

RECOMMENDATION

It is recommended that the Audit & Finance Standing Committee recommend that Halifax Regional Council adopt the amendments to Administrative Order 2014-015-ADM, the *Financial Reserves Administrative Order*, as set out in Attachment 2 of this report.

BACKGROUND

The *Financial Reserves Administrative Order* (Administrative Order) was adopted by Council on October 28, 2014. There have been no amendments to it.

On November 23, 2021 staff put forward the 2022/23 Fiscal Framework with recommended changes to the Reserve Accounts and Council directed that staff make the appropriate changes in order that funds are repositioned to best take advantage and respond to future growth issues. The staff report dated November 9, 2021 stated:

Under the current Reserve Policy, each reserve is required to have a maximum amount. While some reserves specify a maximum, other reserves have never established a maximum. In some cases, a maximum is not the most appropriate approach to the business case. Staff are proposing amendments to the Reserve Administrative Order that will make the use of a maximum permissive, not mandatory. Business Cases reflect this proposed change.

Attachment 2 makes these changes to the Administrative Order, as well as several additional changes identified by staff.

DISCUSSION

Under the current Administrative Order, each reserve business case is required to set a minimum and a maximum amount. The proposed amendments remove the requirement for a maximum as directed. While some reserves specify a maximum, other reserves have never established a maximum. In some cases, a maximum is not the most appropriate approach to the business case. New permissive maximums allow reserve balances to be repositioned and accompany the changes recommended to reserve policy approved on November 26, 2021 with the appropriate Reserve Business Cases.

In addition, the amendments remove the requirement for minimum balances to be held in reserve accounts. Again, this allows for more flexibly to allocate funds to appropriate reserve accounts, such as Strategic Initiative Reserves Accounts, where they can be best utilized following the business case.

Furthermore, amendments to the Administrative Order encompass changes in preparation and readiness planning in risk mitigation for Funding of Emergencies, such as the pandemic, by changing the reserve policies. These changes are designed to deal with the possible challenge of funding emergencies through borrowing reserve funds from a reserve for a purpose not envisaged in the business case, providing the purpose has been budgeted for or otherwise approved by Council. The ability to declare a funding emergency would rest with Council, with one exception. The Mayor alone could declare a funding emergency only if the Mayor had already declared a state of local of emergency and the Mayor is of the opinion that additional funds in the current operating or capital budget may be required to protect the property or the health, safety, or welfare of the Municipality or its residents. Staff cannot declare a funding emergency.

The addition of a funding emergency is in response to the liquidity risk that HRM faced during the 2020 pandemic. The wording contained within the proposal was developed at that time but was never brought forward to Council. Staff are recommending that it be added to the Administrative Order so that, should there ever be another similar emergency, the option will be established, for use by a future Council.

Lastly, staff are recommending amendments to update the title from the “Director” of Finance to the “Executive Director” of Finance.

In summary, the changes to the Administrative Order focus on two changes:

1. Change the requirement for maximums on reserve account balances, the previous requirements were outdated. There is no need to require maximums on reserve balances as it does not always align with business cases for reserves. Funding of reserves should be as outlined in the revised Administrative Order outlined in Attachment 1.
2. Providing for Funding the emergencies as outlined in section 13A of the Administrative Order should the need arise again in future.

FINANCIAL IMPLICATIONS

In instances of Financial Emergencies, there are possible financial implications on all reserve balances as funds could be transferred from one Reserve account to another use and carry on with approved operations of the Municipality.

There are also Financial Implications related to the maximum reserve balances. With this change there is now no requirement to fund a maximum balance and the maximum balances are now to be determined as required by business cases.

RISK CONSIDERATION

There are no risks identified with the recommendations of this report.

COMMUNITY ENGAGEMENT

The proposed changes are in keeping with the approved statutes and Council Priority Outcomes. No Community Engagement required.

ENVIRONMENTAL IMPLICATIONS

No environmental implications were identified.

ALTERNATIVES

The Reginal Council could maintain the current Administrative Order and elect not to authorize this modification. This is not recommended as the proposed changes mitigate future risks of Financial Emergencies and other changes in-line with Council Objectives.

ATTACHMENTS

Attachment 1 – Showing Proposed Changes to Administrative Order 2014-015-ADM
Attachment 2 – Amending Administrative Order

A copy of this report can be obtained online at halifax.ca or by contacting the Office of the Municipal Clerk at 902.490.4210.

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ATTACHMENT 1

(Showing Proposed Changes)

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 **Executive** 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**

(ca) provide to the Council as part of the annual Budget, a Reserve Budget and Plan for the proceeding four years; 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, **as appropriate,** 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. Repeal.~~

11A. Unless a funding emergency has been declared under section 13A, Reserve funds may only be borrowed from Q526, the Capital Fund Reserve.

11B. (1) Nothing in this Administrative Order shall prevent Council from withdrawing or contributing to a Reserve.

(2) Withdrawals and contributions to Reserves are further regulated under the *Halifax Regional Municipality Charter*.

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.

Funding Emergencies

13A. (1) Council may, by resolution, declare a funding emergency exists.

(2) When considering if a funding emergency exists, Council may consider any matter Council considers appropriate, including:

(a) whether a state of emergency or a state of local emergency has been declared under the *Emergency Management Act*; or

(b) whether there is a present or imminent event that may require funds in addition to the funds in the current operating or capital budget to protect the property or the health, safety, or welfare of

- (i) the Municipality, or
- (ii) the residents of the Municipality.

(3) The Mayor may declare that a funding emergency exists if the Mayor:

(a) has already declared a state of local emergency under subsection 12 (3) of the *Emergency Management Act*; and

(b) is of the opinion that funds in addition to the funds in the current operating or capital budget may be required to protect the property or the health, safety, or welfare of

- (i) the Municipality, or
- (ii) the residents of the Municipality.

(4) The declaration of a funding emergency authorizes the borrowing from the Reserves notwithstanding:

(a) Schedule 2 of Administrative Order One, the *Procedures of the Council Administrative Order*;

(b) any Reserve Business Case approved by Council under this Administrative Order; or

(c) any other section of this Administrative Order except section 10;

(5) The borrowing from a Reserve is subject to the following conditions:

(a) any funds borrowed from Q611, the Parkland Reserve, must be

expended in accordance with section 283 of the *Halifax Regional Municipality Charter*;

(b) no funds may be borrowed from Q506, Landfill Closure and Post Closure Costs Reserve; and

(c) only Council may authorize borrowing from Q526, the Capital Fund Reserve, and such authorization must specify the terms of repayment and interest rate for any funds borrowed.

(6) Subject to subsection 5, where a funding emergency has been declared, the Chief Financial Officer, with the concurrence of the Chief Administrative Officer, may borrow Reserve funds for any purpose that has been budgeted for or otherwise approved by Council, including any operating or capital expense, the replacement of any approved revenues or funding, or to generally account for the operations of the Municipality.

(7) If any Reserve funds borrowed under subsection (6) of this section were previously approved for use by Council, the Chief Financial Officer is authorized to seek an alternative source of funds to replace those amounts previously approved by Council, including identifying to Council options for debt funding or cost sharing.

(8) Any borrowing under subsection (6) of this section, must be promptly reported to Council as a part of the public record, and must include any amounts borrowed, any alternative funding sought, and any operations or projects delayed.

Corrections to Reserves

14. Management of Reserve balances and correction of errors may be approved by the **Executive** 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 28th day of October, 2014.

Mayor

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 October 28, 2014.

Cathy Mellett, Municipal Clerk

ATTACHMENT 2
(Amending 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, that Administrative Order 2014-015-ADM, the *Financial Reserves Administrative Order*, is amended as follows:

1. Section 7 is amended by:
 - (a) adding the word “Executive” before the word “Director” and after the word “The”;
 - (b) striking out the word “and” at the end of clause (c); and
 - (c) adding clause (ca) after clause (c) and before clause (d), as follows:
 - (ca) provide to the Council as part of the annual Budget, a Reserve Budget and Plan for the proceeding four years; and
2. Clause 8(d) is amended by:
 - (a) adding the words and comma “, as appropriate,” after the word “identifying” and before the words “a maximum”;
 - (b) striking out the words “and minimum” after the word “maximum” and before the word “balance”.
3. Section 11 is repealed.
4. Sections 11A and 11B are added after the newly repealed section 11 and before section 12, as follows:
 - 11A. Unless a funding emergency has been declared under section 13A, Reserve funds may only be borrowed from Q526, the Capital Fund Reserve.
 - 11B. (1) Nothing in this Administrative Order shall prevent Council from withdrawing or contributing to a Reserve.
 - (2) Withdrawals and contributions to Reserves are further regulated under the *Halifax Regional Municipality Charter*.
5. Section 13A is added after section 13 and before section 14, as follows:

Funding Emergencies

 - 13A. (1) Council may, by resolution, declare a funding emergency exists.
 - (2) When considering if a funding emergency exists, Council may consider any matter Council considers appropriate, including:
 - (a) whether a state of emergency or a state of local emergency has been declared under the *Emergency Management Act*; or

(b) whether there is a present or imminent event that may require funds in addition to the funds in the current operating or capital budget to protect the property or the health, safety, or welfare of

- (i) the Municipality, or
- (ii) the residents of the Municipality.

(3) The Mayor may declare that a funding emergency exists if the Mayor:

(a) has already declared a state of local emergency under subsection 12 (3) of the *Emergency Management Act*; and

(b) is of the opinion that funds in addition to the funds in the current operating or capital budget may be required to protect the property or the health, safety, or welfare of

- (i) the Municipality, or
- (ii) the residents of the Municipality.

(4) The declaration of a funding emergency authorizes the borrowing from the Reserves notwithstanding:

(a) Schedule 2 of Administrative Order One, the *Procedures of the Council Administrative Order*;

(b) any Reserve Business Case approved by Council under this Administrative Order; or

(c) any other section of this Administrative Order except section 10;

(5) The borrowing from a Reserve is subject to the following conditions:

(a) any funds borrowed from Q611, the Parkland Reserve, must be expended in accordance with section 283 of the *Halifax Regional Municipality Charter*;

(b) no funds may be borrowed from Q506, Landfill Closure and Post Closure Costs Reserve; and

(c) only Council may authorize borrowing from Q526, the Capital Fund Reserve, and such authorization must specify the terms of repayment and interest rate for any funds borrowed.

(6) Subject to subsection 5, where a funding emergency has been declared, the Chief Financial Officer, with the concurrence of the Chief Administrative Officer, may borrow Reserve funds for any purpose that has been budgeted for or otherwise approved by Council, including any operating or capital expense, the replacement of any approved revenues or funding, or to generally account for the operations of the Municipality.

(7) If any Reserve funds borrowed under subsection (6) of this section were previously approved for use by Council, the Chief Financial Officer is authorized to seek an alternative source of funds to replace those amounts previously approved by Council, including identifying to Council options for debt funding or cost sharing.

(8) Any borrowing under subsection (6) of this section, must be promptly reported to Council as a part of the public record, and must include any amounts borrowed, any alternative funding sought, and any operations or projects delayed.

6. Section 14 is amended by adding the word "Executive" after the word "the" and before the word "Director".

Done and passed this day of , 202 .

Mayor

Municipal Clerk