



POLICY MANUAL

POLICY TITLE: Reserves and Surplus	POLICY #: 1600-020
AUTHORITY: Administrative	EFFECTIVE DATE: effective immediately
ISSUED BY: Director of Finance	REVIEW SCHEDULE: 3 Years
	APPROVED BY: Council C-52-16
DATE ISSUED: June 21, 2016	DATE APPROVED: June 21, 2016

Policy Statement:

It is essential that local governments maintain adequate levels of reserve balances to mitigate current and future risks, ensure stable tax rates and demonstrate financial commitment to long range infrastructure and master plans. The following guiding principles form the basis of this Policy:

- Sufficient reserve funds are important in achieving financial health and stability for the Town of View Royal.
- Reserve goals need to be consistent with and supportive of established long term financial plans.
- Reserve fund management needs to conform to the statutory and legal requirements of the *Local Government Act* and the *Community Charter*, generally accepted accounting principles (GAAP) and public sector accounting board (PSAB) recommendations.

Purpose:

To provide guidance on the development, maintenance and use of financial reserve funds.

Policy Procedure:

Definitions

The following terms are used in this Policy and are defined as follows:

“Annual Surplus” means the accumulated excess of revenues over expenditures for the current year.

“Reserve Funds” means funds that are set aside for a specified purpose by Council pursuant to subsection 188 (1) of the *Community Charter*. These reserves are established via Town bylaws and are discretionary on the part of Council. The reserve funds can be operating or capital in nature.

“Reserves” means all of the Town’s Reserve Funds and Statutory Reserve Funds.

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“Statutory Reserve Funds” means funds set aside for specified purposes as required by and pursuant to specific legislation. These reserves are established via Town bylaws and are non-discretionary on the part of Council.

“Unappropriated Surplus” means the accumulated surplus built up in the Town’s various operating funds that has not been designated for specific uses.

“Reserve Accounts” means appropriations of surplus designated by Council for specific uses. These accounts can be established or dissolved as Council directs.

SECTION 1 – RESERVE FUNDS

Operating Reserve Funds:

1.1 Reserve for Future Expenditures

The Reserve for future expenditures has been established for the following purposes:

For One-time and Intermittent Projects – The Town undertakes certain one time and/or intermittent projects that are larger in terms of costs. If these projects were funded from property taxation, annual spikes and declines in taxation would result, therefore, it is not prudent to fund these projects from on-going property taxation revenue. Examples include neighborhood plans and maintenance work not capital in nature.

To Offset Unrealized Revenues - Some of the Town’s revenue sources, (i.e. development fees, building permits), are cyclical in nature and thus are subject to downturns in the economy. The Town tries to anticipate economic downturns during budget processes but despite best efforts may be exposed to the possibility of unrealized or declining revenues.

1.2 Special Policing Operating Reserve Fund

The Special Policing Operating Reserve has been established to fund the payment of future police operating costs. When the Town reaches a population of 15,000 it will be responsible for 90% of the RCMP actual costs of providing the Municipal Police unit in the municipality. Additional officers may also be required within the foreseeable future.

Capital Reserve Funds:

1.3 Capital Works and Land Acquisition Reserve

The Capital Reserve has been established to fund one-time general capital projects and new equipment that are not specifically funded from other established Reserves. Net proceeds from the sale of real property will be contributed to this reserve as realized.

1.4 Capital Renewal Reserve

The Capital Renewal Reserve has been established to provide for expenditures associated with the rehabilitation, renewal or replacement of existing capital infrastructure such as roads, including sidewalks and related infrastructure, storm drains and facilities.

1.5 Park Improvement Reserve

The Park Improvement Reserve has been established to provide for expenditures associated with park improvements, including playground and equipment required to maintain parks that are not part of the Town’s fleet.

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1.6 Machinery & Equipment Depreciation Reserve

The Vehicle and Equipment Replacement Reserve has been established to fund replacement of licenced municipal vehicles and equipment included in the Town’s fleet (excluding fire).

1.7 Fire Department Machinery and Equipment Depreciation Reserve

The Fire Vehicle and Equipment Replacement Reserve has been established to fund replacement of Fire vehicles and equipment.

1.8 Sewerage System Capital Reserve

The purpose of the Sewerage System Capital Reserve is to fund sewer utility capital projects including any equipment/systems required for sewer operations required for sewer operations.

1.9 Police Equipment, Property and Contract Reserve Fund

The purpose of the Police Equipment, Property and Contract Reserve is to assist in meeting the capital/contract costs that will be incurred when the Town of View Royal is required to assume responsibility for policing.

SECTION 2 – STATUTORY RESERVE FUNDS

2.1 Development Cost Charge (DCC) Reserve Funds

Per subsection 188 (2) (a) of the *Community Charter*, separate Reserves need to be established for DCC collections and use, under section 935 of the *Local Government Act*. The following DCC Reserves have been established for the purpose so identified in the associated DCC bylaws and are as follows:

- Roads DCC
- Drainage DCC
- Parks DCC
- Water DCC

2.2 Park and Open Space Reserve Fund

Per subsection 188 (2) (b) of the *Community Charter*, funds received from the sale or disposal of parkland as well as funds received pursuant to section 941 of the *Local Government Act* (parkland funds received upon subdivision) must be set aside in a Reserve and be used exclusively to purchase parkland. The Parkland Acquisition Reserve has been established for accumulating and expending monies as per this requirement.

SECTION 3 – UNAPPROPRIATED SURPLUSES

The Town needs to maintain Unappropriated Surplus balances in its two operating funds (the General Operating Fund and the Sewer Operating Fund), for working capital purposes i.e. to provide for operating expenditures before property taxes or user fees are collected. Maintaining minimum working capital levels eliminates or reduces the need to borrow externally and/or internally for operations.

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The Town may also require emergency funds from time to time, from any one of its Unappropriated Surplus balances, for unforeseen costs. When this occurs, the Town needs to rely upon sufficient balances being available in the applicable Unappropriated Surplus area (general operating or sewer).

Surplus represents non-renewable savings and should not be used for operating purposes or for on-going capital programs.

The Financial Stability Reserves (Operating Fund – General and Sewer) were established to ensure ongoing financial stability and fiscal health of the Town. They are funded from the year-end surplus in each respective fund.

Surplus will only be considered as a funding source for one-time expenditures. Any surplus not used for one-time expenditures will be transferred to infrastructure reserves, financial stability reserves and/or debt reduction reserves.

SECTION 4 – RESERVE ACCOUNTS (APPROPRIATED SURPLUS)

4.1 Community Works Gas Tax Reserve Account

The purpose of the Community Works Gas Tax Reserve is to account for funds received and used pursuant to the Community Works Gas Tax Agreement. Projects funded by this account must be in compliance with acceptable uses as defined in the Community Works Gas Tax Agreement. The intent is to spend all funds received, per the Community Works Gas Tax Agreement.

4.2 Casino Grant Reserve Account

The purpose of the Casino Grant Reserve is to account for funds received and used pursuant to the Casino Fund Agreement. Casino funds can be used for any municipal purpose. The intent is to spend all funds received, per the Casino Fund Agreement. The Town’s intent is to use Casino Funds for one-time capital expenditures, debt repayments and for building capital reserves to optimal levels.

SECTION 5 – ADMINISTRATION

5.1 Reserve Contributions

Annual and/or periodic contributions to Reserve Funds shall be specific to each Reserve, as approved by Council through the Town’s annual financial planning and budgeting process.

5.2 Minimum and Optimum Reserve Balances

Minimum and Optimum fund balance guidelines have been set for some of the Town’s Reserve Funds, Statutory Reserve Funds and Unappropriated Surpluses. The minimum balances ensure that the respective balances are not depleted to the degree that those balances are no longer able to serve their intended purpose(s). The Optimum balances ensure that the Town’s guiding principles are achieved and that the respective balances do not grow beyond their intended purpose(s) and thus create idle assets that could be otherwise utilized for other corporate priorities. A formal comparative review of actual, minimum and optimal fund balances shall be undertaken annually. If balances in any reserve fund fall below the minimum level a strategy must be outlined to replenish the fund within a 3 year period.

5.3 Internal Borrowing

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Internal borrowing from specific Reserve Fund, Unappropriated Surplus and Statutory Reserve Fund balances shall be permissible as allowed for by legislation, if a clearly defined and attainable payback plan, including payment of foregone interest, is in place. Internal borrowing allows for more flexibility in terms of payback amounts and loan duration than that of external borrowing. Paybacks shall be executed according to plan.

5.4 Responsibilities

The Town’s Financial Officer shall be responsible for:

- Recommending the necessary contributions and transfers so that the Town's Reserve Funds, Statutory Reserve Funds and Unappropriated Surpluses are maintained in accordance with this Policy
- Conduct an annual review of all Reserve Fund, Statutory Reserve Fund and Unappropriated Surplus balances and reporting the results of such a review to Council;
- Recommending any revisions or amendments to this Policy, as may be required from time to time, as a result in changes in applicable statutes, accounting standards, economic conditions, etc.

5.5 Interest

Reserve Funds and Statutory Reserve Funds shall be paid and allocated interest based on average annual balances and the Town’s average rate of return on investments.

5.6 Socially Responsible Investing:

Where possible, socially responsible investing (SRI) criteria will be applied to the selection of investments. SRI strategies and criteria are established by the Social Investment Organization (SIO), a national non-profit association for the socially responsible investment industry in Canada. SRI screening involves selecting investments in a portfolio based on social and/or environmental criteria with the objective of excluding companies that have a negative social and/or environmental impact, and selecting companies that make positive contributions to society and/or the environment. The Town’s investment program shall invest in SRI products in consideration of the adherence to statutory requirements.

5.7 Guide and Transition

The minimum and optimal fund balance guidelines shown in this Policy serve as a guide in moving the Town towards the goals or targets it wishes to attain, in terms of individual fund balances. It is recognized that the Town’s fund balances are not at the minimum or optimal levels at the time of enacting this Policy, however, the Town is transitioning towards its optimal targets.

ATTACHMENTS: Appendix A

DISTRIBUTION: Y:\Administration\0340 Circulars, Directives, Orders, Manuals, Policies\50 Policies and procedures\Policies - Final\1600 - Finance

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Fund(s)	Purpose	Funding Source(s)	Minimum \$ Level	Optimum \$ Level
RESERVE FUNDS				
Reserve for Future Expenditures	For one-time and intermittent projects, and to offset unrealized revenues	<ul style="list-style-type: none"> • Annual allocation from general operating budget as provided for in financial plan • Other budgeted contributions from operations including any paybacks as a result of funds advanced for specific projects 	1% of General Operating Fund Revenues	2.5% of General Operating Fund Revenues
Special Police Operating Reserve	For future police operating costs	<ul style="list-style-type: none"> • Excess traffic fine sharing revenue not utilized within the annual policing operations • Surplus from the policing operational budget 	20% of RCMP contract expenditures rounded to nearest \$10,000	Adequate to fund police funding strategy, including increased costs related to reaching population of 15,000
Capital Works and Land Acquisition Reserve	For new or enhanced infrastructure or equipment (one-time capital) not specifically funded from other established Reserves	<ul style="list-style-type: none"> • Annual allocation from general operating budget as provided for in financial plan • Casino Funds • Net proceeds from the sale of real property. 	N/A	Adequate to fund all one-time capital projects and new / additional assets identified as capital funded in the long term capital plan
Capital Renewal Reserve	For expenditures associated with the rehabilitation, renewal or replacement of existing transportation and storm drain infrastructure	<ul style="list-style-type: none"> • Annual allocation from general operating budget as provided for in financial plan • Annual allocation of a portion of assessment growth • Casino Funds 	1% of original cost of transportation and storm drain Engineering structures	Minimum 1% of original cost plus forecasted cash flow requirements of the planned long term capital renewal program
Park Improvement Reserve	For expenditures associated with park improvements, including playground	<ul style="list-style-type: none"> • Annual allocation from general operating budget as provided for in financial plan • Casino Funds 	N/A	Forecasted cash flow requirements for park improvements identified in the approved parks master

Fund(s)	Purpose	Funding Source(s)	Minimum \$ Level	Optimum \$ Level
				plan and long term capital plan
Machinery & Equipment Depreciation Reserve	To replace municipal vehicles and equipment included in the Town's fleet (excluding Fire)	<ul style="list-style-type: none"> • Annual allocation from general and sewer operating budgets • Proceeds from the sale of municipal vehicles and equipment 	1% of original cost of machinery & equipment	Minimum 1% of original cost plus forecasted cash flow requirements of the vehicle and equipment replacement plan
Fire Department Machinery and Equipment Depreciation Reserve	To replace Fire vehicles and licenced equipment and other equipment such as self-contained breathing apparatus	<ul style="list-style-type: none"> • Annual allocation from general operating budget • Proceeds from the sale of fire vehicles and equipment • A portion of the Public Safety Building rental suites income. 	1% of original cost of Fire vehicles and equipment	Minimum 1% of original cost plus forecasted cash flow requirements of the Fire vehicle and equipment replacement plan
Sewerage System Capital Reserve	To fund sewer utility capital projects required for sewer operations or identified in the Sewer Master Plan, and Sewer equipment not included in the Town's licenced fleet	<ul style="list-style-type: none"> ▪ Annual allocation from sewer operating budget as provided for in financial plan 	1% of original cost of Sewer Engineering structures	Minimum 1% of original cost plus forecasted cash flow requirements of the planned sewer capital program
Police Equipment, Property and Contract Reserve	To fund the Town's share of the Police building repairs and upgrades, and equipment.	<ul style="list-style-type: none"> • Annual allocation from general operating budget as provided for in financial plan • share of surplus from the policing building budget 	Adequate to fund 2 years of police capital per 5 year plan	Adequate to fund forecasted cash flow requirements of the planned 5 year Police capital program

Fund(s)	Purpose	Funding Source(s)	Minimum \$ Level	Optimum \$ Level
STATUTORY RESERVE FUNDS				
Development Cost Charges (DCC) Reserves	Holding account(s) for levies from developers to be used for approved DCC programs/projects.	<ul style="list-style-type: none"> ▪ DCC collections and credits. 	N/A	N/A
Parks & Open Space	To purchase parkland as allowed for under the Local Government Act.	<ul style="list-style-type: none"> ▪ Developer cash contributions as per the requirement under the Local Government Act cash-in-lieu option. 	N/A	Adequate balance to fund parkland acquisitions, per the long-term capital plan.
RESERVE ACCOUNTS				
Casino Revenue	Casino funds can be used for any municipal purpose	<ul style="list-style-type: none"> ▪ Casino Agreement 	N/A	N/A
Community Works Gas Tax Reserve	To be used pursuant to the Community Works Gas Tax Agreement.	<ul style="list-style-type: none"> ▪ Federal Community Works Gas Tax funds distributed by the Union of BC Municipalities (UBCM). 	N/A	N/A
UNAPPROPRIATED SURPLUSES				
General Operating Surplus	For working capital purposes within the general operating fund and for unforeseen general operating emergency expenditures.	<ul style="list-style-type: none"> ▪ Any excess general operating fund revenues (including property taxes) over expenditures and transfers at the end of each fiscal year. 	Two months of regular general fund operating expenditures	Three months of regular general fund operating expenditures
Sewer Operating Surplus	For working capital purposes within the sewer operating fund and for unforeseen sewer operating emergency expenditures.	<ul style="list-style-type: none"> ▪ Any excess sewer operating fund revenues (including user fees) over expenditures and transfers (including capital transfers) at the end of each fiscal year. 	Two months of regular sewer operating expenditures, plus contingency for sewage treatment plant	Four months of regular sewer fund operating expenditures plus contingency for new sewage treatment plant