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**For Information**

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**REPORT TITLE: Budget Policy and Reserve Management Policy Compliance Update – June 30, 2024**

**FROM: Davinder Valeri, Chief Financial Officer and Commissioner of Corporate Services**

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**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 June 30, 2024.

**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 June 30, 2024.
  - There were activities in 87 capital projects resulting in a net budget decrease of \$20.6 million including \$11.6 million returned to capital reserves and \$9.0 million returned to Development Charges Reserves.
  - The available balance of the Tax Supported Rate Stabilization Reserve is 5.9 per cent of the total 2024 Tax supported Operating Budget and is within the five to 10 per cent target range.
  - The available balance of the Utility Rate Stabilization Reserve is 6.6 per cent of the total 2024 Utility Rate supported operating budget and is within the five to 10 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 first update for 2024 and specifically on the activities for the six-month period ending June 30, 2024, 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 June 30, 2024.

### **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 no capital project budget increases approved and processed under Council delegated authority during the reporting period.

#### **b) Redeployments**

During the reporting period, 12 capital project budget redeployments for a total value of \$15.0 million were approved and processed under Council delegated authority in accordance with the Budget Policy (see Appendix I for a list of these projects).

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

During the reporting period, two capital project budget increases totalling \$368,000 were approved in accordance with the Budget Policy. These budget increase requests were fully funded by external funding with a net zero cost to the Region of Peel (see Appendix II for a list of the projects).

#### **d) Reductions**

Through active management of capital projects, the budget of five projects under the programs Transportation and Water and Wastewater were reduced by \$8.5 million under Council delegated authority during the six months ending June 30, 2024 (see Appendix III for a list of these projects). Funding of \$2.8 million was returned to the Tax Supported Capital Reserve and \$5.7 million was returned to the Development Charges Reserve Funds.

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

Table 1 below provides a summary of capital project activities impacting reserves and reserve funds from January to June 30, 2024.

Table 1: Summary of Capital Project Activities Impacting Reserves and Reserve Funds

Activities	No. of Projects	Net Budget <sup>2</sup> (\$Millions)	Net Budget Decreased (\$Millions)	Returned to Reserves (\$Millions)	
				Capital Reserves	DC Reserves
a) Projects Closed					
Tax Supported	28	46.1	(5.9)	(2.8)	(3.1)
Utility Rate Supported	54	48.2	(6.2)	(6.0)	(0.2)
<b>Subtotal</b>	<b>82</b>	<b>94.3</b>	<b>(12.1)</b>	<b>(8.8)</b>	<b>(3.3)</b>
b) Projects Decreased <sup>1</sup>	5	42.6	(8.5)	(2.8)	(5.7)
<b>TOTAL</b>	<b>87</b>	<b>136.9</b>	<b>(20.6)</b>	<b>(11.6)</b>	<b>(9.0)</b>

<sup>1</sup>Projects decreased represents ongoing work and remains active;

<sup>2</sup>“Net Budget” refers to the Net Budget prior to the decrease

The total impact of the above capital project changes is an overall net budget decrease of \$20.6 million or 15 per cent of the total net budget of \$136.9 million. Of the \$20.6 million net budget decrease, \$11.6 million were returned to capital reserves and \$9.0 million to Development Charges Reserve Funds.

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

For the six-month period ending June 30, 2024, there was no fund transfer request 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.

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. Utilization of Rate Stabilization Reserves provides Regional Council with an effective tool to manage risk with tax and/or utility rates.

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### **a) Rate Stabilization Reserve – Tax**

The closing cash balance of the Tax Supported Rate Stabilization Reserve as at June 30, 2024 was \$155.5 million, or 7.6 per cent of the 2024 Tax Supported Operating Budget, which is in compliance with the target range.

As \$34.9 million in expenditures were committed by Council (\$30.8 million primarily approved during the 2024 budget process, another \$4.1 million approved through in-year council reports), the remaining available reserve balance of \$120.6 million translates to 5.9 per cent of the 2024 total expenditures, still within 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.

### **b) Rate Stabilization Reserve – Utility Rate**

The closing cash balance of the Utility Rate Supported Stabilization Reserve as at June 30, 2024 was \$48.8 million or 7.0 per cent of the 2024 Utility Rate Supported Operating Budget, which is in compliance with the target range.

As \$2.4 million in expenditures were committed by Council, approved during the 2024 budget process, the remaining available reserve balance of \$46.4 million translates to 6.6 per cent of the 2024 total expenditures, still within the target range.

## **BILL 112 RISKS AND IMPLICATIONS**

On June 8, 2023, the Province passed Bill 112, the *Hazel McCallion Act (Peel Dissolution), 2023*, which was initially intended to dissolve the Region of Peel and provided for a Transition Board to make recommendations to the province on how to implement the restructuring. On June 6, 2024, Bill 185 took effect, amending Bill 112 and reversing the decision to dissolve the Region of Peel. Bill 185 changed the name of the legislation to the *Hazel McCallion Act (Peel Restructuring), 2023* and recalibrated the Transition Board's mandate to focus on making recommendations on land use planning; water and wastewater; storm water; highways; and waste management. Final details of the Transition Board's recommendations, any associated provincial decision and impacts on Peel services are not known at this time and will be addressed in future reporting to Regional Council.

## **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 June 30, 2024.

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### APPENDICES

Appendix I - Capital Budget Redeployments Under Delegated Authority

Appendix II - Capital Budget Increase Resulting from External Funding

Appendix III - Capital Budget Reductions Under Delegated Authority

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