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DATE: August 23, 2012

REPORT TITLE: **FINANCIAL CONTROL BY-LAW COMPLIANCE UPDATE - JUNE 2012**

FROM: Norma Trim, Chief Financial Officer and Commissioner of Corporate Services

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### **RECOMMENDATION**

**Whereas the Financial Control By-law requires that staff report to Council twice per year on certain activity related to budget and reserve management;**

**And whereas, the report of the Chief Financial Officer and Commissioner of Corporate Services, dated August 9, 2012, titled "Financial Control By-law Compliance Update" provides the detail on activity related to the budget and reserve management, as required by the Financial Control By-law, for the period ending June 30, 2012, with recommendations;**

**Therefore be it resolved,**

- 1. That the one per cent capital infrastructure adjustment as approved in the 2012 Budget be allocated to the Tax Supported Capital reserves as outlined in the subject report;**
- 2. That the financing for the VCOM Project 11-9044 in Public Works be adjusted to appropriately align the funding sources as outlined in the subject report;**
- 3. That the expenses related to work requested and funded by an independent developer on the Mississauga Road Local Improvement Project 10-2791 be reallocated to a new project as outlined in the subject report;**
- 4. That the budget increase of \$300,000 for Infrastructure Stimulus Funding (ISF) Watermain Repair and Replacement Project 09-1346S funded from the CFSR Water Reserve R0241 be approved as outlined in the subject report;**
- 5. That \$268,237 in the Aqua Peel deferred revenue account be transferred to the Aqua Peel Replacement Reserve R2318 as outlined in the subject report.**

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**FINANCIAL CONTROL BY-LAW COMPLIANCE UPDATE - JUNE 2012****REPORT HIGHLIGHTS**

- Included in this report is the detail on the reporting requirements of the Financial Control By-law (FCBL) for the period ending June 30, 2012
- The one per cent tax supported capital infrastructure levy allocation as approved in the 2012 Budget is outlined in this report
- Provided in the report is the detail on the budget and reserve activity as proposed in the recommendations
- As at June 30, 2012 both the Tax Supported and the Utility Rate Supported working fund balances are in compliance with the Financial Control By-law at 6.8 per cent and 6.4 per cent respectively
- A review of the Financial Control By-law is currently underway and a new Financial Management By-law and Budget Policy will be brought to Council in October of this year

**DISCUSSION**

The Financial Control By-law (FCBL) stipulates that certain activity related to budget and reserve management be tracked and reported to Regional Council at a minimum of twice annually. This report details the status of these requirements for the period ending June 30, 2012.

**FINANCIAL CONTROL BY-LAW REPORTING REQUIREMENTS****1. Current Budget****Redeployments and Restructures**

Current budget redeployments and restructures are processed during the course of business to support service delivery. Eighteen adjustments of this nature were processed during the six months ending June 30, 2012. One of these adjustments requires Council disclosure as it involves salary and wage accounts. This adjustment relates to one Full Time Equivalent (FTE) transfer from Health Services to Corporate Services to support Health Services in meeting the increasing provincial requirements in financial reporting and budgeting. The remaining redeployments represent the typical activity which occurs to effectively manage the current budget and are approved internally under delegated authority.

**2. Capital Budget****Authorization to Increase Project Commitments**

The Financial Control By-law requires that staff report activity related to all budget adjustments made to previously approved capital projects which are the lower of 10 per cent of the Council approved budget or \$250 thousand. There were five requests for the six months period ending June 30, 2012 totaling \$415.5 thousand as presented in Appendix I. These requests have been approved under Council delegated authority to staff. Projects requiring budget increases beyond these parameters require Council approval. One request of \$300 thousand as presented in Appendix I exceeds the limit by \$50 thousand. The detail for this request is addressed further in the "Budget Changes" section of this report.

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### Redeployments and Redistributions

Redeployments and redistributions are processed to facilitate effective management of capital programs and projects. In order to better manage existing projects, 42 redeployments and redistributions were processed to the capital budget during the six months ending June 30, 2012. Three of these redeployments require Council disclosure and are represented in Appendix II (as attached) as they are funded from the unallocated capital portfolio.

The remaining redeployments (39) represent the typical activity which occurs in managing the capital plan whereby projects are merged for ease of contract management and others are separated into smaller more manageable size projects and have been approved under delegated authority.

### Unallocated Capital Financing

The Financial Control By-law Section 3(f) iii requires that the financial report discloses the activity and available balances for the unallocated capital projects. Appendix II, as attached provides Council with a summary of activity for the period ending June 30, 2012.

### Capital Project Activity

During the six months period ending June 30, 2012, there were changes to the estimated cost of 72 projects. The changes fall into three broad categories:

- Projects closed out during the year
- Projects with increased requirements
- Projects with reduced requirements

By June 30, 2012, there were 59 projects that were closed resulting in \$10.2 million being returned to reserves. Projects are closed for one of two reasons – the project has been completed or the project has been stopped/deferred and rebudgeted.

There were 10 projects with increased requirements resulting in an additional \$6.4 million being requested from reserves. These include four requests totaling \$5.7 million that were disclosed to Council on a project by project basis throughout the year, five requests amounting to \$415.5 thousand that were approved under delegated authority and one request of \$300 thousand that requires Council approval in the “Budget Changes” section of this report.

There were 3 projects with reduced project requirements resulting in an additional \$1.8 million being returned to reserves. These projects are expected to be completed under original budget.

The overall impact of changes to projects in-year was to return \$5.6 million to reserves. This can be further broken down into \$9.2 million returned to internal reserves and an increase of \$3.6 million in DC reserve fund requirements.

The chart below provides a summary of this capital activity.

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**FINANCIAL CONTROL BY-LAW COMPLIANCE UPDATE - JUNE 2012**

Program	# of Projects	\$ Millions			Allocation to Reserves	
		Project Net Budget	Net Expenditure	Returned to Reserves	Internal Reserves	DC Reserve Funds
Tax Rate	49	45.2	40.0	5.2	5.0	0.2
Utility Rate	7	5.8	5.2	0.6	0.5	0.1
Unallocated	3	4.4	0.0	4.4	4.4	0.0
<b>Total Closeouts</b>	<b>59</b>	<b>55.4</b>	<b>45.2</b>	<b>10.2</b>	<b>9.9</b>	<b>0.3</b>
Increased Project Requirements *	10	(6.4) **	0.0	(6.4)	(2.7)	(3.7)
Reduced Project Requirements *	3	1.8***	0.0	1.8	2.0	(0.2)
<b>Net Return to Reserves</b>	<b>72</b>	<b>50.8</b>	<b>45.2</b>	<b>5.6</b>	<b>9.2</b>	<b>(3.6)</b>

**Note:**

\* These 2 categories represent ongoing work and remain active

\*\* Includes increased requirements through Authorization to Increase Project Commitments

\*\*\* The net budget for these projects is \$44.9M

**3. Budget Changes**

In accordance with the Financial Control By-law, staff are required to obtain approval from Council for any transactions that change budgets, affect transfers to and from reserves beyond delegated authority.

**a) Allocation of Tax Supported Capital Infrastructure One Per Cent Solution**

The allocation of the one per cent tax capital contributions as approved in the 2012 Budget is primarily driven by ongoing State of Good Repair (SOGR) requirements. A review of the tax supported capital reserves after the 2011 surplus management indicates that there are five capital reserves with a shortfall greater than \$10 million. Four of these reserves have relative shortfalls of about 50 per cent. The reserve with the largest shortfall is the New Capital – Waste reserve with a shortfall of \$146 million. A review of this reserve revealed that \$55 million of the capital liability was classified as state of good repair. Therefore it is recommended that the 2012 one per cent budget solution be allocated to the following reserves:

New Capital – Waste (R1145)	\$3.0 million
Roads (R0210)	\$2.0 million
Ambulance Vehicle (R1617)	\$2.0 million
IT Host Network Equip (R2314)	\$1.0 million
Fleet Reserve (R1610)	\$0.3 million

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**FINANCIAL CONTROL BY-LAW COMPLIANCE UPDATE - JUNE 2012****b) VCOM Capital Project Budget**

The VCOM Renewal Capital Project 11-9044 was established to fund the replacement of the VCOM software/hardware to be used by Public Works. During the budget development in 2011, the user agencies and participating Public Works programs had not been defined. To ensure funding was available to support the needs of the participating programs, the Fleet Reserve R1610 was used as a temporary funding source until more information was available on participating programs. In early 2012, the VCOM system user agencies and Public Works participating programs were defined and the cost sharing formula was developed. Staff recommend aligning the funding reserves with the appropriate Public Works programs and re-allocate the funding currently committed against the Fleet Reserve R1610.

The cost sharing formula requires the budget of \$1,159,000 in project 11-9044 be reallocated to the following funding reserves:

Federal Gas Tax R0025	\$266,570
CFSR -Roads R0210	\$370,880
CFSR -Water R0241	\$417,240
CFSR Wastewater R0242	\$104,310

**c) Mississauga Road Local Improvement Project 10-2791**

Project 10-2791 was set up as a Local Improvement to install sanitary services for six properties located within the project area. It was requested by a private developer to extend the services beyond the approved Local Improvement petition properties, to accommodate the developer's property and provide optional service to an additional six properties. The private developer accepted the terms of the agreement, contributing \$120 thousand to the total work and the extension was constructed with the expenses for the additional works charged to project 10-2791.

Given that the extension of the works was beyond the petitioned parties of the original Local Improvement, staff recommend creating a new project for the six extended properties to move all associated expenses and the \$120,000 developer contribution from the original project 10-2791 into the new project to leave the existing project with the original planned execution as a stand alone Local Improvement project. The expenses related to the extra work will be fully recovered from the developer's contribution.

**d) Infrastructure Stimulus Funding (ISF) Project 09-1346S**

Since the initiation of Infrastructure Stimulus Funding, there were a number of projects that were similar in scope that were funded by both the Region of Peel and ISF. One of these ISF projects, 09-1346S Watermain Repair and Replacement had unforeseen works that required an increase to the original budget. The key drivers of the contract exceeding the original estimates were vacuum excavation and increased asphalt quantities. The overrun on the project was \$300 thousand; \$120 thousand in ISF costs and \$180 thousand in non ISF work. An internal request was generated to fund the over expenditure of \$300 thousand from the Capital Financing Stabilization Reserve (CFSR) Water Reserve R0241 and is highlighted in Appendix I of this report.

Staff are seeking approval from Council to support this budget increase. As this project is one of the ISF original projects the accumulated costs of the overrun will be included in the Final ISF report on total expenditures which is scheduled to go to Council on October 11, 2012.

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**FINANCIAL CONTROL BY-LAW COMPLIANCE UPDATE - JUNE 2012****e) Reserve Changes**

An extensive review of the Aqua Peel deferred revenue accounts determined that of the \$1.3 million account balance as of June 30, 2011, \$268.2 thousand was not likely to be refunded because the accounts are not traceable. The deposits have been in the system for an extensive period of time and some amounts were lump sum transfers into the Aqua Peel system dating back to 1998/1999. Legal advice was sought to determine the Region's legal obligation and it was determined the period of limitation is two years after the work was abandoned or withdrawn. Staff recommend transferring the stale-dated balances that are not likely to be refunded to the Aqua Peel Replacement Reserve R2318.

**5. Reserve and Reserve Funds****Required Balance in Working Fund and Stabilization Reserves**

The Financial Control By-law requires that the portfolio balances of the Working Fund Reserves for Tax Supported and Utility Rate Supported programs be maintained between five and ten per cent of each of the respective budgets. Utilization of working fund reserves provides Regional Council with an effective tool to balance risk with tax rates and utility rates.

**Tax Supported Working Fund Reserves**

The balance of the Tax Supported working fund reserves as at June 30, 2012 is \$96.9 million, net of both the GO Transit liability of \$70.3 million and a sinking fund of \$0.9 million for the retirement of debt issued to finance the 7120 Hurontario purchase. The balance represents approximately 6.8 per cent of the 2012 Tax supported operating budget, in compliance with the FCBL.

**Utility Rate Supported Working Fund Reserves**

The balance of the Utility Rate Supported working fund reserves as at June 30, 2012 is \$20.4 million, or 6.4 per cent of the 2012 Utility Rate supported operating budget, in compliance with the FCBL.

**CONCLUSION**

The report as presented satisfies the reporting requirements of the Financial Control By-law for the period of ending June 30, 2012.

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Norma Trim  
Chief Financial Officer  
and Commissioner of Corporate Services

**Approved for Submission:**



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D. Szwarc, Chief Administrative Officer

*For further information regarding this report, please contact Elayne Thompson at extension 4536 or via email at [elayne.thompson@peelregion.ca](mailto:elayne.thompson@peelregion.ca)*



c. Legislative Services

**Region of Peel  
 Authorization to Commit a Project to Over Budget Expenditure (\$'000)  
 For the Six Months Ended June 30, 2012**

<b>Program</b>	<b>From Reserve</b>	<b>To Project</b>	<b>Gross Budget</b>	<b>Additional Funds</b>
Transportation	D.C. Regional Roads	06-4350 Off Ramp N/S Class	110.0	10.0
Water	DC Water Reserve	07-1540 North Bolton Elevated Tank and Transmission	808.5	73.5
Water	Contr CF SR - Water	09-1350 Erindale	2,584.0	120.0
Water	Contr CF SR - Water	08-1966 Replacement Reservoir Roof	1,512.0	12.0
Water	Contr CF SR - Water	08-1386 Peel Village	2,795.9	200.0
		<i>Subtotal</i>	7,810.4	415.5
Water	Contr CF SR - Water	09-1346S Repair & Replacement - (Maintenance) *	46,547.3	300.0
		<b>Total</b>	<b>54,357.7</b>	<b>715.5</b>

**Note:**

\* These transactions meet the requirements of Clause 3.(n), Schedule C of the Financial Control By-law, within 10 % of approved budget and up to \$250,000 with the exception of project 09-1346S Repair & Replacement that is addressed further in the budget change section of the subject report.



**Regional Municipality of Peel**  
**Unallocated Capital Financing Project Status (\$'000)**  
 As at June 30, 2012

	Roads	Water	Wastewater
<b>Capital Project Balance at December 31, 2011</b>	\$ 1,190	\$ 1,225	\$ 2,000
2012 Budget Allocation	1,000	1,500	2,000
Previous year's unallocated projects closed and funding returned to reserve	(1,190)	(1,225)	(2,000)
Less: Redeployments under \$250,000 (approved under Treasurer Authority of Financial Control By-law 2004-45)		(125) (25)	(25)
Less: Reallocations over \$250,000 (approved by Council reports)	-	-	-
<b>Capital Project Balance at June 30, 2012</b>	<b>\$ 1,000</b>	<b>\$ 1,350</b>	<b>\$ 1,975</b>

**Note:**

These projects will be closed with the uncommitted balances returned to the funding reserves in the first quarter of 2013.