



Municipality of Crowsnest Pass Policy

Policy No.:	1700-02
Policy Title:	Municipal Reserves
Approval Date:	2017-08-22
Revision Date:	
Supersedes Policy:	1700-01
Department:	Finance

1.0 POLICY PURPOSE

The purpose of this policy is to address some of the longer-term funding strategies for the Municipality and to ensure good financial and cash management for the overall financial stability of the Municipality. Maintaining sufficient balances in reserves and reserve funds is a critical component of a municipality's long-term financial plan as it strengthens its long-term financial sustainability, helps to minimize fluctuations in the tax rate and provides funding to sustain infrastructure.

2.0 DEFINITIONS

"Deferred Revenue" means revenue that is considered a liability on the Municipality's financial statement, until over time, it becomes relevant to current operations.

All obligation reserve funds shall be placed in deferred revenue in the accounting system until such time they are used for specific purposes. Development charges, MSI, Federal Gas Tax are examples of deferred revenue.

"Reserve" (eg. Equipment Replacement Reserve) is an allocation of accumulated net revenue. It has no reference to any specific assets and does not require the physical segregation of money or assets. Reserves are part of the revenue fund and therefore, do not earn interest on their own. Any earnings derived from the investment of reserves' money are reported as revenue in the operating fund. A reserve may be established for a predetermined purpose and applied for that purpose at the discretion of council.

"Reserve fund" means a fund with assets which are segregated and restricted to meet the purpose of the reserve fund. It is based on a statutory requirement or defined liability payable in the future and is usually prescriptive as to the basis for collection and use of monies in the fund. There are two types of reserve funds: obligatory reserve funds and discretionary reserve funds.

"Obligatory reserve fund" means a reserve fund created when a provincial statute requires that revenue received for special purposes be segregated from the general revenues of the municipality. Obligatory reserve funds are to be used solely for the purpose prescribed for them by statute. See "deferred revenue" for examples of obligatory reserve funds.

“Discretionary reserve fund” means a reserve fund created under the Municipal Act when Council wishes to earmark revenue to finance a future expenditure for which it has the authority to spend money, and to set aside a certain portion of any year’s revenues so that the funds are available as required. Revenues set aside for road widening and for acquisition of fixed assets are examples of discretionary reserve funds. Discretionary reserves can be restricted or unrestricted.

“Operating Reserves” are those reserves that are generally established to fund one-time expenditures of an operating nature.

“Capital Reserves” are those reserves that are generally established to fund expenditures of a capital nature as defined by the Municipality’s Tangible Capital Asset Policy.

3.0 Guidelines

3.1 All reserve transactions, resignations, revisions and new reserve requests must be approved by Council. These approvals will be comprehensively reviewed by the external auditor at the end of the fiscal year.

3.2 All reserves must be fully described and must include a purpose, application, and approval. Unless otherwise stated, all funds are considered committed for the specific purpose as outlined by the reserve

3.3 All reserve accounts must be presented in the Municipality’s financial statements (e.g. quarterly and annually)

3.4 All reserves must be reviewed annually by the CAO and Council during the annual budget process to determine if the reserves are still required. When the original intent of the reserve has been met, or changed, any remaining amounts in the reserve shall, through an appropriate review by the CAO and Council be re-designated or returned to surplus. Reserves that are deemed to be re-designated or returned to surplus shall be approved by Council.

3.5 Reserves can be funded from either internal or external sources:

3.5.1 Examples of internal sources of funds:

3.5.1.1 Approved budget contributions

3.5.1.2 Carryover of current year’s budget funds which were approved for a specific purpose but were not expended during the year; and

3.5.1.3 Annual surplus contribution

3.5.2 Examples of external sources of funds:

3.5.2.1 Government grants; and

3.5.2.2 Donations

3.6 Departments may submit reserve requests to fund existing or new reserves:

3.6.1 Through the annual budget process

3.6.2 From unexpended current year’s operating or capital budgets to fund carryover projects

- 3.6.2.1 Reserves created for a carryover projects and approved by Council may be drawn by the Departments after the actual expenditure has been incurred with no further approval required;
- 3.6.3 Through unbudgeted revenues
- 3.7 Interest will be paid to the reserves where funding has come from external sources, unless otherwise recommended by the CAO and approved by Council. Interest may also be paid to those reserves where the future cost to undertake an initiative or project might be subject to inflation.
- 3.8 All expenditures from reserves must have prior approval. Approval will be obtained:
 - 3.8.1 Through existing Municipal Policies
 - 3.8.2 From annual operating or capital budget approval
 - 3.8.3 From approved carryover project
 - 3.8.4 By Council resolution.
- 3.9 Expenditures from reserves must not exceed the reserve balance unless it can be demonstrated to Council through financial cash flow projections that future sources of revenues will provide adequate funding to return the reserve to a positive balance
- 3.10 All reserves shall be administered by the Director of Finance under the administration of the CAO and in accordance with current municipal policies and Generally Accepted Accounting Principles
- 3.11 Reserves transactions will not be processed until actual expenditures are incurred

4.0 Authorization

- 4.1 Finance Department is responsible for developing accounting procedures for reserves transactions and to provide guidance to Departments in complying with the intent of this policy. Finance Department is the resource available for consultation on any points requiring clarification.
- 4.2 The Finance Department shall be responsible for monitoring the status of reserves and reserve funds, for determining the appropriate source of financing for the Municipality's programs and capital works, and for making recommendations to Council on the use of reserves and reserve funds.
- 4.3 Utilization of funds from a reserve or reserve fund must be identified in an approved annual budget or a separate report submitted to Council for approval outside the normal annual budget process.
- 4.4 Transfers from contingency reserves to address unanticipated fluctuations in expenditures shall be authorized by Council through approval of staff recommendations in periodic variance reports.

MUNICIPALITY OF CROWSNEST PASS

Blair Paute
Mayor

October 24, 2017.
Date

Robert Thomas
Chief Administrative Officer

October 26, 2017
Date