



SAINT JOHN

**Title: Budget Monitoring Policy**


Subject: <b>Budget Monitoring Policy</b>	Category: <b>Finance and Administrative Services</b>
Policy No.: <b>FAS-021</b>	M&C Report No.: 2020-127
Effective Date:	Next Review Date:
Area(s) this policy applies to: <b>Cross Corporate</b>	Office Responsible for review of this Policy: <b>Finance and Administrative Services</b>
Related Instruments: <b>FAS-001</b> Asset Management Policy <b>FAS-002</b> Investment Management Policy <b>FAS-003</b> Reserves Policy <b>FAS-004</b> Operating Budget Policy <b>FAS-005</b> Capital Budget Policy <b>FAS-006</b> Debt Management Policy <b>FAS-007</b> Wage Escalation Policy <b>FAS-020</b> Long Term Financial Plan Policy	Policy Sponsors: <b>Chief Financial Officer</b>
	Document Pages: <b>This document consists of 5 pages.</b>

Revision History:

Common Clerk's Annotation for Official Record

Date of Passage of Current Framework: May 25, 2020

I certify that this Policy was adopted by Common Council as indicated above.


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Common Clerk

2020-05-26

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Date

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## **1. PURPOSE AND CONTEXT**

- 1.1. Common Council has approved the City's first Long Term Financial Plan to put the City on a sustainable path going forward;
- 1.2. To be sustainable, the City must find ways to grow revenue but also control costs from escalating faster than its revenue growth;
- 1.3. The Budget Monitoring Policy enhances budget accuracy, accountability and cost control by ensuring budget allocations are managed and adhered to;
- 1.4. The Budget Monitoring Policy enhances fiscal responsibility and financial flexibility by integrating budget monitoring practices with the City's Reserve fund and Debt Management strategies;
- 1.5. Effective Date of Budget Monitoring Policy is January 1<sup>st</sup>, 2021;

## **2. POLICY STATEMENT**

- 2.1 It is a best financial practice to have a Budget Monitoring Policy to monitor financial performance;
- 2.2 The Budget Monitoring Policy objectives are as follows:
  - 2.2.1 Personnel and non-personnel budgets shall be managed separately;
  - 2.2.2 Increase operating budget transparency & performance management;
  - 2.2.3 Increases budgeting accuracy by ensuring annual operating expenditures match forecasts and predefined Council approvals;
  - 2.2.4 Increases financial control to ensure resources are funded and spent in a fiscally prudent manner;
  - 2.2.5 Provides enhanced fiscal oversight and supports a strategic corporate lens throughout each fiscal year;
  - 2.2.6 Increases financial flexibility by integrating reserve strategies with the annual budget monitoring process.
- 2.3 Revenue budgets shall be carefully monitored with particular attention to:
  - 2.3.1 Seasonality, and whether comparable to prior observations
  - 2.3.2 Any potential volatility and the resulting impacts
  - 2.3.3 Trends and comparison to projections

- 2.3.4 One time sources and Timing of receipts
  - 2.3.5 Relationship to economic indicators
  - 2.3.6 Changes in policy/practice of overarching governments involved in disbursement of revenues
  - 2.3.7 Review of patterns at other similar/related governments
- 2.4 Expenditure budgets shall be carefully monitored with particular attention to:
- 2.4.1 **Wages and Benefits (Personnel)** - Examine additional detail beyond just regular payroll expenses, including hiring and vacancy information, analysis of part-time, overtime, leave pay out and special pay, as well as whether fringe benefit costs are within budgeted expectations
  - 2.4.2 **Goods and Services (Non-personnel)** - Monitoring needs to include more than just current expenses, but also encumbrances, outstanding purchase orders, and major contracts to develop a better picture of not only what was spent, but what remains to be spent
  - 2.4.3 **Service Outcomes** – Determine if services are being provided as budgeted and if additional services have been provided that were not anticipated, in addition to trends observed that may impact whether or not spending remains on track
  - 2.4.4 **Performance Measures** – Examine performance measures and linkages to financial outcomes. The analysis should include any changes to goals/initiatives since budget adoption and are there any new initiatives not initially included in the budget
  - 2.4.5 **Root cause** - move beyond just identifying deviations from budget versus actuals and work towards analyzing why deviations occurred;

### 3. DEFINITIONS

- 3.1 Personnel Costs – means the total wage and benefit costs for internal resources (inclusive of benefits);
- 3.2 Non Personnel Costs - means the total amount of annual expenditure spent on goods and services;
- 3.3 Surplus – means an approved annual budget amount is great than the actual spend within a particular category;

- 3.4 Deficit – means an approved annual budget amount is less than the actual spend within a particular category.

#### **4. PRINCIPLES**

- 4.1 Recognize in principle that all budget surpluses and deficits are non-recurring in nature and should be treated as such;
- 4.2 Budget surpluses and deficits considered to be recurring shall be permanently adjusted for in the following year operating budget;
- 4.3 Operating Budget surpluses for Wages and Benefits are not intended to subsidize Goods and Services;
- 4.4 Operating Budget surpluses for Goods and Services are not intended to subsidize Wages and Benefits;
- 4.5 Operating Budget surpluses for Wages and Benefits is appropriate to reallocate to Goods and Services when a staff vacancy generating the surplus require third party contracted services to maintain the service level for that particular role;
- 4.6 Revenues and Grants intended for resourcing programs (human resources) will not be spent on Goods and Services;

#### **5. POLICY APPLICATION:**

- 5.1 Personnel budgets are not intended to subsidize non personnel budget; therefore surpluses occurring in wages and benefits shall not be reallocated to offset budget deficits in goods and services unless supported by a business case and approved by the City Manager and the Chief Financial Officer;
- 5.2 Non personnel budgets are not intended to subsidize personnel budgets; therefore surpluses occurring in goods and services shall not be reallocated to offset deficits in Wages and Benefits unless supported by a business case and approved by the City Manager and the Chief Financial Officer;
- 5.3 Aggregate Wage and Benefits surpluses will be applied to the Operating Reserve until the Operating Reserve is fully financed in accordance with FAS-003 – Operating and Capital Reserves Policy; all surpluses thereafter will be applied fifty percent to the Capital Reserve and fifty percent to the City’s Long Term Debt Obligations;
- 5.4 Aggregate Goods and Services surpluses will be applied to the Operating Reserve until the Operating Reserve is fully financed in accordance with FAS-003 – Operating

- and Capital Reserves Policy; all surpluses thereafter will be applied fifty percent to the Capital Reserve and fifty percent to the City's Long Term Debt Obligations;
- 5.5 All departmental and service area surplus and deficit positions shall be analysed annually to determine if permanent budget adjustments for the following year are necessary;
- 5.6 As part of the annual operating budget process, service areas will identify one time operating expenditures and submit proposals to fund the one time expenditure through the use of Reserve Funds as per FAS-003 – Operating and Capital Reserves Policy;
- 5.7 The City Manager and Chief Financial Officer shall make any recommendations respecting the use of Reserve Funds as part of the Annual Operating Budget Process and shall be in accordance with the Long Term Financial Plan.

## **6 ROLES AND RESPONSIBILITIES**

### **6.1 Council shall:**

- 6.1.1 Approve the Budget Monitoring Policy;

### **6.2 Finance Committee shall:**

- 6.2.1 Recommend the Budget Monitoring Policy to Common Council for approval;
- 6.2.2 Review any changes to the Budget Monitoring Policy in the future.

### **6.3 The Finance Commissioner shall:**

- 6.3.1 Review annually to ensure that Wages and Benefits vs Goods and Services allocations are in compliance with the Budget Monitoring Policy
- 6.3.2 Recommend any changes to the Budget Monitoring Policy in the future.
- 6.3.3 Design an analysis framework that will monitor surplus and deficit positions