

Bowen Island Municipality

POLICY

July 17, 2006

Amended: February 25, 2008

Policy #

Bowen Island Municipality
Guiding Principles for Planning and Budgeting Decision-Making

Purpose:

Guiding principles serve as a framework for decision-making during the planning and budgeting process and provide the foundations for the delivery of community services, financial sustainability and a desirable legacy for future generations.

The guiding principles for planning and budgeting are the following:

- *We will protect our natural environment*
- *We will be responsive to the needs of our citizens*
- *We will be innovative and creative in the delivery of services and the financing of capital projects*
- *We will ensure service levels and the funding of such services are sustainable*
- *We will maintain our infrastructure in a proper state of repair*
- *We will ensure property taxes are equitable and strive to strike a balance between customer demand for services and taxpayers ability to pay*
- *We will live within our means*

Financial Planning and Budgeting Policy Guidelines

Purpose:

A framework of policy guidelines for planning and budgeting purposes will ensure that the Municipality adheres to the Guiding Principles and provides the foundation for the delivery of high quality community services and financial sustainability.

Policy Guidelines:

1. Service demands created by a growing community:

Discussion:

- (a) Bowen Islanders rely on their local government to support and/or deliver a number of essential community services – roads maintenance, fire protection, building inspection, land use planning, zoning, library and utilities. Council is responsible for funding and organizing programs required to deliver these essential community services*
- (b) Growth creates demands for service. Often, the additional tax revenue is not sufficient to pay for the costs of providing the services necessary to keep within established standards. It is important that the demands created by growth are recognized and efforts are made to maintain existing standards.*

Policy 1.0

Before the start of each new budget cycle Municipal Council will consider strategic plans, mandates, goals and major priorities, which define the nature and level of services required.

Policy 1.1

Annual property taxes will reflect council priorities for the delivery of essential services and necessary inflation adjustments.

Policy 1.2

Departmental service plans should provide details of the demands for service created by growth and should include strategies and options as to how the demands can be met and existing standards maintained.

2. Growth in Tax Base:

Discussion:

- (a) Bowen Island is a growing community and all indications are that this will continue. Growth does bring in new tax revenue that must be estimated using the best available data.*
- (b) Inflation will erode services if it is not recognized in municipal financing. Recognition of annual inflationary rises in cost of delivering and maintaining services is better than attempting irregular jumps in taxation.*

Policy 2.0

Real growth in the tax base will be estimated based on the experience of the previous planning period and the projections for the ensuing period, using information provided by the BC Assessment Authority, the Planning Department and the Finance Department.

Policy 2.1

At the beginning of the budget process Municipal staff will determine an inflationary rate for year one of the upcoming and the rates for the subsequent four years for consideration by Council.

3. Tax Increase:

Discussion:

Rising costs of existing services must be recognized and we must resist the temptation to reduce reserves to fund operating expenses.

Policy 3.0

Each spring, Municipal Council will consider the tax increase required for the ensuing planning period by first covering the projected cost increase for existing services and then considering other enhancements (Please also see Policy 4.)

4. New Services and Major Enhancements to Existing Services:

Discussion:

The tax increase established in Policy 3 essentially allows the municipality to provide the same level of service to the existing tax base. It is not designed to provide for new services or major enhancements to existing services.

Policy 4.0

New Services or Enhancements to Existing Services will be funded by a combination of:

- 1. Reduction in the cost of existing services. This may include a reallocation of resources from one area to another,*
- 2. Increase in other revenues,*
- 3. A further increase in taxes.*

5. Efficiencies, Demand Management & Service Level Reductions:

Discussion:

The continuous search for efficiencies is sound business practice that must continue to be embedded in the way the municipality operates. It is a reality that the municipality does not have the resources to meet all of the demands that are made of it. Demand must be managed to make sure that expectations reflect the municipality's fiscal realities and the need to contain expenditures. Areas where service level reductions or efficiencies may be possible must be identified and brought forward for Council's consideration.

Policy 5.0

Departmental service plans will identify demand management strategies and will include options for service level efficiencies and/or service level reductions.

6. Alternative Revenues & External Funding:

Discussion:

Bowen Island Municipality should strive to produce non-traditional revenues and diversify its revenue sources and tax base.

Policy 6.0

All departments will make every effort to identify external funding opportunities from other levels of government & the private sector. All departments will endeavor to (find opportunities) to assist in the reduction of costs to the Municipality.

7. Infrastructure Maintenance & Replacement:

Discussion:

Bowen Island municipality has considerable amount invested in its infrastructure. This includes our direct investments and investments made by other entities and the

development community that is turned over to the Municipality to operate and maintain. As the community grows, this investment increases. The municipality must maintain the infrastructure in a proper state of repair to avoid costly failures and need to develop a plan to so.

Policy 7.0

The Municipality will develop and maintain plans to maintain its infrastructure in a proper state of repair. A maintenance/replacement programs will be established using best practices. The five-year financial plan should start to address this on a phased basis. Any required tax increase will be beyond that set out in Policy 3.

Policy 7.1

The Municipality will establish and maintain sufficient reserves to provide funding for the major restoration and/or replacement of existing capital assets and infrastructure.

Policy 7.2

The Municipality will increase the annual contribution to reserves for the maintenance and replacement of infrastructure by an increase in property tax of at least 1.5% each year commencing in 2009 for approximately 11 years. At which time it is estimated that the annual contribution to reserves will be sufficient to maintain and/or provide substantial replacement funding for the municipality's assets and infrastructure

8. Fees and Charges:

Discussion:

Fees and charges are a significant portion of the municipality's revenues. They will be reviewed on a regular basis to avoid major changes and to provide the public with adequate notice of those changes. The review will include an analysis of costs as well as what is charged by other municipalities.

Policy 8.0

Fees and charges will be reviewed annually to ensure relevant services are maintained on a sustainable basis. The public will be provided with adequate notice of any adjustment to fees and charges.

Policy 8.1

Fees and charges for the following services will be set using these guidelines:

- Utilities will be operated on a self-funded basis through equitable user fees,*
- Recreation fees will be established to collectively recover a minimum of 100% of direct costs for recreation programs,*
- Fees for development related functions (i.e., building and other related inspections development approvals, subdivision) will be set at levels to recover full costs,*
- Solid Waste Management Services is financed 100% by a combination of parcel tax and fees (through decal sales).*

9. Accumulated Surplus:

Discussion:

Accumulated Surplus represents an undesignated accumulated savings available for working capital (cash flow) purposes and should not be budgeted for operating purposes.

Policy 9.0

Accumulated surplus will only be considered as a funding source for extraordinary one-time expenditures and where a replacement plan is approved

Policy 9.1

Accumulated surplus target will be 50% of the annual tax revenue requirement. [This policy requires additional investigation and formulation.]

10. Reserve Funds and Reserve Accounts:

Discussion:

The Municipality has a series of reserve funds and reserve accounts that are established for various capital and operating purposes. They can also help the municipality deal with unexpected variations from normal operations, which could include natural, environmental or economic events. As well, they can assist in funding opportunities that arise.

Policy 10.0

Each Reserve Account and Reserve Fund will be governed by a policy statement that outlines its purpose, the types of expenditures permitted and the desired level of the reserve.

11. Investment Management

Discussion:

It is sound financial practice to routinely invest funds that have been accumulated for future use, in order to earn interest.

Policy 11.0

- *Investments will comply with the statutory requirements of the Community Charter,*
- *Funds will be invested through and by the Municipal Finance Authority (MFA),*
- *The portfolio will be allocated between a money market fund, an intermediate fund and a bond fund based on anticipated timing of cash needs.*

12. Contingency Funding

Discussion:

It is recognized that from time to time the Municipality will be confronted with events or opportunities that were not anticipated in the current financial planning period. It is considered a good practice plan for the unexpected by including certain contingencies in each financial plan.

Policy 12.0

The annual five year financial plan will include a budgeted contingency of approximately 1.5% of budgeted operating expenses, in each year of the plan.

13. Capital Projects: [These policies requires additional investigation and formulation.]

Discussion:

Further investigation and consideration is needed to develop background, criteria and policy for Municipal capital projects. In addition, further work is needed on developing a policy for capital financing for specified area requirements.

In the interim the Task Force comments as follows:

As a growing community Municipal Council will be considering capital projects to enhance the infrastructure and amenities for its citizens. It will be challenging to determine the

priorities and the financing options that may be available to proceed with these projects. Many capital projects will have to have funding sources other than General Revenue, (i.e. reserves, Development Cost Charges, Grants). For instance, an amount of infrastructure is funded by Development Cost Charges. Once the project is completed, General Revenue usually provides for its operating costs, and replacement. These ongoing costs must be clearly understood, before a capital project is approved.

Policy 13.0

Each Capital Project submitted for consideration must clearly spell out the expected initial cost as well as future costs, including operating & life cycle cost, identify the source of funding and sustainable plan.

Policy 13.1

Capital Projects will be evaluated and prioritized against a set of criteria to be established by Council. Such criteria will take into account the Guiding Principles.

Policy 13.2

Staff will provide Council with an evaluation and recommended prioritization of proposed major capital projects using the developed analysis form or its adaptations.

14. Debt Management:

Discussion:

*The **Community Charter** sets the maximum amount that the Municipality can borrow from external sources. Every effort should be made to keep debt levels at a minimum. However, there may be instances where borrowing money is appropriate, i.e., financing major infrastructure projects. Borrowing in such instances allows the costs of the project to be spread out over the useful life of the asset. This results in the costs being paid by future beneficiaries and not just by current taxpayers.*

Policy 14.0

Projects that are to be funded by external debt should be submitted to Council with a business case, including recommendations on how the debt will be serviced.

15. Carry forward Projects:

Discussion:

From time to time, funding is allocated for a project (capital or operating) but the project is not completed in the year that it was budgeted for. Many times, the reason for the delay is due to factors beyond the control of the Municipality. For instance, some projects are delayed while securing funding from other partners. Projects can also be delayed if the Municipality is not able to negotiate what is believed to be a fair price. In such instances, funding is "carried forward" in recognition of the fact that the project is still required and the Municipality wishes to be in a position to complete the project, once other approvals are obtained. Nonetheless, there is a need to review carry forward projects, in light of other priorities that might have emerged.

Policy 15.0

Projects proposed to be re-budgeted with Carry Forward funding will be reviewed by Council as part of the annual budget process.

16. Alternative Revenue Sources [*This policy requires additional investigation and formulation.*]

Discussion:

The costs of maintaining a small, primarily residential Municipality will require creative government financing and alternative revenue sources.

Policy 16.0

Bowen Island Municipality will pursue alternative revenue sources prior to consideration of incurring debt or increasing taxes.

Budget and Accountability Cycle

The annual budget and accountability cycle commences in July each year and concludes with the presentation of an annual report to the Public in June of the following year. The *Community Charter* in British Columbia requires municipalities to prepare a five-year financial plan to be adopted annually by bylaw. The bylaw must be adopted prior to adoption of the Annual Property Tax Bylaw, which must occur before May 15 each year. Once adopted, the plan is in effect until it is amended and may be amended at any time. The *Community Charter* also requires municipalities to prepare and annual report by June 30 each year and present that report at a public meeting.

The municipality recognizes that the budget process means the whole budget cycle and involves more than just the financial department preparation of the five-year financial plan; it means the whole cycle:

- Commencing the preparation of the five year financial plan 5 months prior to January first
- Presenting the draft budget, financial plan and department service plans to Council, at the first Committee of the Whole in November, for review and discussion and public input through to early January
- Reporting actual results to date throughout the fiscal year
- Reporting and reviewing audited actual results prior to May 15th
- Preparing and presenting an annual report by June 30th

Accountability

The budget process is more than just the preparation and adoption of the five year financial plan. The budget process is an accountability process. Accountability means that, when someone is responsible for doing something on behalf of someone else, they must also tell that person what they are going to do and report the results – in other words they must account for their activities. There are two aspects to accountability, financial and results.

In case of Bowen Island Municipality, the electorate has given the Council and the municipality the responsibility to collect revenues and provide public service on their behalf. The electorate should be able to hold the Municipality accountable for how it discharges that responsibility.

Financial Accountability

Traditionally, the budget and five-year financial plan are primarily focused on financial accountability – how much revenue, expense, assets and liabilities will the municipality have and what will be the resulting surplus and total debt? However financial accountability requires information about how the revenue is raised, how that revenue is used and what it will mean for future generations, as a result of passing on either benefits (such as buildings and other things that will have future benefits) or debts, other obligations and the results of actions that must be repaid in the future.

Accountability for Results

Accountability for program results is also an important part of the budget process. In other words, the budget process should not only ensure municipal accountability for financial activities but also for the program results it intends to achieve. Already with

the budget and financial plan development there is an opportunity for members of Council and the public to question the purpose of programs, what results are expected and what has happened. However, full accountability for results requires more information about expected results and more explanation of what actually happened.

Appendix A

Qualities/Principles

The municipality believes that an effective budget process would have the following qualities:

Responsibility – the Council is responsible for establishing policy and that responsibility should be evident throughout the process

Timeliness – public information provided during the process should be available in time for it to be useful

Transparency – the budget process and the public information should be open, accessible and understandable

Comprehensive – the budget process should deal with all of the areas for which the municipality is responsible such as the specified areas for sewer and water

Consistency – public documents should be consistent in that they provide information about the same things in the same format

Comparability – it should be possible to compare information over time and across the organization

Clarity – the roles and responsibilities of those involved in the process should be clearly defined and set out.

The Budget Cycle

