
For Information

REPORT TITLE: **Budget Policy and Reserve Management Policy Compliance Update
– December 31, 2022**

FROM: Gary Kent, CPA, CGA, ICD.D, Chief Financial Officer and Commissioner
of Corporate Services

OBJECTIVE

To provide an update on activities related to the use of delegated authority to adjust the operating budget, capital budget, reserves and reserve funds, in accordance with the financial policies for the six-month period ending December 31, 2022.

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, 2022.
 - There were activities in 135 capital projects resulting in a net budget decrease of \$188.8 million including \$184.8 million returned to capital reserves and \$4.0 million returned to Development Charges Reserves.
 - The available balance of the Tax Supported Rate Stabilization Reserve is 4.5 per cent of the total 2023 Tax supported Operating Budget, below the target range of five to ten per cent.
 - The available balance of the Utility Rate Stabilization Reserve is 6.9 per cent of the total 2023 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.

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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 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 2022 and specifically on the activities for the six-month period ending December 31, 2022, including reporting requirements as specified in these policies.

2. Operating Budget Changes Under Delegated Authority

a) 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, 2022.

3. Capital Budget Changes Under Delegated Authority

a) Authorization to Commit a Project to Over Budget Expenditure (maximum \$250,000 per project)

During the reporting period, there were four capital project budgets increases totalling \$0.8 million approved and processed under Council delegated authority during the reporting period (see Appendix I).

b) Redeployments

During the reporting period, eight capital project budgets redeployments for \$4.8 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 capital project budget increases totalling \$0.8 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).

d) Reduction

Through active management of capital projects, the budgets of eleven projects under Roads and Transportation, Wastewater and Water Supply were reduced by \$72.6 million under Council delegated authority during the six months ending December 31, 2022 (see Appendix IV). Funding of \$0.5 million was returned to the Tax Supported Capital and \$72.1 million was returned to the Utility Supported Capital reserves.

4. Summary of Capital Project Activities Impacting Reserves and Reserve Funds

The table below provides a summary of these capital activities.

| Activities | No. of Projects | Net Budget (\$M) | Net Budget Decreased (\$M) | Returned to Reserves (\$M) | |
|------------------------------------|-----------------|------------------|----------------------------|----------------------------|--------------|
| | | | | Capital Reserves | DC Reserves |
| a) Projects Closed | | | | | |
| Tax Supported | 71 | 163.9 | (114.8) | (112.1) | (2.7) |
| Utility Rate Supported | 53 | 173.5 | (1.4) | (0.1) | (1.3) |
| Subtotal | 124 | 337.4 | (116.2) | (112.2) | (4.0) |
| b) Projects Decreased ¹ | 11 | 907.3 | (72.6) | (72.6) | 0.0 |
| Subtotal | 11 | 907.3 | (72.6) | (72.6) | 0.0 |
| TOTAL² | 135 | 1,244.7 | (188.8) | (184.8) | (4.0) |

¹Projects Decreased represents ongoing work and remains active; the “Net Budget” for these projects in the above table refers to the Net Budget prior to the decrease.

²Numbers may not add up due to rounding.

The total impact of the above capital project changes is an overall net budget decrease of \$188.8 million or 15 per cent of the total net budget of \$1,244.7 million. Of the \$188.8 million net budget decrease, \$184.8 million were returned to capital reserves and \$4.0 million to Development Charges Reserve Funds.

5. Changes to Reserves and Reserve Funds Under Delegated Authority

For the six-month period ending December 31, 2022, there were no fund transfers requested between sub-reserves and no request to create a new sub-reserve under Council delegated authority.

6. 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.

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a) Rate Stabilization Reserve – Tax

The closing cash balance of the Tax Supported Rate Stabilization Reserve as at December 31, 2022 was \$157.8 million, or 8.3 per cent of the 2023 Tax Supported Operating Budget, which is in compliance with the target range. As \$73.0 million in expenditures were committed by Council (primarily approved during the 2023 budget process), the remaining available reserve balance of \$84.8 million translates to 4.5 per cent of the 2023 total expenditures (i.e. below the target range).

As the use of the Tax Rate Stabilization Reserve provides financial flexibility to the Region, further use of this reserve will continue to be rigorously monitored.

The budget process allows Council to review all the pressures at the same time to decide where it wants to allocate resources. There will continue to be discussions at budget deliberations as to what the Region can afford to move ahead with and what it cannot.

b) Rate Stabilization Reserve – Utility Rate

The closing cash balance of the Utility Rate Supported Stabilization Reserve as at December 31, 2022 was \$50.8 million or 7.7 per cent of the 2023 Utility Rate Supported Operating Budget, which is in compliance with the target range. As \$5.3 million in expenditures were committed by Council (primarily approved during the 2023 budget process), the remaining available reserve balance of \$45.5 million translates to 6.9 per cent of the 2023 total expenditures (i.e. which is still within the target range).

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, 2022.

APPENDICES

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|--------------|---------------------------------------------------------|
| Appendix I | Capital Budget Increase Under Delegated Authority |
| Appendix II | Capital Budget Redeployments Under Delegated Authority |
| Appendix III | Capital Budget Increase Resulting from External Funding |
| Appendix IV | Capital Budget Reductions Under Delegated Authority |



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