

Council Policy

Policy Name: Reserves Policy
Department Name: Financial Services
Policy: Insert Policy Number
No.:

Effective Date: Insert Date Review Date: Insert Date (3 years or less)

POLICY

The purpose of this Policy is to:

- I. Establish responsible governance for the development, maintenance and use of the City's Reserves;
- II. Establish governance roles and responsibilities that ensure appropriate establishment and management of Reserves;
- III. Define principles and objectives for Reserves management that are appropriate for the City's financial position, and are reasonable, logical and necessary for delivery of sustainable, affordable services; and
- IV. Ensure the City's Reserves management is compliant with the statutory and legal requirements of the *Local Government Act* and the *Community Charter*, and in accordance with Canadian public sector accounting standards.

REASON FOR POLICY

The City of Nanaimo (the City) is committed to sustainable, prudent and transparent management of financial resources used to provide valued community services.

Reserves will be established and expended to:

- I. Provide for contingencies;
- II. Fund strategic initiatives and capital investment identified in strategic and master plans adopted by Council;
- III. Fund equipment and vehicle replacement;
- IV. Fund infrastructure renewal;
- V. Fund new/upgraded infrastructure required due to growth.

AUTHORITY TO ACT

Delegated to Staff.

PROCEDURE

1. Definitions

- I. Five Year Financial Plan: The City's annual budget required under the *Community Charter*
- II. Funds: The resources and operations of the City are segregated into General, Sanitary Sewer Utility, Waterworks Utility and Reserve Funds for accounting and budgeting purposes. The General and Utility Funds also have corresponding Capital Funds.

- III. Operating Reserves: Specific reserves in the City's operating funds (General, Sewer and Water) established for specified purposes.
- IV. Public Sector Accounting Board (PSAB): Canadian public sector accounting standards as prescribed by the Public Sector Accounting Board of Canada (PSAB) and the Chartered Professional Accountants of Canada.
- V. Reserves: All the City's Operating Reserves and Reserve Funds.
- VI. Reserve Funds: Specific reserve funds for specified purposes as required by and pursuant to specific legislation and City bylaws. Also referred to as Statutory Reserves.
- VII. Sustainability: The pillars of sustainability include ensuring that current socio-cultural, economic and environmental commitments are considered in investment decisions and do not compromise the ability of future generations to meet their own needs.

2. Acronyms and Abbreviations

- I. CAO: Chief Administrative Officer
- II. The City: The City of Nanaimo

3. Responsibilities

To implement the Reserve Policy the appropriate level of governance must be in place throughout the organization for decision-making.

3.1 Council is responsible for adoption, periodic review and updating the Reserves Policy.

3.2 The CAO is responsible for implementing the Reserves Policy.

3.3 The Director of Finance is responsible for:

3.3.1 Implementing internal processes and systems in compliance with this Policy;

3.3.2 Ensuring Reserves and Reserve Funds are established and maintained in compliance with this Policy;

3.3.3 Recommending target minimum and maximum reserve balances where appropriate;

3.3.4 Ensuring utilization of reserve funding is clearly disclosed in the City's Five Year Financial Plan and other long-term financial plans;

3.3.5 Recommending revisions or amendments to this Policy due to changes in applicable statutes, accounting standards or to support the City's long-term financial management.

4. Scope and Applicability

4.1 Scope

Reserves are either classified as Reserves in each of the City's operating funds or separate Reserve Funds. Reserve Funds are statutory reserves required by Provincial legislation or established by Council and receive specific contributions that can only be used in compliance with the appropriate City bylaw.

The City maintains reserves that provide funding to:

- I. mitigate risk;
- II. replace equipment;
- III. renew existing infrastructure;
- IV. construct new/upgraded infrastructure required due to growth;
- V. purchase land;
- VI. implement strategic initiatives and capital investment;
- VII. comply with special bequests; and
- VIII. facilitate specific functions or commitments.

4.2 Unique Corporate Purpose

Each Reserve must have a unique and specific corporate purpose.

4.3 Corporate Context

The management of the City's reserves is an integral part of the City's long-term planning, asset management, the City's Five Year Plan, the 10 Year Project Plan and the 20 Year Investment Plan.

4.4 Implementation, Review and Reporting

The implementation, review and reporting associated with this policy will be integrated within City business processes. Due to the importance of this policy, the management of the City's reserves will be reported to Council, and implementation of this policy reviewed periodically by Council.

5. Benefits of Compliance

Implementing this policy will improve the City's governance through enhanced accountability, performance, sustainability and resiliency.

6. Principle Statements and Objectives

Reserves shall be established, maintained and used in accordance with following principles and objectives.

6.1 Affordability

6.1.1 The City will consider impact on property taxes, utility and other user fees when implementing and managing reserves.

6.2 Long-Term Financial Sustainability and Resiliency

6.2.1 The City will implement and manage reserves that support mitigation of risks arising from operating emergencies, unforeseen expenditures or decreases in revenues.

6.2.2 The City shall strive to implement and manage reserves to meet future financial obligations with respect to the City's strategic initiatives, investment in equipment and infrastructure, and fiscal needs.

6.2.3 The City will make informed decisions to implement and manage reserves that best support the long-term financial needs for City services and strategic priorities.

6.2.4 The City will develop and maintain financial plans that adequately identify the long-term funding needs and sources to sustain City services.

6.3 Transparency and Accountability

6.3.1 All Reserves must be established, maintained and used for a specified purpose mandated by this policy, statute, or City Bylaw.

6.3.2 A Council Resolution or an Adopted Budget Bylaw is required for all appropriations from Operating Reserves and Reserve Funds.

6.3.3 The City will conduct an annual review of all reserves and report the results to Council.

6.3.4 The City's Five Year Financial Plan will provide a summary of projected reserve balance, contributions and with drawals.

6.4 Statutory and Legal Requirements

6.4.1 Reserves will be established to meet Provincial and Federal government legislation, City Bylaws or required by contractual agreement.

6.5 Accounting Standards

6.5.1 Administration of Reserves must meet the accounting standards applicable to local governments (PSAB).

7. Administration

The following key administrative processes will support implementation of the Reserve Policy. Additional information is provided in the City's Reserves Processes document.

7.1 Interest and Calculation Method

All Reserve Funds will earn interest each year. Interest will be calculated based on the audited fund balance at the end of the prior year. The interest rate used will be determined on an annual basis.

7.2 Minimum and Maximum Balances

A minimum and maximum balance may be established for a Reserve. A minimum balance will ensure that each fund is not depleted to the degree that it is no longer able to service its intended purpose. A maximum balance ensures that it does not grow beyond its intended purpose.

7.3 Repayment Period for Target Minimum Balances

A time period will be specified for the repayment or replenishment of a Reserve with a specified minimum balance.

7.4 Reporting

The City will develop and maintain annual reporting processes that provide decision makers with all relevant reserves information.

8. Reserves Framework

The Reserves Framework groups reserves by common purposes and guidelines in compliance with this Policy. Reserve Funds are utilized to comply with Provincial legislation or contractual requirements and where specific annual contributions support long-term organizational purposes.

A description of each reserve is outlined below within the Reserves Framework.

8.1 Financial Stability Reserves

Description

Financial Stability Reserves are required to ensure the ongoing financial stability and fiscal health of City operations. Each reserve is funded from an allocation of operating year-end surplus from the appropriate fund. The Financial Stability Reserves include:

- General Financial Stability Reserve
- Sewer Financial Stability Reserve
- Water Financial Stability Reserve
- Police Financial Stability Reserve
- Sanitation Leveling Reserve
- Snow and Ice Control Financial Stability Reserve

Guidelines for Using Funds

A Council resolution or an Adopted Budget Bylaw is required for all appropriations from the Financial Stability Reserve Funds.

All appropriations from the Financial Stability Reserves are to be considered in accordance with the following priorities:

1. Operating and Environmental Emergencies
 - a. These appropriations are the highest priority and are based on public safety and maintenance of current levels of service.
2. Revenue and Operating Expenditures Contingency
 - a. These appropriations are intended to stabilize the impacts of cyclical revenue downturns and cost increases that are largely temporary and not within the City's ability to adjust in the short-term.

8.2 Equipment Reserves

Description

Equipment Reserves are established to provide funding for equipment replacement. Currently, the City has established equipment reserves for the following:

7.2.1 Equipment Depreciation Reserve Fund – This reserve is to fund the replacement of the City's fleet including fire apparatus, solid waste collection trucks, heavy-duty construction equipment and vehicles. Internal charges to user departments provide annual contributions to this reserve.

7.2.2 Cart Replacement Reserve Fund – This reserve is to fund the replacement of residential carts used in solid waste collection. Internal charges to the Residential Solid Waste department provide annual contributions to this reserve.

7.2.3 Information Technology (IT) Reserve Fund – This reserve is to fund IT corporate infrastructure replacement and improvements. Internal charges to user departments provide annual contributions to this reserve.

7.2.4 Copier Replacement Reserve Fund – This reserve is to fund copier replacement. Internal charges to user departments provide annual contributions to this reserve.

7.2.5 911 Reserve Fund – This reserve is to fund replacement of upgraded equipment for 911 operations. An internal charge to the 911 department provides annual contributions to this reserve.

8.3 Infrastructure Reserves

Description

Infrastructure Reserves are established to provide funding for infrastructure replacement and for new/upgraded infrastructure required due to growth. Currently, the City has established infrastructure reserves for the following:

7.3.1 Cemetery Care Reserve Fund – This reserve is to fund ongoing care of the cemetery. Revenues from plot sales provide contributions to this reserve.

7.3.2 Community Works Reserve Fund – This reserve was established in 2005 in compliance with an agreement between the Union of BC Municipalities (UBCM) and the City. Annual grant funding from UBCM provides contributions to this reserve and funding from this reserve must meet the eligibility criteria in the agreement.

7.3.3 NDSS Community Field Reserve Fund – This reserve is to fund capital improvements to the field. Annual net revenues from the NDSS field operations are contributed to this reserve.

7.3.4 Pipers Park Reserve – This reserve provides funding for improvements to Pipers Park. Annual net revenues from the facilities in the park provides contributions to this reserve.

7.3.5 Vancouver Island Conference Centre (VICC) Reserve – This reserve provides funding for improvement to VICC. Contributions to this reserve are from a budget allocation.

7.3.6 Facility Development Reserve Fund – This reserve is to fund renewal of the City's recreation facilities and for construction of new recreation facilities. Annual contributions are provided by an allocation of recreation facility revenues.

7.3.7 General Asset Management Reserve Fund – This reserve is to fund upgrading or replacement of infrastructure relating to transportation, storm drainage, facilities, parks amenities and major technology. Annual contributions are provided from an allocation of property taxes.

7.3.8 Sewer Reserve – This reserve provides funding for sewer infrastructure assessment programs and renewal. Annual contributions are from sewer user fees in excess of annual operating expenditures, debt repayment and transfer to the Sewer Asset Management Reserve.

7.3.9 Sewer Asset Management Reserve Fund – This reserve is to fund upgrading or replacement of sewer infrastructure. Annual contributions are provided from an allocation of sewer user fees.

7.3.10 Water Reserve – This reserve provides funding for water infrastructure assessment programs and renewal. Annual contributions are from water user fees in excess of annual operating expenditures, debt repayment and transfer to the Water Asset Management Reserve.

7.3.11 Water Asset Management Reserve Fund – This reserve is to fund upgrading or replacement of water infrastructure. Annual contributions are provided from an allocation of water user fees.

8.4 Parking Reserves

Description

Parking Reserves are established to provide funding for renewal of parking infrastructure and new parking infrastructure. Currently, the City has established parking reserves for the following:

8.1.1 Parking Reserve Fund – This reserve is to fund renewal of parking infrastructure or new parking infrastructure. Annual contributions are provided from net parking revenues.

- 8.1.2 Old City Parking Reserve Fund – This reserve is to fund the creation of new off-street parking spaces.

8.5 Property Reserves

Description

Property Reserves are established to provide funding for property acquisitions. Currently, the City has established property acquisition reserves for the following:

8.5.1 Parkland Dedication Reserve Fund – This reserve provides funding for the purchase of parkland pursuant to the *Community Charter*, Section 188. Contributions are provided from cash-in-lieu payments from developers.

8.5.2 Property Sales Reserve Fund – This reserve provides funding for capital project pursuant to the *Community Charter*, Section 188. Contributions are provided from the sale of civic land.

8.5.3 Property Acquisition Reserve Fund – This reserve provides funding for property acquisitions. Property acquisitions include property needed to expand City infrastructure, to implement strategic initiatives and for parkland. Contributions to this reserve are either by allocation of budget or operating surplus.

8.6 Strategic Reserves

Description

Strategic Reserves are established to provide funding for strategic initiatives identified by Council. Currently, the City has established strategic reserves for the following:

8.6.1 Sustainability Reserve – This reserve provides funding for project expenditures that reduces the City's energy consumption or lowers GHG emissions. Annual budget allocations provide contributions to this reserve.

8.6.2 Strategic Infrastructure Reserve Fund - This reserve provides funding for strategic initiatives and capital infrastructure. Annual contributions to this reserve are from casino and Fortis revenues.

8.6.3 Casino Reserve – This reserve is available to provide funding for eligible operating or capital expenditures. There are no further contributions to this reserve. This reserve will be eliminated when funding is fully allocated.

8.6.4 Housing Legacy Reserve Fund – This reserve provides funding to support affordable housing in the community including but not limited to property acquisition and capital investment. Annual budget allocations provide contributions to this reserve.

8.6.5 Regional Emission Reduction Reserve Fund – This reserve will provide funding for investment in regional emission reduction initiatives. Annual budget allocations provide contributions to this reserve.

8.6.6 Special Initiatives Reserves – This reserve will provide funding for short-term initiatives. Contributions to this reserve is from allocation of prior year general operating surplus.

8.7 Other Reserves

8.7.1 Prior Year Carry-Forward Reserve – This reserve is required to allow for unspent budgets to be carried forward to the following year. Where projects are not completed or delayed, budget may be carried forward to the following year. Under specific circumstances, operating budgets may also be carried forward from one fiscal year to the next.

8.7.2 Knowles Estate Reserve Fund – This reserve is required due to a bequest. Only accumulated interest may be spent for parks and sport facility improvements in the south end of the City.

8.7.3 Firehall Improvements Reserve – This reserve is temporary and will be eliminated when the replacement of Fire Station #1 is completed.

9. Summary of City Reserves

A summary of Reserves and Reserve Funds is provided in Schedule A.

10. Review Date

This Policy should be reviewed every 4 years.

MANAGEMENT, REFERENCES AND APPROVAL:

This policy shall be reviewed in 3 years from its effective date to determine its effectiveness and appropriateness. This policy may be assessed before that time as necessary to reflect organizational change.

Approving Authority:

Council

Approval Date:

Insert Approval Date

Revision Approval Dates:

Insert Date if applicable

Review Due:

Insert Date

Policy Manager:

Director of Finance

Department Contact:

Director of Finance

Legal References:

Insert if applicable

Cross References:

Insert if applicable

Appendix A

The City has established a framework for Reserves. A Reserve Fund is established for each Statutory Reserve under the authority of the *Community Charter*. In addition to this policy, Statutory Reserves are supported by a bylaw that outlines the purpose and use of each fund.

A summary of reserves is provided below within a framework that supports the primary objectives of this Policy:

- I. Financial Stability Reserves
- II. Equipment Reserves
- III. Infrastructure Reserves
- IV. Parking Reserves
- V. Property Acquisition Reserves
- VI. Strategic Reserves
- VII. Special Reserves

1. Financial Stability Reserves

Description

Financial Stability Reserves are required to protect the City's financial stability and resiliency. The primary intent of these reserves is to mitigate risk by providing funding for unknown expenditures arising from operating emergencies or necessity.

Guidelines for Using Reserves

An Adopted Budget Bylaw is required for all appropriations from the Financial Stability Reserves.

1. General Financial Stability Reserve

Contributions to this reserve are through an allocation of general fund annual surplus or budget allocation

This reserve can be provide a source of funds where:

- I. Expenditures exceed planned due to emergency or necessity
- II. Revenues are below planned due to emergency or necessity

2. Sewer Financial Stability Reserve

Contributions to this reserve are through an allocation of sewer net operating surplus or budget allocation.

This reserve can provide a source of funds where:

- I. Expenditures exceed planned due to emergency or necessity
- II. Revenues are below planned due to emergency or necessity

3. Water Financial Stability Reserve

Contributions to this reserve are through an allocation of water net operating surplus or budget allocation.

This reserve can provide a source of funds where:

- I. Expenditures exceed planned due to emergency or necessity
- II. Revenues are below planned due to emergency or necessity

4. Police Financial Stability Reserve

Contributions to this reserve are through an allocation of RCMP contract surplus, annual general surplus or budget allocation.

This reserve can provide a source of funds where the actual annual RCMP contract costs exceed the budget estimate.

5. Sanitation Levelling Reserve

Contributions to this reserve are through an allocation of annual Residential Solid-Waste Collection surplus.

This reserve can provide a source of funds where:

- I. Expenditures exceed planned due to emergency or necessity
- II. Revenues are below planned due to emergency or necessity

6. Snow and Ice Control Reserve

Contributions to this reserve are through an allocation of annual SNIC surplus, annual general surplus or budget allocation.

This reserve can provide a source of funds where the actual annual costs for snow and ice control exceed the budget estimate.

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2. Equipment Reserves

Description

Equipment Reserves provide a funding source for equipment and fleet replacement.

Guidelines for Using Reserves

An Adopted Budget Bylaw is required for all appropriations from the Equipment Reserves.

I. Cart Replacement Reserve Fund

Contributions to this reserve is through annual internal charge to the Residential Solid Waste Collection operating budget.

This reserve provides funding for replacement of residential automated solid waste collection carts.

II. Equipment Replacement Reserve Fund

Contributions to this reserve is through annual internal charges to user departments that are included in the department's annual operating budgets.

This reserve provides funding for replacement of the City's fleet including vehicles, trucks, heavy equipment, fire apparatus and Zambonis.

III. Information Technology Reserve Fund

Contributions to this reserve is through annual internal charges to user departments that are included in the department's annual operating budgets.

This reserve provides funding for replacement of the City's technology assets including data lines, server hardware and enterprise software.

IV. Copier Replacement Reserve Fund

Contributions to this reserve is through annual internal charges to user departments that are included in the department's annual operating budgets.

This reserve provides funding for replacement of the City's copiers.

V. 911 Equipment Reserve Fund

Contributions to this reserve is through annual internal charges that are included in the 911 operating budget.

This reserve provides funding for replacement of the City's 911 call answering equipment and furniture.

3. Infrastructure Reserves

Description

Infrastructure Reserves provide a funding source for renewal of current infrastructure and new/upgraded infrastructure required due to growth, new regulatory requirements or service level changes. Contributions to these reserves are through annual budget allocations.

Guidelines for Using Reserves

An Adopted Budget Bylaw is required for all appropriations from the Infrastructure Reserves.

I. Cemetery Care Reserve Fund

Contributions to the reserve are through annual plot and head stone installation revenues. The City operates the cemetery and maintains a cemetery perpetual care fund in accordance with the Cremation, Interment and Funeral Services Act.

This reserve provides funding for cemetery maintenance.

II. Community Works Fund

Contributions to the reserve are through annual funding received from the Gas Tax Agreement (GTA) administered by the Union of British Columbia Municipalities (UBCM).

This reserve provides funding for specific types of infrastructure projects as allowed under the terms of the GTA.

III. NDSS Community Field Maintenance Fund

Contributions to the reserve are through budget allocation, contribution from School District 68 and net annual operating revenues from user fees for the field.

This reserve provides funding for major capital improvements or field replacement for NDSS Community Field.

IV. Piper's Park Reserve

Contributions to the reserve are through allocation of net annual operating revenues from rental of building located at Piper's Park.

This reserve provides funding for improvements to Pipers Park.

V. Facility Development Reserve Fund

Contributions to the reserve are through a 20% allocation of contributing recreation facility and program revenues.

This reserve provides funding for renewal of contributing recreation facilities and can provide funding for new recreation facilities.

VI. Vancouver Island Convention Centre Reserve

Contributions to the reserve are through unspent annual budget allocation.

This reserve provides funding for renewal of the Port of Nanaimo Centre facility.

VII. Sewer Operating Reserve

Contributions to the reserve are through annual net operating allocations from the Sewer Operating Fund.

The Sewer Operating Reserve provides funding for renewal or new/upgraded infrastructure required to maintain levels of service.

VIII. Water Operating Reserve

Contributions to the reserve are through annual net operating allocations from the Water Operating Fund.

The Water Operating Reserve provides funding for renewal or new/upgraded infrastructure required to maintain levels of service.

IX. General Asset Management Reserve Fund

Contributions to the reserve are through budget allocations from annual property tax revenues.

This reserve provides funding for City infrastructure renewal excluding sewer and water infrastructure.

X. Sewer Asset Management Reserve Fund

Contributions to the reserve are through budget allocations from annual sewer user fees.

This reserve provides funding for renewal of the City's sewer infrastructure.

XI. Water Asset Management Reserve Fund

Contributions to the reserve are through budget allocations from annual water user fees.

This reserve provides funding for renewal of the City's water infrastructure.

4. Parking Reserves

Description

Parking reserves provide a funding source for renewal and new/upgraded parking infrastructure including parkades and meters.

Guidelines for Using Reserves

An Adopted Budget Bylaw is required for all appropriations from the Infrastructure Reserves.

Parking Reserve Fund

Contributions to this reserve are through annual net operating allocations from parking operations.

This reserve provides funding for renewal of current parking infrastructure and new parking infrastructure.

Old City Parking Reserve Fund

Contributions to this reserve are from cash-in-lieu payments from developers.

This reserve provides funding for the creation of new off-street parking spaces.

5 Property Acquisition Reserves

Description

Property Acquisition Reserves provide funding sources to purchase land needed for new infrastructure projects and for new parkland. Contributions to these reserves are through sale of City owned property and through annual budget allocations subject to Council approval.

Guidelines for Using Reserves

An Adopted Budget Bylaw is required for all appropriations from the Infrastructure Reserves.

Parkland Dedication Reserve Fund

Contributions for this reserve are received from development in lieu of parkland and from the sale of City parkland. This reserve is required by the *Community Charter*.

This reserve provides funding for purchase of City parkland.

Property Sales Reserve Fund

Contributions for this reserve are received from the sale of City land and improvements. This reserve is required by the *Community Charter*.

This reserve provides funding for purchase of City land and improvements.

Property Acquisition Reserve Fund

Contributions to this reserve are through unspent annual budget allocation.

This reserve provides funding for the purchase of new land.

6 Strategic Reserves

Description

Strategic Reserves provide funding sources to advance and implement priorities identified in strategic and master plans adopted by Council.

Guidelines for Using Reserves

An Adopted Budget Bylaw is required for all appropriations from the Infrastructure Reserves.

Sustainability Reserve Fund

Contributions to the reserve are through annual budget allocation.

This reserve provide funding for investigation and implementation of new equipment or infrastructure improvements that reduce the City's energy consumptions or will lead to lower GHG emissions and meet payback criteria.

Housing Legacy Reserve Fund

Contributions to this reserve are through annual budget allocation.

This reserve provides funding to support affordable housing in the community including but not limited to property acquisition and capital investment.

Regional Emission Reduction Reserve Fund

This reserve was established in partnership with the Regional District of Nanaimo, District of Lantzville, Town of Parksville and Town of Qualicum Beach.

The City contributes \$25 per tonne of carbon emissions to the reserve each year through a budget allocation.

The reserve provides funding for investment in regional emission reduction initiatives that contribute to corporate carbon neutral operations.

Strategic Infrastructure Reserve Fund

Contributions to this reserve are through annual budget allocation.

This reserve provides funding to implement Council's strategic initiatives and capital investment.

Special Initiatives Reserve

Contributions to this reserve are through an allocation of prior year general operating surplus.

This reserve provides funding to implement specific initiatives in the subsequent year.

7 Other Reserves

Description

Reserves can be established as a result of a bequest or for a one-time expenditure. The City currently has the following special reserves.

Guidelines for Using Funds

An Adopted Budget Bylaw is required for all appropriations from the Infrastructure Reserves.

Prior Year Carry Forward Reserve

Contributions to this reserve are budget allocations for specific projects or operating initiatives that were delayed or not completed in the current year.

This reserve provides funding for delayed or incomplete projects or operating initiatives to be completed in a subsequent year.

Knowles Estate Reserve Fund

This reserve was established as a bequest, with the accumulated interest to be used for park and youth sports facility improvements in the south end of Nanaimo.