



City of Kelowna
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Council Policy

Financial Reserves

Approved: July 26 2021

Contact Department: Financial Services

Guiding Principle

To provide guidance for the responsibility of reserve oversight and the use of reserves to support the goal of providing adequate infrastructure, services, and resources to meet community requirements, and to aid in the financial sustainability of the City.

Purpose

To address reserve establishment, transactions, optimum balances, transfers, and closure of reserve balances.

Application

Establishment of New Reserves

Reserves are established, maintained, and used for specified purposes as mandated by statute, City bylaw or this policy. The City's management of statutory reserves conform to the statutory and legal requirements of the *Community Charter* and the *Local Government Act*. Financial Reserve oversight is the responsibility of the Financial Officer with support from the Financial Planning department.

Statutory Reserve funds are approved by Council bylaw. The recommendation to Council shall state the intended purpose of the Reserve fund and be supported by a financial plan identifying the funding source(s) and expenditure purposes.

Statutory Reserves being established within an existing Statutory Reserve fund, and Non-Statutory Reserves may be established upon the approval of the Financial Officer. The recommendation to the Financial Officer shall state the intended purpose of the Reserve and identify funding source(s) and expenditure purposes and restrictions.

All Reserve related transactions shall be made in accordance with the stated purpose of the reserve and with all applicable legislation, regulations, and bylaws and in accordance with this policy.

Contributions to Reserves

Contributions shall be specific to each Reserve, as approved by Council through the City's annual budget bylaw or upon approval by the Manager of Financial Planning.

Appropriations from Reserves

Statutory Reserves are committed for a specific purpose and any change in the use of funds must be approved by Council bylaw. Appropriations from reserves to fund expenditures must have prior approval either through the annual budget process, by Council resolution, or an amendment to the budget (Council Policy 262). Appropriations will not be used for ongoing operational budget requirements, except for phasing in significant tax impacts or one-time initiatives which are less than three years.

Appropriations from a reserve must not exceed the reserve balance without prior approval from the Financial Officer and only when it can be forecasted that future reserve contributions will restore the reserve to an adequate balance within a reasonable time period. This condition also applies to internal borrowing from a reserve fund.

Interest Earned on Reserve Fund Balances

Statutory reserve funds will earn interest each year. Interest earned will be determined using the City's average rate of return on investments. Per section 189 (1) of the *Community Charter*, any interest earned in a statutory reserve fund must be used only for the purpose for which the fund was established.

Non-statutory reserves will earn interest each year at a rate determined by the Manager of Financial Planning, unless otherwise determined by Council resolution or dictated by legislation.

Internal Borrowing from Reserves

Internal borrowing from reserves will be permissible only as allowed for by legislation (*Community Charter 189*). A clearly defined and attainable payback plan, including payment of foregone interest, must be in place before the internal borrowing is undertaken. The payback plan must ensure the borrowed funds will be available when needed by the lending fund. Internal borrowing must be reflected in the annual Financial Plan and must align with the City of Kelowna's Financial Principles and Strategies.

Optimum Balances

An optimum balance shall be established for each Reserve by the Financial Officer or delegate. The optimum balance will serve to guide decisions as to either increase or reduce contributions to and appropriations from the Reserve. Optimum Reserve balances will be reviewed by Financial Planning on an annual basis to consider future and changing requirements.

Reserve Closure and Transfers

Reserves will be closed when it is determined that funding is no longer required to fulfill the purpose of the Reserve. Reserve closures will be approved by City Council when required by legislation. Appropriation of funds remaining in a Reserve that is closed will be determined by the Financial Officer or as required by legislation.

Where a Statutory Reserve balance exceeds its optimum balance or is no longer required, it may be transferred to another Reserve through a Council bylaw. Where a non-statutory Reserve exceeds its optimum balance or is no longer required, it may be transferred to another Reserve with the approval of the Financial Officer.

Procedures and Responsibilities

Council will approve:

- i. The policy and any updates and amendments to the policy;

Financial Officer will be responsible for:

- ii. Reviewing the principles and policy statements and recommending any updates and amendments to the policy;
- iii. Administration of the reserves including accounting procedures for transactions and guidance to departments for compliance with the policy;
- iv. Conducting an annual review of the reserve balances and reporting the results through the Audit Committee to Council.

Policy Statements

Reserves form an integral component of the City's budget and strategic financial plan and ensure equity between current and future taxpayers. The City maintains reserves to achieve the following policy objectives:

- To acquire, replace, and renew major capital assets
- To ensure stable, predictable tax and utility levies
- To minimize the financial impact of unusual and unexpected events including but not limited to law enforcement, weather events, insurance claims, tax assessment appeals, environmental hazards and other significant unexpected or emergent issues
- To achieve long-term financial stability
- To balance the costs of maintaining sufficient Reserve levels to current and future taxpayers
- To fund asset retirement obligations

Definitions**Appropriations**

Expenditures from reserves which will fund projects of like purposes to the intended use of the reserve.

Contributions

Funding to reserves from various sources: approved budget, carryover of current year funds not expended, annual surplus contributions or from external sources (government grants, donations or revenues received)

Internal Borrowing

Internal or interfund borrowing provides the flexibility to internally finance capital projects by temporarily lending funds from one Reserve to another.

Non-statutory Reserves

Funds earmarked for specified purposes. These can be related to either operating or capital expenses.

Optimum Balance

A target for each reserve balance based on current financial plans for the intended use.

Reserves

All City reserves including statutory Reserves and non-statutory Reserves.

Statutory Reserve

A sub-category within a Statutory Reserve Fund.

Statutory Reserve Funds

Funds earmarked for a specified purpose by Council pursuant to section 188(2) of the Community Charter. Reserve Funds are established through Council bylaw and use must align with the established purpose.

Amendments

RESOLUTION: R0755/2021/07/26