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**Item No. 9.1.1**  
**Audit & Finance Standing Committee**  
**October 15, 2014**

**TO:** Chair and Members of Audit & Finance Standing Committee

Original Signed

**SUBMITTED BY:**

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Greg Keefe, Director, Finance and ICT/CFO

**DATE:** September 19, 2014

**SUBJECT:** Reserve Funding Strategies: Proposed Administrative Order 2014-015-ADM

**ORIGIN**

HRM Regional Council, December 1, 1998, Item 10.2.2 – Multi-Year Financial Strategy – Phase 2: MOVED by Councillors Greenough and Mitchell that Regional Council approve the “Principles of Financial Management” and the “Reserve Policy” as set out in the staff report dated November 27, 1998.

MOVED by Councillor McCluskey, seconded by Councillor Dalrymple that the Audit and Finance Committee approve the preliminary three year capital budget, for the years 2013/2014 to 2015/2016 inclusive, as a basis to prepare a detailed capital and reserves budget, and continued development of a reserve framework as presented to Audit and Finance. (AFSC January 16, 2013 Item 9.1)

**LEGISLATIVE AUTHORITY**

Halifax Charter section 120 (6) - The Municipality may maintain other reserve funds for such purposes as the Council may determine.

**RECOMMENDATION**

It is recommended that the Audit and Finance Standing Committee recommend to Regional Council that Regional Council,

- 1) Adopt Administrative Order 2014-015-ADM, Respecting Reserve Funding Strategies, as set out in Attachment A of this report;
- 2) Repeal the Reserves Policy adopted by the Council on December 1, 1998 and all amendments thereto; and
- 3) Amend the Terms of Reference for the Audit and Finance Standing Committee, as set out in Attachment B of this report.

## **BACKGROUND**

On December 1, 1998, Regional Council approved the document "*Taking Care of Business: A Multi-Year Financial Strategy*" (MYFS). This Resolution expressed Council's financial strategic direction. In the same motion, Council approved a Reserves Policy which was an articulation of the MYFS 'Principles of Financial Management'.

### *Principle #7:*

*"Council and management will develop and adopt a plan for enhancing and sustaining reserves.*

- *Reserves must be budgeted for in operating budgets.*
- *A portion of the debt servicing savings will be redirected to reserves.*
- *HRM will pursue methods to enhance externally funded reserves."*

In March of 2014, Government Relations and External Affairs released a new "HRM Policy Framework Package" (Policy Framework) to guide staff on the creation and revisions of internal and external HRM Policies. Under the new Framework, the Reserves Policy would be classified as an Administrative Order, as it provides details on the process of how strategic direction is implemented.

## **DISCUSSION**

The reserve policy was approved as part of the broader MYFS in 1998, but the format of the policy is more reflective of procedures or guidelines to manage reserves. The revised Administrative Order is organized as an overall framework for the administration of Council-approved reserve funds, and the 1998 policy has been re-formatted as guidelines to support the overall framework.

The distinguishing difference to the original 1998 policy is the improved direction on the purpose for establishing a new reserve account, as an optimal funding strategy. Each account should align with one of three specific purposes outlined in the framework, namely:

- Contingency Funds for Opportunities;
- Contingency Funds for Risk; or
- Savings Funds for Obligations.

Regional Council still hold full accountability for approving, amending, funding and eliminating reserves as it has previously. Regional Council also still approves all expenditures from reserves through the annual budget cycle and receives quarterly reporting on account activity. The CAO and Audit and Finance Standing Committee are required to review and recommend any new or revised business cases, as well as budget impacts.

Supporting the new Financial Reserves Administrative Order are specific Corporate Guidelines and a Reserve Business Case template to assist staff with the interpretation and consistency of application. The Director of Finance has approved both of these supporting documents.

## **FINANCIAL IMPLICATIONS**

There are no direct financial implications associated with the recommended Administrative Order. It is the intention of staff that the policy review and update will result in an improved level of financial management.

## **COMMUNITY ENGAGEMENT**

None identified as this is an administrative policy.

**ENVIRONMENTAL IMPLICATIONS**

None identified.

**ALTERNATIVES**

The Committee could choose to maintain the December 1, 1998 version of the Reserves Policy. This is not recommended in light of staff's continuous improvement objective to ensure our corporate policies are current and relevant, as they relate to HRM's strategic direction.

**ATTACHMENTS**

- A. Administrative Order 2014-015-ADM respecting Reserve Funding Strategies
- B. Terms of Reference for the Audit & Finance Standing Committee

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A copy of this report can be obtained online at <http://www.halifax.ca/commcoun/index.php> then choose the appropriate Community Council and meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

Report Prepared by: Crystal Nowlan, Sr. Financial Consultant, Financial Policy & Planning, 490-1342

Original Signed

Report Approved by: \_\_\_\_\_  
Bruce Fisher, Manager, Financial Policy & Planning, 490-4493

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**Attachment A  
(Proposed Administrative Order)**

**ADMINISTRATIVE ORDER NUMBER 2014-015-ADM  
RESPECTING RESERVE FUNDING STRATEGIES**

**BE IT RESOLVED AS AN ADMINISTRATIVE ORDER** of the Council of the Halifax Regional Municipality under the authority of the *Halifax Regional Municipality Charter*, as follows:

**Short Title**

1. This Administrative Order may be known as the “*Financial Reserves Administrative Order*”.

**Purposes**

2. The purposes of this *Administrative Order* are to:

- (a) assist in planning for the long-term financial health and stability of the Municipality;
- (b) assist in removing unstable and unpredictable tax rates;
- (c) integrate the Reserve Business Cases into the Business Planning and Long-term Operating and Capital Budgets;
- (d) ensure the Municipality has the ability to fund projects and events:
  - (i) that produce long-term efficiency gains,
  - (ii) that are strategic or require significant cost sharing between the Municipality and another person or level of government,
  - (iii) between budget approvals where there is sudden or unexpected business opportunity,
  - (iv) where future obligations can be reasonably foreseen, and
  - (v) where substantial risk to the Municipality may occur; and
- (e) reduce the current and future financial impacts to the taxpayer by minimizing significant budget fluctuations and reliance on debt financing by balancing the need for sufficient funds for unforeseen opportunities or obligations with the inefficient use of resources that could otherwise be used for current financial obligations or needs.

**Interpretation**

3. In this Administrative Order,

- (a) “Council” means the Council of the Municipality;
- (b) “Municipality” means the Halifax Regional Municipality; and
- (c) “Reserve” means accounts on the municipal balance sheet in which funds are held for a future use that is permitted under the *Halifax Regional Municipality Charter*.

### **Roles and Responsibilities**

4. Council shall consider,
  - (a) in respect of the annual Reserve Budget, whether to
    - (i) approve the Reserve Budget;
    - (ii) refuse to approve the Reserve Budget; or
    - (iii) approve the Reserve Budget, with any changes Council considers appropriate; and
  - (b) with respect to the Reserve Business Case, whether to .
    - (i) approve the Reserve Business Case;
    - (ii) refuse to approve the Reserve Business Cases; or
    - (iii) approve the Reserve Business Case, with any changes Council considers appropriate.
5. The Audit and Finance Standing Committee shall review and recommend to the Council for its consideration all impacts to the Reserves.
6. The Chief Administrative Officer may recommend to the Council that Reserve funds be expended.
7. The Director of Finance shall:
  - (a) review the active Reserves annually to ensure that funds are contributed and withdrawn according to the approved Reserve Business Case, relevant policies of the Municipality, and accounting policies;
  - (b) review each Reserve at set intervals to ensure continuing relevance and adequacy with the strategic direction of the Municipality;
  - (c) provide to the Council an annual report on Reserve activity and balances;  
and

(d) recommend to the Council the closure of any Reserves whose purpose is outdated or to combine any Reserves with similar purposes.

### **Establishing a Reserve**

8. The establishment of a Reserve shall require:

(a) a clear and specific purpose which captures the strategic goal and related success factors, and such purpose shall be set out in the Reserve Business Case;

(b) identifying the source of the funding for the Reserve and its relation to its stated purpose;

(c) identifying the risks and consequences of not establishing the Reserve;

(d) identifying a maximum and minimum balance which should be set to meet the purpose of the Reserve, and identified in the Reserve Business Case; and

(e) setting a start and end date for the Reserve based on its purpose, including any required conditions for renewal.

### **Types of Reserves**

9. (1) Council may only create Reserves for the following purposes:

(a) a contingency fund for opportunities;

(b) a contingency fund for risk; and

(c) a saving funds for future obligations.

(2) A contingency fund for opportunities recognizes that:

(a) not all expenditures are planned or anticipated; and

(b) an opportunity may arise to develop services or achieve efficiencies and that the Municipality must react rapidly or lose that opportunity, such as a sudden change in the economy or the introduction of cost shared programs from other levels of government or the private sector.

(3) A contingency fund for risk recognizes that:

(a) the financial risk of unforeseen events involving substantial costs, such as emergencies or economic events, and that a Reserve can mitigate this risk by providing funding for sufficient public safety or preventing service interruptions.

(b) a withdrawal from a contingency fund for risk must be quantifiable or subject to estimate based on assumptions.

(4) A saving fund for future obligation recognizes that:

(a) an obligation may be associated with recapitalization of a specific asset where the estimated lifecycle cost of an asset can be reasonably estimated;

(b) an obligation may be associated with a strategic plan where the asset or project may not yet be specified, such as the purchase of land; and

(c) that a future expenditure may be managed through the long-term operating or capital budget, depending on the magnitude or situation of the obligation.

### **Administration of Reserves**

10. No Reserve shall have a negative balance.

11. (1) Staff shall not redesignate or transfer funds between Reserves for short-term needs unless approved by the Council.

(2) If Council approves an inter-reserve transfer or to redesignate funds pursuant to subsection (1) of this section, the resolution granting such approval shall prescribe the terms of repayment to a maximum of three (3) years to return the Reserve to its original purpose.

12. A Reserve may be funded by internal or external sources, providing that the source of the funds does not impose restrictions on the use of such funds that are contrary to the purpose of the Reserve.

### **Amendments to Reserves**

13. (1) Amendments to an existing Reserve may result from a change in the strategic direction of the Municipality, or the relevance of the Reserve's defined purpose.

(2) Upon review by staff of the change in strategic direction or the change in defined purpose, staff may recommend to the Council that the Reserve be revised or closed and Council may consider such a recommendation.

### **Corrections to Reserves**

14. Management of Reserve balances and correction of errors may be approved by the Director of Finance, within the parameters of Council's direction as set out in the approved Reserve Business Case.

### **Repeal**

15. The Reserves Policy adopted by the Council on December 1, 1998 is repealed.

Done and passed this    day of                    , 201   .

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Mayor

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Municipal Clerk

I, Cathy Mellett, Municipal Clerk of the Halifax Regional Municipality, hereby certify that the above noted Administrative Order was passed at a meeting of Halifax Regional Council held on                    ,                    , 201   .

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Cathy Mellett, Municipal Clerk

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**Attachment B  
(Proposed Changes to sections 3.2 and 7)**

**Audit and Finance Standing Committee  
Terms of Reference**

**1. Objective:**

The principle role of the Audit and Finance Standing Committee is to provide advice to Council on matters relating to audit and finance. The objectives of the Committee are to a) fulfill the requirements as outlined in Section 48 of the HRM Charter and to b) assist Council in meeting its responsibilities by ensuring the adequacy and effectiveness of financial reporting, risk management and internal controls.

**2. Composition:**

Up to eight (8) members of Regional Council – one (1) appointed from each Community Council and up to five (5) at-large appointments.

Term: Community Council appointments to serve two (2) year terms to maintain the learning curve, the technical knowledge, and the complexity of the Committee’s work and Members at large to serve a one (1) year term. Chair & Vice-Chair to be elected annually in November by the members.

| <b>Community Council Appointments (1 each)</b>  | <b>Members at-large</b>     | <b>Ex officio</b> |
|---|-----------------------------|-------------------|
| Halifax & West Community Council<br>North West Community Council<br>Harbour East – Marine Drive Community Council | Up to Five Members at large | Mayor             |

- i) the Audit & Finance Standing Committee shall consist of no fewer than five (5) and no more than eight (8) members of Regional Council
- ii) Regional Council extended the current Councillor appointments to November 30, 2014

**3. Duties and Responsibilities**

**3.1 Audit**

3.1.1 Review the qualifications, independence, quality of service and performance of

the External Auditors annually and recommend to Regional Council the appointment or discharge of the External Auditors

3.1.2 Carry out the responsibilities of the Audit Committee as outlined in Section 48 (2) of the HRM Charter, including but not exclusive to:

- (a) Review in detail, the financial statements of the Municipality with the External Auditors
- (b) Evaluate internal control systems and management letters with the External Auditors
- (c) Review the conduct and adequacy of any internal audit undertaken
- (d) Review matters arising out of any internal audit that require further investigation
- (e) Undertake other actions determined by the Council to be the duties of the Audit Committee

3.1.3 Review with management and the External Auditor and recommend to Council for approval, the annual audited financial statements.

## 3.2 Finance & Risk Management

3.2.1 Review with Finance management the monthly financial forecast and KPIs (key performance indicators) to be presented to Council

3.2.2 Review annually the debt and interest risk management activities proposed for the upcoming year by the CFO

3.2.3 Review annually with Finance management and report to Council on the appropriateness of financial accounting policies, disclosures, forecasts

3.2.4 Ensure the adequacy and effectiveness of the systems of internal control in relation to financial controls and risk management as established by Administration.

3.2.5 Review bi-annually with management the enterprise risk management and financial implications coming from such including: Environmental, Human Resources, Operational and the insurable risks and insurance coverage strategy of the municipality.

3.2.6 Review , as required, any other policies, procedures, forecasts, reports or process as agreed to mutually by the Municipality's CAO and the Committee.

**3.2.7 Review and recommend to Council all impacts to Reserves for approval, as set in the *Financial Reserves Administrative Order*.**

3.2A The mandate of the Audit & Finance Committee shall include auditing, finance and risk management of the Halifax Regional Library.

## 3.3 Liaison with Auditor General

Notwithstanding Section 49 of the HRM Charter which outlines the role, independence and reporting relationship of the Municipal Auditor General, the Audit and Finance Standing Committee shall act as a liaison and communication link between the Auditor General and Regional Council.

- 3.4 Liaison with Provincial Property Valuation Service through representation on the Union of Nova Scotia Municipalities (UNSM) oversight board
- 3.5 Liaison with the Investment Policy Advisory Committee through appointment of the Council representative to the Committee
- 3.6 Liaison with the Grants Committee and Special Events Advisory Committee through nomination of the Council and Citizen representatives and appointment of the Chair of the Committees from a member of the Audit and Finance Standing Committee.
- 3.7 Other matters as may be determined by Regional Council.
- 3.8 To review and make recommendations on proposals coming to Halifax Regional Council outside of the annual budget or tender process including but not limited to:
  - New programs or services not yet approved or funded
  - Programs or services that are being substantially altered
  - Proposed changes in any operating or project budget items
  - Committing of funds where there is insufficient approved budget, or,
  - New or increased capital projects not included in the approved budget
  - Increases in project budget due to cost sharing
  - Creation or modification of reserves and withdrawals not approved in the approved budget

#### **4. Administration & Procedures**

- 4.1 Meetings of the Audit and Finance Standing Committee shall be scheduled on a monthly basis, or as determined by the Committee, with meetings being withdrawn when there are not sufficient items to provide a full agenda.
- 4.2 Administrative and meeting procedures shall be in accordance with Administrative Order 1 of the Municipality.
- 4.3 Pursuant to Section 20 (1) (c) of the Halifax Regional Municipality Charter, Regional Council delegate the power to direct staff to prepare reports to HRM Standing Committees provided that:
  - a) The topic of the report is consistent with the mandate of the Standing Committee as expressed in the Committee's terms of reference approved by Regional Council;and
  - b) The topic of the report is consistent with Regional Council's approved strategic priorities, budgets and policies.

**5. Staff Liaison**

Management support and liaison shall be through the office of the Director of Finance/CFO, and the Office of the Auditor General and the office of the Director of Legal Services & Risk Management (as required).

**6. Subcommittees**

The Audit & Finance Standing Committee shall appoint a subcommittee to oversee the contract of the Auditor General.

The subcommittee be comprised of the Mayor, the Chair and the Vice-Chair of the Audit and Finance Standing Committee. They shall report as required to the Audit and Finance Standing Committee who, in turn, report to Regional Council.

**7. Standing Committee Advisory Committees**

|                   |          |  |
|-------------------|----------|--|
| Investment Policy | Advisory | 1 member appointed from Audit & Finance – other appointments at large      |
| Grants            | Advisory | Chair appointed from Audit & Finance- other appointments <b>a at</b> large |
| Special Events    | Advisory | Chair appointed from Audit & Finance – other appointments at large         |