



Policy Title: Reserves
Policy Number: CFO013
Report Number: FCS2010-25
Approved by: Council
Effective Date: 2010 December 6
Business Unit: Chief Financial Officer's Department

BACKGROUND

The creation, use and management of reserve funds in a formalized financial reserve policy is a best practice and consistent feature of most large cities in Canada and the U.S. Reserves are part of good management that allows for funds to be spent judiciously over time or to ensure service levels are maintained and not immediately impacted by a potential downturn in the economy.

Reserves are used to accumulate funds over time to replace capital assets, and also to provide a measure of financial flexibility to react to budget shortfalls or the financial impact of significant unexpected issues in a timely manner. A properly balanced approach to the planning and use of reserves is considered good financial management and is a key component of The City of Calgary's strong credit rating.

A clear policy is required to provide appropriate guidance for the responsible stewardship of reserves and to ensure that these funds are managed prudently.

This policy has been developed in accordance with the City of Calgary's Integrated Risk Management (IRM) Policy and Framework.

PURPOSE

The purpose of this policy is to define and delineate how City of Calgary reserves are created, amended, closed, administered and reviewed.

POLICY

1.1. Creating a new reserve

The Priorities and Finance Committee (PFC) shall forward to Council for approval a report requesting a new reserve. The report will include:

- i. Reserve name,
- ii. Intended purpose of the reserve,

- iii. Designation of whether the reserve is capital, operating or sustainment,
- iv. Expected time period for which the reserve will be required,
- v. Whether the reserve relates to a specific project or on-going program,
- vi. Funding source(s),
- vii. General calculation of funding source (e.g. one-time contribution, specific annual value or formula based),
- viii. Budget programs affected (for both contributions to the reserve and withdrawals from reserve),
- ix. Minimum and maximum target balance for the reserve (if applicable),
- x. Any special reporting requirements,
- xi. Conditions (e.g. limitations on fund balance and or contributions)
- xii. Restrictions (e.g. limiting how much can be withdrawn), and
- xiii. Consequence of not creating the reserve (risks, possible alternatives and consequences).

1.1.1. *Approval of new reserves*

Requests will be reviewed by the Chief Financial Officer (CFO), then the City Manager and then forwarded to the PFC with a recommendation to Council for approval.

1.2. Amending or closing a reserve

- a. Amendments to a reserve may be undertaken:
 - i. As a response to the triennial review process in accordance with 1.4.; or
 - ii. Proactively by the originating City Department.
- b. The process for amending or closing a reserve for any purpose shall follow the same process as approving a new reserve as per 1.1.1. above.

1.3. Administering a reserve

- a. Administration shall manage a reserve in accordance with the reserve's purpose and any or all conditions and/or restrictions placed upon the reserve by Council. Reserves administration activities shall be undertaken throughout the year in accordance with the applicable administration policies.
- b. Revenue sources for reserves and expenditures from reserves are to be budgeted for in departmental budget programs.

1.3.2. *One-time contribution or use of funds not defined in authorizing documents*

- a. All one-time use of funds or contributions greater than \$200,000 not defined in the authorizing documents are to be reviewed by the CFO, then the City Manager and then forwarded to the PFC with a recommendation to Council for approval.
- b. One-time contributions up to \$200,000 are to be reviewed by the CFO and forwarded to the City Manager for approval.
- c. All one-time use of funds or contributions not defined in authorizing documents will be reported in the Annual Report on Reserves and Long-Term Liabilities (the Annual Reserves Report) for the year in which the transaction occurred.

1.3.3. *Investment Income*

Reserves meeting any of the following criteria shall earn and retain investment income:

- i. Endowment funds contributed to a reserve,
- ii. Legacy funds contributed to a reserve, including funds transferred from a closed reserve that earned investment income,
- iii. Funds where external agreements specify investment income will be earned, or
- iv. Specifically mandated by Council.

1.3.4. *Instances of over or under funding*

- a) The appropriate Department shall prepare an action plan to return a reserve back into compliance when:
 - i. A reserve has been over funded and has exceeded its applicable maximum target balance as approved by Council; or
 - ii. A reserve has been under funded and does not maintain its applicable minimum target balance as approved by Council.
- b) The action plan will be reviewed by the CFO and the City Manager and will be reported to the PFC and Council as part of the Annual Reserves Report.

1.3.5. *Annual Reporting Requirement*

Reserves information shall be reported to the PFC and to Council in the Annual Reserves Report for information purposes and in the Notes to the Financial Statements section of the Annual Report.

1.3.6. *Submitting reports directly to Council*

Any report being submitted directly to Council must be approved by the CFO and the City Manager prior to the report being added to Council's agenda, and shall be done only on an exception basis.

1.4. Periodic review of a reserve (Triennial Review process)

- a. Every active reserve will be reviewed at least once every three years.
- b. The selection process will strive to create an equal burden of work each year based upon selected criteria including dollar values, number of reserves to be reviewed and considering any overlap between programs.
- c. By the end of each year, the administrative review committee shall provide a report on the results of its review of the applicable reserves to the PFC for its review.
- d. The PFC will forward the report along with any recommendations derived from the review to Council for its approval.
- e. The triennial review report will also include, for approval, a list of reserves to be reviewed in the following year.

DEFINITIONS

<u>Term</u>	<u>Definition</u>
Generally Accepted Accounting Principles (GAAP)	The accounting principles for municipal government as recommended by the Canadian Institute of Chartered Accountants and the Public Sector Accounting Board.
Reserve	Funds authorized by Council to be set aside for funding of future expenditures.
Reserve Condition	Council mandated terms specifying either a minimum or a maximum reserve balance or other specific terms concerning the type of contributions into a reserve.
Reserve Restriction	Council mandated terms limiting the use of reserve funds.

PROCEDURE

To be addressed in suite of Administrative policies.

AMENDMENTS

This policy replaces FB98-27, approved by Council May 5, 1998

2016 November 3 - Minor revisions to reflect:

1. Change from Standing Policy Committee on Finance and Corporate Services (SPC on FCS) to Priorities and Finance Committee (PFC) (Procedure Bylaw 44M2006, as amended by Bylaw 60M2011)
2. Name change from Reserves Report to the Annual Reserves Report