



P.O. Box 1749
Halifax, Nova Scotia
B3J 3A5 Canada

Item No. 9.1.2
Audit & Finance Standing Committee
March 27, 2015

TO: Chair and Members of Audit & Finance Standing Committee

Original Signed

SUBMITTED BY:

Greg Keefe, Director of Finance & ICT/CFO

DATE: March 13, 2015

SUBJECT: Operating Costs of New Capital Reserve Account Q320 Closure

ORIGIN

Administrative Order 2014-015-ADM respecting Reserve Funding Strategies.

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 & Finance Standing Committee recommend Regional Council to close the Reserve Account Q320 – Operating Costs of New Capital.

BACKGROUND

The Operating Costs of New Capital (OCC) Reserve Account Q320 was created on May 30, 2006. Its purpose was to “smooth fluctuations in expenditures due to the timing of completion of capital projects”.

Operating costs are initially budgeted in Corporate Accounts for the prorated portion of the fiscal year when the asset is ready to be brought into service. If, for a variety of reasons, the completion date of the capital project differs from the original timeline, there will likely be an operating budget variance. If the completion date is extended to a future fiscal year, then the Reserve provides a mechanism to carry forward the original operating budget instead of re-submitting a new one.

DISCUSSION

Per the Q320 Reserve Business Case, the timeline section indicates that the Reserve “is intended to be permanent subject to annual review as to its usefulness to the organization in accordance with the Reserves Policy”.

Although the requirement for OCC will continue to be required as an ongoing adjustment to the annual operating budget due to the continual additional of new assets and infrastructure, current review has resulted in a question as to whether the Reserve is still a relevant funding strategy.

Reserve Q320 does not support any of the three funding strategy purposes under the new Reserve Framework, which are:

- Contingency Funds for Opportunities
- Contingency Funds for Risk
- Saving Funds for Future Obligations

Efforts to continuously improve estimation of capital budget timelines and associated operating costs of new assets will reduce the OCC budget variance year to year. The introduction of Capital Projections reporting in 2014/15 reflects the efforts of staff to better understand and communicate project scope, costs and timelines. This new reporting process will improve the awareness of connectivity between the capital project and associate lifecycle operating costs.

Continuing to carry forward previous OCC budgets within the Reserve can add redundant administrative tracking and follow-up review processes.

Once the Reserve is closed, if approved, the requirement to resubmit an updated OCC budget if the capital project is delayed to a future fiscal year will require the asset steward to remain closely engaged with the project and ensure adequate funds are transferred into the operating budget in a timely manner to adequately service the asset.

FINANCIAL IMPLICATIONS

By closing the Q320 Reserve Account in favour of adding an Operating Costs of New Capital budget item into the annual Operating Budget cycle, in Corporate Accounts, will safeguard against an inefficient use of resources which could otherwise be deployed for current needs.

COMMUNITY ENGAGEMENT

None identified as this is an internal administrative process.

ENVIRONMENTAL IMPLICATIONS

None identified.

ALTERNATIVES

Reserve Account Q320 could remain in use. This is not recommended by staff, as there is a risk that funds budgeted for operating new assets, yet not requested to be transferred into the current operating budget could commit funds unnecessarily that would be better utilized for other, current needs.

ATTACHMENTS

- A. May, 2006 Business Case - Operating Costs of New Capital Reserve Account Q320
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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

ATTACHMENT A

Reserves Business Case

Halifax Regional Municipality • Financial Analysis and Budgets • Finance Department • 490-6470 • Fax: 490-6238

Date: June 6, 2006
Contact: Director, Finance

Operating Costs of New Capital - Q320

Purpose

To provide a mechanism to carry forward funds earmarked in the operating budget for the implementation and initial ongoing operating costs of new capital assets. Any initial implementation and operating costs associated with the new capital asset are budgeted in the same year as the capital project. For a variety of reasons, completion of capital projects may occur later than the end of the year in which they are approved. Without a mechanism to carry forward operating funds, any implementation and initial ongoing operating funds unexpended at the end of the fiscal year must be re-budgeted in the following fiscal year. This will produce a favorable variance in the current fiscal year, while putting pressure on the operating budgets in subsequent years. The Reserve can thus be used to smooth fluctuations in expenditures due to the timing of completion of capital projects.

Source of Funds

At the end of each fiscal year, an amount will be transferred to the Reserve from Fiscal Services cost centre M317 "Operating Costs for New Capital". This amount will be determined through Finance's review of the unexpended implementation and initial ongoing operating budgets associated with specific capital projects which remain as work-in-progress at the end of the fiscal year.

Application of Funds

At project implementation, any funds earmarked to support the implementation of the specific project will be transferred as required. Upon project completion, any ongoing funds earmarked in the Reserve for that specific project will be transferred to the appropriate cost centre in the operating fund. Any funds earmarked but not required will be transferred to the operating fund as a year end surplus.

Interest received in the account will be used to offset inflation costs on a prorata basis where appropriate.

Time Line

The Reserve is intended to be permanent subject to annual review as to its usefulness to the organization in accordance with the Reserves Policy.

Approval Process

At the end of each fiscal year, Finance will complete an analysis of all the capital projects

which remain as work-in-progress. The total of the implementation and initial ongoing operating budgets remaining unexpended for those projects will be compared to any funds remaining unexpended from cost centre M317. Based on this information, the Director of Finance will recommend to Council the amount of the transfer from cost centre M317 to the Reserve. The recommendation will be included as part of the report recommending approval of the year-end financial statements.

Attachments

Because it is difficult to predict which projects will be delayed, it is not possible to show a projection of annual contributions, withdrawals, and balances. Instead, the balance will be reviewed on an annual basis in conjunction with the approval process outlined above to determine if it is appropriate for the projects which remain outstanding to be completed. In addition, should Finance determine there to be excess funds in this reserve, a recommendation will be made to Council regarding the appropriate use of such funds.

Approval

CAO