



SAINT JOHN

**Title: Operating and Capital Reserves**

Subject: <b>Operating and Capital Reserves Policy</b>	Category: <b>Policy</b>
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Common Clerk's Annotation for Official Record	
Date of Passage of Current Framework: <u>2017-12-11</u>	
I certify that this Policy was adopted by Common Council as indicated above.	
_____	_____
Common Clerk	Date

Date Created: <b>2017-12-05</b>	Common Council Approval Date: 2017-12-11	Contact: <b>Finance and Administrative Services</b>
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## TABLE OF CONTENTS

1. POLICY STATEMENT .....	2
2. DEFINITION OF RESERVES .....	3
3. PERMITTED USE OF RESERVES .....	3
4. AUTHORITY .....	4
5. ADEQUACY OF RESERVES .....	4
6. FUNDING RESERVES .....	4
7. INVESTMENT OF RESERVE FUNDS .....	5
8. TEMPORARY BORROWING FROM RESERVES .....	5
9. ANNUAL REPORTING .....	5
10. RESPONSIBILITIES .....	6

## 1. POLICY STATEMENT

- 1.1 This policy sets out consistent standards and guidelines for the establishment, management, and accounting of reserve and reserve funds in accordance with agreed upon policy guidelines and applicable regulations under the New Brunswick Municipalities Act.
- 1.2 The City of Saint John (City) establishes this policy to address longer term funding strategies and to ensure good financial and cash management for the ongoing financial stability of the City. In conjunction with the Asset Management, Investment and Debt Management Policies, this policy will inform decisions relating to long term operating and capital expenditures in order to minimize debt servicing costs, address the infrastructure deficit, and mitigate the effect of unanticipated events.
- 1.3 The City must comply with the New Brunswick Local Governance Act Reserve Fund Regulation in relation to the establishment and use of Reserves. Under the Act, reserves are permitted to be established for Operating and Capital purposes.
- 1.4 All reserves will be managed in accordance with the New Brunswick Local Governance Reserve Fund Regulation as follows:

### <sup>1</sup>General Operating Reserve Fund

- A municipality may, by resolution, establish, manage and contribute to a general operating reserve fund for the payment of operating expenses.
- The amount held in a general operating reserve shall not exceed **five percent** of the total expenditure that was budgeted for the municipality for the previous fiscal year.
- Money held in a general operating reserve fund shall be used for no purpose other than the payment of operating expenses.
- Every resolution respecting a contribution made to or a withdrawal from a general operating reserve fund in respect of a calendar year shall be made by December 31 of that calendar year and shall specify the dollar amount contributed to the general operating reserve fund.

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<sup>1</sup> Reserve Fund Regulation NBReg 97-145 Section 3.1 to 3.4– New Brunswick Municipalities Act (O.C. 97-1036)

<sup>2</sup>General Capital Reserve Fund

- A municipality may by resolution establish, manage, and contribute to a general capital reserve fund for the payment of capital expenses.
- Money held in a general capital reserve fund shall be used for no purpose other than the payment of capital expenses.
- Every resolution respecting a contribution made to or withdrawal from a general capital reserve in respect of a calendar year shall be made by December 31 of that calendar year and shall specify the dollar amount contributed to the general capital reserve fund.

**2. DEFINITION OF RESERVES**

- 2.1 **“Reserves”** are created when funds are set aside (designated) for a future purpose.
- 2.2 **“Operating Reserve”** means a general operating reserve; a service; or utility operating reserve.
- 2.3 **“Capital Reserve”** means a general capital reserve; a service or utility capital reserve.

**3. PERMITTED USE OF RESERVES**

- 3.1 The City of Saint John will set aside and maintain adequate reserves to provide for:
- 3.1.1 Major unanticipated/unforeseen events;
  - 3.1.2 Major Capital renewal;
  - 3.1.3 Future Liabilities;
  - 3.1.4 One time operating expenses which are greater than \$100,000 and are not part of the recurring operating budget;
  - 3.1.5 Infrastructure deficit; and
  - 3.1.6 Investment in growth opportunities.

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<sup>2</sup> Reserve Fund Regulation NBReg 97-145 Section 4.1 to 4.3– New Brunswick Municipalities Act (O.C. 97-1036)

#### **4. AUTHORITY**

- 4.1 A resolution of Council will be required to establish a reserve.
- 4.2 <sup>3</sup>No transfer of money from an operating reserve fund or a capital reserve fund shall be made except:
  - 4.2.1 By resolution of Council; and
  - 4.2.2 Within the fiscal year to which the expenditure relates.
- 4.3 <sup>4</sup>A resolution of Council will be required to close a reserve.

#### **5. ADEQUACY OF RESERVES**

- 5.1 The adequacy of individual reserves shall be determined, on a case by case basis, and aligned with the Long Term Financial Plan, Asset Management Plan, and the Debt Management Plan.

#### **6. FUNDING RESERVES**

- 6.1 Reserve funds will generally come from:
  - 6.1.1 The excess of revenues over expenditures and one time revenues; and
  - 6.1.2 Planned/budgeted amounts for reserves.

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<sup>3</sup> Reserve Fund Regulation NBReg 97-145 Section 7.1 to 7.2– New Brunswick Municipalities Act (O.C. 97-1036)

<sup>4</sup> Reserve Fund Regulation NBReg 97-145 Section 10 – New Brunswick Municipalities Act (O.C. 97-1036)

## **7. INVESTMENT OF RESERVE FUNDS**

- 7.1 <sup>5</sup>Any money, including interest, within an operating reserve fund or a capital reserve fund shall be invested in accordance with the Trustees Act.
- 7.2 Any investment of reserve funds shall comply with the Trustees Act and the City's Investment Policy.

## **8. TEMPORARY BORROWING FROM RESERVES**

- 8.1 Temporary borrowing from reserves for short term cash flow management and internal financing is permitted, however the following conditions must be met:
- 8.1.1 Borrowing must not adversely affect the intended purpose of the reserve;
  - 8.1.2 Borrowing must not be for purposes contrary to the Long Term Financial Plan;
  - 8.1.3 A plan to repay the reserve within a reasonable timeframe is required and must be documented; and
  - 8.1.4 Borrowing must be approved by Resolution of Council.

## **9. ANNUAL REPORTING**

- 9.1 The annual reporting of the Operating and Capital Reserve Funds shall be in accordance with the Local Governance Reserve Fund Regulation.

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<sup>5</sup> Reserve Fund Regulation NBReg 97-145 Section 8 – New Brunswick Municipalities Act (O.C. 97-1036)

**10. RESPONSIBILITIES**

10.1 Council shall:

- 10.1.1 Approve the Reserve Policy; and
- 10.1.2 Approve transactions to and from reserves by specific resolution.

10.2 The City Manager Shall:

- 10.2.1 Ensure compliance with the principles and mandatory requirements contained in this policy.

10.3 The Finance Commissioner Shall:

- 10.3.1 Develop and update this policy as necessary and present changes to Council;
- 10.3.2 Ensure that the principles and requirements contained in this policy are applied consistently across all Service Areas;
- 10.3.3 Perform the transfers to and from reserves and reserve funds as authorized by Council;
- 10.3.4 Recommend strategies for the adequacy of reserve levels; and
- 10.3.5 Report to Council, the reserve balances and forecast as part of the annual budget approval process.