



Council Policy #C40

FINANCIAL RESERVES

Approved by Council Resolution #20/09/22

1. PURPOSE:

The purpose of this policy is to maintain consistent standards and guidelines for the management of reserves and to ensure principles are in place for the appropriate oversight of reserves that aim to provide the financial resources needed to maintain a viable, sustainable community.

2. POLICY STATEMENT:

A Reserve Policy is a prudent business practice that will enhance the City of Beaumont's financial strength, flexibility, cash flow management, and ability to achieve the Council Vision and *Our Beaumont*: Municipal Strategic Plan 2017 - 2021 priorities.

A Reserve Policy is required to establish, maintain and manage Reserve funds that:

- maintain and improve Beaumont's working capital requirements;
- provide for future funding requirements; and
- provide stabilization for fluctuations in operating and capital activities.

3. DEFINITIONS:

Operating Reserves: Operating Reserves are reserves that are generally established to fund one-time expenditures of an operating nature, or to provide stabilization to the budget as a result of unforeseen circumstances.

Capital Reserves: Capital Reserves are reserves that are generally established to fund expenditures of a capital nature; funding designated to reserves for a specific purpose, which has not yet been approved by Council to be applied towards specific expenditures.

Utility Reserves: The Utility Reserve is one generally established to provide stabilization to the utility operating budgets as a result of unforeseen circumstances, and to fund utility expenditures of a capital nature.

Re-designation of Reserve Funds: The process to change the purpose of reserved funds from one reserve to another.

Release of Reserve Funds: Reserve funds for which the purpose has been fulfilled or changed and is consequently closed. Any funding resulting from the release of a reserve will be identified for re-designation to another reserve or general surplus.

Reserve: Reserves are created when funds are set aside (designated) for a future purpose. Funds within a reserve are restricted and will be applied as outlined in the approved reserve description.

Reserve Description: A listing of reserve descriptions is found in Schedule "A" of this policy. Each reserve description contains the following:

- the overall purpose of the reserve;
- the source of the reserve funds;
- when the reserve can be accessed (the application);
- the optimal balance; and
- interest entitlement.

Reserve Transaction: The following activity is considered a reserve transaction:

- contributions to the reserve from internal or external sources;
- withdrawals from the reserve to fund expenditures;
- re-designation of the reserve funds; and
- release of the reserve funds.

4. GUIDELINES

1. All reserve transactions will be approved by Council.
2. All reserves will be administered in accordance with current municipal policies and the Public Sector Accounting Standards.
3. All reserves must fall under an approved reserve description. The establishment of a new reserve, which will require a new reserve description, must be approved by Council.
4. Reserves will be funded from internal or external sources as defined in the reserve descriptions.
5. As part of the year-end reserve request and approval process, any potential release of reserve funds or re-designation of reserve funds will be identified.
6. As part of the year-end process for reserves, an assessment will be made between the actual designated reserve balance and the recommended optimal balance. Reserves which are lower than their established optimal balance will be considered in the distribution of the annual operating surplus. Reserves which exceed their established optimal balance will be considered for re-designation. Strategies to maintain the optimal balance will be addressed through the budget cycles.
7. Interest earnings will be applied to the reserves which have been deemed interest-bearing as indicated in the reserve description.

8. Reporting

- Regular reporting on the reserves will occur through the quarterly management report. The quarterly reporting will indicate the total of reserves and will include the current balance and forecasted balance at the end of the fiscal year.

5. SCOPE/APPLICATION:

- Council and members of Administration must adhere to this policy.

6. AUTHORITY/RESPONSIBILITY TO IMPLEMENT

- Chief Financial Officer has authority for the policy and must ensure the policy requirements are met and updated as required.

Attachments:

Schedule "A" - Financial Reserves

Policy Record

Adopted by Council: September 22, 2020

Council Resolution: # 20/09/22

Cross Reference: C-17 (R-2)

Administrative Responsibility: Chief Financial Officer

Next Review Date: September, 2022

SCHEDULE A FINANCIAL RESERVES

Municipal Reserves

Operating Reserve

1. Financial Stabilization
2. Planning

Capital Reserves

1. Vehicle and Equipment Replacement
2. Technology Replacement
3. Building Renewal
4. Transportation Renewal
5. Parkland (Municipal Reserve)
6. Economic Development
7. Cemetery
8. Traffic Safety

Utility Reserve

Operating and Capital Reserve

1. Utility

Operating Reserves – Financial Stabilization	
Type:	Municipal
Purpose:	To provide stabilization funding for unpredictable or unanticipated events and address the risk of revenue or expenditure volatility in order to maintain established service levels without undue pressure or fluctuation of property tax rates.
Source of Funding	A) Budgeted transfers as approved by Council. B) Allocation of year-end operating surplus as approved by Council. C) Other sources as approved by Council.
Optimal Balance:	Minimum balance of 5% of prior year's municipal operating expenses. Maximum balance of 15% of prior year's municipal operating expenses.
Application:	Funds from this reserve will be used for stabilizing periods of high inflation or other items that would result in volatility of future property tax dollar requirements, and for stabilizing unbudgeted impacts resulting from unanticipated events. Examples are unforeseen increases in emergency response costs, unforeseen climatic conditions, losses incurred due to assessment changes, extraordinary events, or other items that would result in an overall deficit to the municipal operation.
Interest Bearing:	Yes

Operating Reserves – Planning	
Type:	Municipal
Purpose:	To provide funding for one time expenditures associated with planning activities that will result in the creation or updates to significant municipal plans (e.g. Municipal Development Plan, Central Area Redevelopment Plan, Land Use Bylaw).
Source of Funding	A) Budgeted transfers as approved by Council. B) Other sources as approved by Council.
Optimal Balance:	The reserve balance should not drop below zero.
Application:	Funds are for the expenditures that are required to develop the studies and plans associated with the development or renewal of significant municipal plans.
Interest Bearing:	Yes

Capital Reserves – Vehicle and Equipment Replacement	
Type:	Municipal
Purpose:	To provide funding for the replacement of existing vehicles, machinery and equipment.
Source of Funding	A) Budgeted transfers as approved by Council. B) Proceeds received from the sale of disposed vehicles, machinery and equipment. C) Other sources as approved by Council.
Optimal Balance:	Balance necessary to meet the requirements for the scheduled replacement of vehicles, machinery and equipment over 10 years without putting the reserve into a negative balance.
Application:	Funds may be used to fund the purchase of replacement vehicles, machinery and equipment that have been included in the approved capital budget. The capital budget will be based on the replacement plans that have been developed and reviewed annually by Administration.
Interest Bearing:	Yes

Capital Reserves – Technology Replacement	
Type:	Municipal
Purpose:	To provide funding for the replacement of existing technology equipment.
Source of Funding	A) Budgeted transfers as approved by Council. B) Proceeds received from the sale of disposed technology equipment. C) Other sources as approved by Council.
Optimal Balance:	Balance necessary to meet the requirements for the scheduled replacement of technology equipment over 10 years without putting the reserve into a negative balance.
Application:	Funds may be used to fund the purchase of replacement technology equipment that has been included in the approved capital budget. The capital budget will be based on the replacement plan that has been developed and reviewed annually by Administration.
Interest Bearing:	Yes

Capital Reserves – Building Renewal	
Type:	Municipal
Purpose:	To provide funding for the capital expenditures to repair or replace existing municipally owned facilities.
Source of Funding	A) Budgeted transfers as approved by Council. B) Other sources as approved by Council.
Optimal Balance:	Minimum balance equivalent to 2% of the tangible building asset cost at the end of the prior year.
Application:	Funds are for the rehabilitation or replacement of City-owned facilities. Costs resulting from emergency infrastructure failure or impending failure are also eligible to be funded from this reserve.
Interest Bearing:	Yes

Capital Reserves – Transportation Renewal	
Type:	Municipal
Purpose:	To provide funding for the capital expenditures to repair or replace existing transportation assets (e.g. roads, sidewalks, paths).
Source of Funding	A) Budgeted transfers as approved by Council. B) Other sources as approved by Council.
Optimal Balance:	Minimum balance equivalent to 2% of the tangible transportation asset cost at the end of the prior year.
Application:	Funds are for the rehabilitation or replacement of transportation assets. Costs resulting from emergency infrastructure failure or impending failure are also eligible to be funded from this reserve.
Interest Bearing:	Yes

Capital Reserves – Parkland	
Type:	Municipal
Purpose:	In alignment with Section 671(4) of the <i>Municipal Government Act</i> , this reserve provides for the purchase and development of parkland in developing areas and redeveloping areas and/or supports the upgrading of existing parks/facilities (neighbourhood, community or city-wide).
Source of Funding	A) External contributions from developers or other third parties B) Budgeted transfers as approved by Council. C) Other sources as approved by Council.
Optimal Balance:	The reserve balance should not drop below zero.
Application:	To provide funding to purchase parkland and for the development of parkland in developing or redeveloping areas.
Interest Bearing:	Yes

Capital Reserves – Economic Development	
Type:	Municipal
Purpose:	To provide one-time funding for opportunities to enhance the business environment within the City of Beaumont, and to create a catalyst to stimulate and support continued economic growth within the city.
Source of Funding	A) Budgeted transfers as approved by Council. B) Other sources as approved by Council.
Optimal Balance:	The minimum balance is \$1.0 million, to provide flexibility to address a significant new priority or to allow funds to be accumulated towards a larger project. The maximum for the reserve is \$5 million. If funding levels reach this maximum, funds would be redirected to the Financial Stabilization Reserve, provided the Economic Development Reserve will have a sufficient balance remaining to meet the project funding requirements of the 10 year capital projection.
Application:	To provide funding to implement various economic development-related initiatives, including strategic land purchases that provide lasting and sustainable economic benefit.
Interest Bearing:	Yes

Capital Reserves – Cemetery	
Type:	Municipal
Purpose:	The Cemetery Reserve Fund provides a source of funding for the purchase, replacement and expansion of capital items related to cemetery operations.
Source of Funding	A) Any year-end operating budget surplus from cemetery operations. B) Budgeted transfers as approved by Council. C) Other sources as approved by Council.
Optimal Balance:	A minimum of \$50,000 to mitigate the impact of an unbudgeted or emergency capital requirement.
Application:	Expenditures funded from the reserve are for capital items related to cemetery operations. This includes both replacement and expansion items.
Interest Bearing:	Yes

Capital Reserves – Traffic Safety	
Type:	Municipal
Purpose:	To provide a source of funding for the purchase, replacement and expansion of capital items related to traffic safety.
Source of Funding	A) Any year-end operating budget surplus from automated enforcement operations. B) Budgeted transfers as approved by Council. C) Other sources as approved by Council.
Optimal Balance:	The reserve balance should not drop below zero.
Application:	To fund the purchase of capital infrastructure and equipment related to traffic safety initiatives and to manage the unforeseen impacts to automated enforcement revenue in the current year.
Interest Bearing:	Yes

Utilities Reserves – Utility	
Type:	Utility
Purpose:	To fund any utility operating deficits, as well as to avoid unplanned rate spikes in the subsequent year. This reserve also provides funding for budgeted asset replacement or rehabilitation capital projects, as well as unbudgeted capital needs.
Source of Funding	A) Any year-end operating budget surplus from utility operations. B) Budgeted transfers as approved by Council. C) Other sources as approved by Council.
Optimal Balance:	Minimum balance of 5% of prior year's utility operating expenses and 5% of the tangible utility asset cost at the end of the prior year. Maximum balance of 15% of prior year's municipal operating expenses and 15% of the tangible utility asset cost at the end of the prior year.
Application:	Provides a source of financing along with any Council-approved debt, for all approved asset replacement/rehabilitation capital projects and any unbudgeted capital needs that may arise. The reserve also provides a source of financing to offset any year-end operating deficits that may occur, and to avoid unplanned rate spikes in the subsequent year.
Interest Bearing:	Yes