of an asset for the Corporation. The City is required to capitalize assets under the Public Sector Accounting Board. An asset is defined as a resource controlled by the entity and from which future economic benefits are expected to flow to the entity and which services are delivered. All other expenses should be included in the operating budget.**
- 3) A material change in scope to a capital project must be reviewed and approved by Council. A material change in scope is defined as a change that significantly alters the outcome/end result of the project as originally approved by Council in the Capital Budget and/or at the time of contract award.**
- 4) If the capital project has a variety of funding sources the order of application of financing is as follows:**
 - I. Grants, Trust Funds and Donation**
 - II. Development Charges/Obligatory Reserves**
 - III. Tax Levy**
 - IV. Council Reserves**
 - V. Debt**

CAPITAL CLOSE

- 1) Capital projects can only remain open until June 30th of the following fiscal year after budget approval. For example, a project that is approved in the 2013 Capital budget will need to be completed by June 30th, 2014. A Council report will be required, written by the department, to extend a capital project beyond the June 30th date. The timing of this report needs to be done before the June 30th deadline. Once the project reaches the**

June 30th deadline it will be deemed complete in the next capital close and funding returned as per item 2.

- 2) Any surplus/deficit at the completion of a capital project will be transferred to/from the City Capital Reserve except in the following circumstances:
 - a. Where the project is funded by obligatory reserves (i.e. Development Charges) the surplus must be returned to that reserve.
 - b. Where the project is funded by a City Reserve, other than the City Capital Reserve, the surplus must be returned to that reserve.
 - c. Where the project is funded by a grant the surplus must be set up in deferred revenue until the reconciliation is complete with the government funding agency.
- 3) Capital projects must be closed according to number 1 above. No allocations between similar or dissimilar projects will be allowed. There will be no transfers of surpluses between projects. Projects budgeted over multiple years with the same scope of work will be set up with a different project number, so that Staff and Council can recognize that it is a multi-year project. For example, the construction of a building may take longer than the June 30th deadline. The year the project was first budgeted was 2009, therefore we would normally give the project a number that included the department/the year it was budgeted/project number for the year, ex. PR0925. However, in the case of a project being budgeted over multiple years, the project number will include the department/Multiple Years (MY)/project number for the year, ex. RDMY01.
- 4) The capital close report will only deal with individual capital project deficits below \$10,000 as per item #2. The capital close report will also provide separate Council resolutions for projects with deficits in excess of \$10,000 along with an explanation from the project department.
- 5) The capital close will be presented to Council by the Treasury Department within 60 days of the following closing dates:
 - I. June 30
 - II. December 31
- 6) The capital close will include project status and completion date for each project.
- 7) In some cases like fleet where a project will be complete once the tender is awarded, the project can be recommended to be closed within the tender report to Council.

CONTINGENCIES:

Contingencies are built into many tender awards. Use of the contingency is subject to the following general rules:

- a. Contingencies cannot be used to expand the scope of a project or to fund an item excluded at the time of the original award.
- b. Contingency amounts are not mandatory and their use is based on an evaluation of the risks associated with each capital project
- c. Use of contingency must be tied to the specific risks of a project.

HOLDBACKS

1. Holdbacks and final inspection fees will be accrued by Treasury, with final approval by the department, on every applicable project and closure will not be delayed due to the timing of the holdback period and payment.