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**REPORT TITLE:**     **Budget Policy and Reserve Management Policy Compliance Update  
– December 31, 2019**

**FROM:**             Stephen Van Ofwegen, Commissioner of Finance and Chief Financial  
Officer

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## **RECOMMENDATION**

**That the capital budget for the Capital Project Clarkson Wastewater Treatment Plant (08-2915) be increased by \$1.75 million, to be fully funded by Development Charges.**

### **REPORT HIGHLIGHTS**

- The Budget Policy and Reserve Management Policy provide internal financial controls, administrative rules and delegated authority to staff to carry out day-to-day business and requires staff to report to Regional Council at a minimum of twice annually on the activities related to the use of delegated authority.
- Adjustments to the operating budget, capital budget and reserves were processed under Council delegated authority in accordance with the Budget Policy and Reserve Management Policy during the six months ending December 31, 2019.
- There were activities in 140 capital projects resulting in a net budget increase of \$146.2 million drawn from reserves and reserve funds including Council approved additional draws from reserves totaling \$165.9 million.
- The recommended \$1.75 million increase for Clarkson Wastewater Treatment Plant included in this report is fully funded by Development Charge reserves.
- The balance of the Tax Supported Rate Stabilization Reserve is 9.4 per cent of the total 2020 Tax supported operating budget, within the target range of five to ten per cent.
- The balance of the Utility Rate Stabilization Reserve is 7.9 per cent of the total 2020 Utility Rate supported operating budget and is within the five to ten per cent target range.

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## **DISCUSSION**

### **1. Background**

The Budget Policy establishes financial controls and provides administrative rules and procedures for staff to apply in carrying out Regionally-controlled businesses; similarly, the Reserve Management Policy provides guidance on the usage and management of reserves, reserve funds and specialty funds.

The objective of the Budget Policy and Reserve Management Policy is to provide an appropriate balance between financial control and operational efficiency. To achieve this, the policies delegate authority to staff to deal with day-to-day operations related to adjustments to the operating budget, the capital budget and reserves within prescribed

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parameters. This allows staff to respond to opportunities and issues in a timely manner to achieve operational efficiency while maintaining effective internal controls.

The Budget Policy and Reserve Management Policy require that staff report to Regional Council at a minimum of twice annually on the activities related to the use of delegated authority. The reporting requirements ensure that Regional Council is kept abreast of these activities. This report provides the second update for 2019 and specifically on the activities for the six-month period ending December 31, 2019, including reporting requirements as specified in these policies.

### **2. Operating Budget Changes Under Delegated Authority**

#### **Redeployments**

Operating budget redeployments have the effect of changing the purpose for which the unexpended budget will be spent. There were no redeployments approved under Council delegated authority for the six months ending December 31, 2019.

### **3. Capital Budget Changes Under Delegated Authority**

#### **a) Authorization to Commit a Project to Over Budget Expenditure**

There were five budget increases totalling \$0.3 million approved under the delegated authority during the reporting period (see Appendix I (a)). Council approved additional budget increases of \$165.9 million for the same period (see Appendix I (b)).

#### **b) Redeployments**

During the reporting period, 17 capital budget redeployments from envelope projects in the amount of \$10.8 million were approved and processed under Council delegated authority in accordance with the Budget Policy (see Appendix II).

#### **c) External Funding**

During the reporting period, two budget increases totalling \$1.1 million were approved in accordance with the Budget Policy. These budget increase requests were fully funded by external funding with net zero cost to the Region of Peel (see Appendix III).

### **4. Emergency Financing for Capital Project PAMA - Mould Remediation (195180)**

The capital project PAMA - Mould Remediation (195180) was set up in response to an emergency involving mould at Peel Art Gallery Museum & Archives (PAMA) facility which poses a danger to health and safety as well as the property. Under the Budget Policy and due to the emergency nature, the Chief Financial Officer authorized the financing of this capital project in the amount of \$150,000 from the RPAM-Wellington Complex Reserves (R1920).

### **5. Summary of Capital Project Activities Impacting Reserves and Reserve Funds**

During the six months ending December 31, 2019, there were activities in 140 projects which impacted reserves and reserve fund projections. The activities fall into four broad categories:

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- Projects closed during the reporting period
- Projects with increased budget requirements
- Projects with reduced budget requirements
- Projects with financing source change

The table below provides a summary of these capital activities.

Activity	No. of Projects	Project Net Budget (\$M)	Net Budget Increase/ (Decrease) (\$M)	Request from/(Return to) Reserves (\$M)		
				Internal Reserves	DC Reserves	Debt/ Other
a) Projects Closed						
Tax Supported	76	185.0	(8.0)	(6.1)	(1.9)	-
Utility Rate Supported	49	97.8	(12.2)	(7.8)	(4.4)	-
<b>Subtotal</b>	<b>125</b>	<b>282.8</b>	<b>(20.2)</b>	<b>(13.9)</b>	<b>(6.3)</b>	<b>-</b>
b) Projects Increased*	5	41.4	0.5**	0.5	0.0	-
<b>Subtotal</b>	<b>5</b>	<b>41.4</b>	<b>0.5</b>	<b>0.5</b>	<b>0.0</b>	<b>-</b>
<b>Approved by Delegated Authority (a+b) Subtotal</b>	<b>130</b>	<b>324.2</b>	<b>(19.7)</b>	<b>(13.4)</b>	<b>(6.3)</b>	<b>-</b>
c) Projects Increased*	10	266.1	165.9	106.4	6.9	52.6
<b>Approved by Council</b>	<b>10</b>	<b>139.1</b>	<b>165.9</b>	<b>106.4</b>	<b>6.9</b>	<b>52.6</b>
<b>TOTAL</b>	<b>140</b>	<b>463.3</b>	<b>146.2</b>	<b>93.0</b>	<b>0.6</b>	<b>52.6</b>

\*Increase/Decrease represents ongoing work and remains active; the "Project Net Budget" of these projects in the above table refers to the Net Budget before increase or decrease.

\*\*Includes emergency funding of \$150,000 (Item 4)

The total impact of the above capital project changes is an overall net budget increase of \$146.2 million or 31.6 per cent of the total net budget of \$463.3 million. Of the \$146.2 million net budget increase, \$93.0 million was drawn from internal reserves, \$0.6 million from DC reserve funds and debt financing of \$52.6 million.

### 6. Request to increase the budget for Capital Project Clarkson Wastewater Treatment Plant (082915)

Significant budget reductions were made early in the project: \$20 million in 2011 and an additional \$5 million in 2013. This project is nearing end of construction and better information regarding costing is available. Based on current assessments, the project requires an additional \$1.75 million (less than 1 per cent of original budget of \$184 million), fully funded by Development Charge (DC) reserves to cover the costs to complete the project.

### 7. Changes to Reserves and Reserve Funds Under Delegated Authority

For the six-month period ending December 31, 2019, there were two fund transfer requests between sub-reserves and one request to create new sub-reserve approved under Council delegated authority (see Appendix IV).

**8. Status of Tax and Utility Rate Stabilization Reserves**

The Reserve Management Policy requires that the balances of the Rate Stabilization Reserves for both Tax Supported services and Utility Rate Supported services be maintained within the range of five to ten per cent of their respective total annual operating budgets. Utilization of Rate Stabilization Reserves provides Regional Council with an effective tool to manage risk with tax and utility rates. Detailed 2019 surplus management activities for both Tax supported and Utility Rate supported services are reported in the companion report titled “2019 Operating Financial Performance Triannual Report – Year End (Unaudited)”.

**i) Rate Stabilization Reserves – Tax**

The balance of the Tax Supported Rate Stabilization Reserves as at December 31, 2019 was \$141 million, including the 2019 year-end recommended surplus allocations, or 9.4 per cent of the 2020 Tax Supported Operating Budget, which is in compliance with the prescribed requirement.

**ii) Rate Stabilization Reserves – Utility Rate**

The balance of the Utility Rate Supported Stabilization Reserves as at December 31, 2019 was \$44 million or 7.9 per cent of the 2020 Utility Rate Supported Operating Budget, which is in compliance with the prescribed requirement.

**CONCLUSION**

The Budget Policy and Reserve Management Policy provide internal financial controls, administrative rules and delegated authority to staff to manage changes to the operating budget, capital budget, reserves and reserve funds.

The policies require staff to report activities related to the use of delegated authority to Regional Council at a minimum of twice annually. This report satisfies the reporting requirements of these policies for the six-month period ending December 31, 2019.

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**APPENDICES**

- Appendix I (a) – Capital Budget Increase Under Delegated Authority
- Appendix I (b) – Capital Budget Increase Approved by Council
- Appendix II – Capital Budget Redeployments Under Delegated Authority
- Appendix III – Capital Budget Increase Resulting from External Funding
- Appendix IV – Changes to Reserves and Reserve Funds

*For further information regarding this report, please contact Norman Lum, Director, Business and Financial Planning, (905) 791-7800 ext. 3567 or via email [Norman.Lum@peelregion.ca](mailto:Norman.Lum@peelregion.ca) .*

*Reviewed and/or approved in workflow by:*

Department Commissioner and Division Director.

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Final approval is by the Chief Administrative Officer.

A handwritten signature in black ink, reading "Nancy Polsinelli". The signature is written in a cursive style with a distinct loop at the end of the last name.

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N. Polsinelli, Interim Chief Administrative Officer