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Item No. 9.1.1
Audit & Finance Standing Committee
May 20, 2015

TO: Chair and Members of Audit & Finance Standing Committee

Original Signed

SUBMITTED BY:

Richard Butts, Chief Administrative Officer

Original Signed

Greg Keefe, Director of Finance & ICT/CFO

DATE: May 6, 2015

SUBJECT: Strategic Studies Reserve Q330

ORIGIN

December 3, 2014 Capital Budget Presentation to Committee of the Whole recommended to "Direct staff to prepare the preliminary 2015-16 capital program budget, as well as an additional four years up to and including 2019-20, as a basis to prepare a detailed capital and reserves budget".

LEGISLATIVE AUTHORITY

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

Administrative Order 2014-015-ADM: Reserve Funding Strategies

RECOMMENDATION

It is recommended that the Audit & Finance Standing Committee recommend Halifax Regional Council to approve the establishment of the Strategic Studies Reserve (Q330), as per the attached Reserve Business Case.

BACKGROUND

As a result of the 2015-16 capital program budget preparation, some projects have been identified to be operating in nature. These projects have been classified in the past as part of the project budget for various reasons including the tendency of the projects to extend beyond the fiscal year end. These projects should, however, be part of the operating budget for the Business Unit leading the initiative.

During the budget process, staff identified funds related to studies that are intended for planning policy instead of planning for the construction of an asset to be transferred from the capital program budget to the operating budget beginning in the 2015-16 fiscal year.

DISCUSSION

The Strategic Studies Reserve is intended to provide a long-term funding strategy to allow the municipality adequate opportunity to ensure evidence-based research is available to staff in their preparation of quality policy direction.

The reserve is not intended to fund all studies or external consulting undertaken for the municipality, but only those which support a broader and more strategic introduction or overhaul to policy direction. Studies not to be funded by the reserve would include deliverables which suggest on-going changes or updates to current service delivery plans.

In previous years, capital from operating contributions to the capital budget funded annual projects. These contributions will be reduced from the capital budget and directed instead to the reserve, at a level which is determined to be a sufficient allocation of resources for the long-term business plan need.

Withdrawals from the reserve require a project charter commitment to be approved by both the Business Unit Director and the Director of Finance & ICT. The charter will define the specific focus of the study and how its deliverables are directly linked to Regional Council's strategic direction and priority outcomes. The charter will also communicate scope, financial and schedule expectations to the stakeholders involved.

FINANCIAL IMPLICATIONS

Annual funding will be provided from Corporate Accounts operating budget. Business Units will be required to submit a 3 to 5-year strategic study list during the annual business planning cycle for long-term reserve planning. Studies ready to execute will submit an approved project charter which will be reviewed and prioritized during the annual operating budget preparation. Studies presented outside the annual budget cycle for consideration will require Regional Council's approval for withdrawal.

It is not the intent of the reserve to fund 100% of all expected studies or to commit funds within the reserve to proposals not yet tendered, but rather to share the risk of early or late study completion. As such, there may be times when additional appropriations are required outside the annual budget process.

For 2015-16, the first year for the reserve, \$450,000 was budgeted in Corporate Account M471 as a contribution to the Reserve. In addition to this amount, \$2,783,888 remaining unspent from prior years for project studies funded from Capital from Operating was moved to this new reserve for March 31, 2015. The total contributions for the Reserve to date total \$3,233,888.

COMMUNITY ENGAGEMENT

None

ENVIRONMENTAL IMPLICATIONS

Implications not identified.

ALTERNATIVES

1. Regional Council may choose not to approve the proposed Strategic Studies Reserve business case at this time. This is not the recommended option as the reserve provides a long-term funding strategy for municipal research opportunities.

ATTACHMENTS

1. Strategic Studies Reserve (Q330) Business Case

A copy of this report can be obtained online at <http://www.halifax.ca/boardscom/SCfinance/index.php> then choose the appropriate 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 1

Reserve Business Case: Strategic Studies Q330

Purpose

The Strategic Studies Reserve is intended to provide a funding strategy to support organizational research for policy direction and long-term municipal planning. Projects qualifying for funding from this reserve will typically require specialized expertise of external consultants for a period extending one fiscal year. The studies' deliverables will provide evidence-based research to direct staff to write policy which will redefine business needs for a regional impact. Expenditures for withdrawal from the reserve must be supported by an approved project charter. This reserve is not meant to provide funding for regular consulting contracts required for short-term service delivery impacts. Operating budget funded studies' deliverables suggest regular changes or updates to current service delivery plans, rather than a broader and more strategic overhaul or revamp to policy direction which would be funded by the reserve.

The reserve is classified under Administrative Order #2014-015-ADM Respecting Reserve Funding Strategies as *Contingency Funds for Opportunity*, as there is a corporate goal for on-going future research opportunities but not all expenditures are planned or anticipated.

Source of Funds

Initial funding for the Strategic Studies Reserve was \$2,783,888 from Fiscal accounts for nine (9) project submissions as at March 31, 2015. The amount is a result of Capital-from-Operating funds being reduced and redirected from the Capital Budget. Beginning 2015/16, \$450,000 in new funding has been approved through the budget process. On-going annual contributions from Corporate Accounts shall ensure the Reserve balance is maintained within set thresholds.

Application of Funds

A project charter must be submitted to the Business Unit Director for approval and then reviewed by Director of Finance & ICT for recommendation to the Chief Administrative Officer and Regional Council.

Funding from the Strategic Studies Reserve will be allocated for costs incurred in achieving the approved charter deliverables in scope, on a cost recovery basis to the Business Unit's operating budget. Any variance to the original project charter budget will be managed through Administrative Order #35 – *Procurement Policy* and Administrative Order #2014-015-ADM – *Financial Reserves*. Any change in scope in the project's deliverable requires an updated charter to be submitted to the Director of Finance & ICT prior to reserve withdrawal.

Time Line and Balances

The Strategic Studies Reserve is intended to support municipal long-term planning. The business case should be reviewed and updated for relevance with Regional Council Priority Outcomes and the Multi-Year Financial Strategy every ten (10) years.

The minimum threshold for reserve balance should be ten percent (10%) of the current approved project charters in-progress, as a contingency for potential project overages.

Resources held in the reserve should not exceed a maximum threshold of four million dollars (\$4,000,000), unless approved by the Director of Finance & ICT.

Approval Process

Project Charters may be initiated from all Business Units in the Municipality. Business Unit Directors shall submit approved charters to the Director of Finance & ICT during the annual budget planning process or as the business need arises. Available reserve funds will be confirmed by Finance and allocated based on Regional Council's priorities and project readiness.

During the annual budget process, the Business Unit Directors shall also submit proposed high-level project concepts for a three (3) to five (5) year term to enable adequate financial and business planning.

Project Charter Leads shall submit updated project status reports to the Director of Finance & ICT on a quarterly basis, to align with the operating and capital quarterly projection reporting process. Any change in scope requires an updated project charter to be approved by both the Business Unit Director, for project deliverables, and Director of Finance & ICT, for reserve funding.

It is not the intent of the reserve to fund 100% of all expected studies or to commit funds within the reserve to proposals not yet tendered, but rather to share the risk of early or late study completion. As such, there may be times when additional appropriations are required outside the annual budget process.

Attachments

- A) 5-Year Cash Flow Projection
- B) Project Charter Template

Original Council Approval Date	
Effective Date of Last Revision	
Business Unit Director Contact	Director, Finance & ICT

Attachment A

**Strategic Studies Reserve
 Source and Application of Funds ('000's)**

	Estimated 2015/16	Estimated 2016/17	Estimated 2017/18	Estimated 2018/19	Estimated 2017/18
Opening Balance	2,784	919	840	834	924
Contributions					
Corporate Accounts Allocation	450	750	750	750	750
Withdrawals (based on 2015/16 Budget Submissions)					
Planning & Development Studies	(2,058)	(300)	(300)	(200)	(650)
Parks & Recreation Studies	(143)	(300)	(300)	(300)	(300)
Transportation & Public Works Studies	(73)	(100)	(100)	(100)	(100)
Operations Support Studies	(50)	(140)	(65)	(70)	(75)
	(2,324)	(840)	(765)	(670)	(1,125)
Interest Earned	9	10	10	10	8
Closing Balance	919	839	835	924	557
Minimum Threshold (10% of Projects)	232	84	77	67	113
Maximum Threshold	4,000	4,000	4,000	4,000	4,000

STRATEGIC STUDIES PROJECT CHARTER

PROJECT NAME:	
PREPARED BY:	
DATE:	

VERSION HISTORY:

Version	Date	Reason for Update / Sponsor's Signature for Approval (Out-of-scope requests require an impact analysis to project costs, resources, schedule and risk to success before approval is be provided.)
1.		
2.		

PROJECT DELIVERABLES:

(What does success look like? What questions does the study need to answer to fulfill its mandate? What are the product outcomes?)

#	Question To Be Answered By Study
1.	
2.	
3.	

PROJECT DESCRIPTION / SCOPE:

(What value does the study add to the organization? What factors determine in or out of scope?)

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REGIONAL COUNCIL DIRECTIVE / PRIORITY OUTCOME:

(Which Council Motions or Strategic Initiatives will the Study address?)

FINANCIAL IMPLICATIONS: <i>(Project Manager is required to submit quarterly financial projections to the Director of Finance & ICT)</i>		
Total Cost of Study		
Expenditures by Fiscal Year	Year 1	
	Year 2	
	Year 3	
SAP Cost Centre(s)		
Assumptions	<ul style="list-style-type: none"> • • • • 	

PROJECT TIMELINE: <i>(Project Manager is required to submit quarterly milestones' status update and impact to Study's End Date to the Director of Finance & ICT)</i>			
Start Date:		End Date:	
Milestones <i>(What action or product needs to occur to reach each milestone? Include any Procurement timelines.)</i>			Completion Date

Next Steps: <i>(What actions are expected once the Study is complete? What areas of public service may be impacted? Is there a hand-off to a process owner or implementation plan?)</i>

PROJECT TEAM / STAKEHOLDERS: (Including external contributors, other Business Units to be operationally impacted by the Study results, and administrative support Business Units)			
Name		Role	
Name		Role	
Name		Role	
Name		Role	
Name		Role	
Name		Role	

PROJECT COMMITMENT:	
The Charter documents the formal conversation between the Project Sponsor and Project Team.	
The agreement communicates the high-level lifecycle of the project, including the definition of success and resource requirements.	
PROJECT MANAGER	
PROJECT SPONSOR (Business Unit Director)	
DIRECTOR OF FINANCE & ICT (approval for Q330 funding)	