ADMINISTRATIVE DIRECTIVE NO. FM-005

Reserves Administration

AUTHORITY FOR DIRECTIVE: Chief Financial Officer

LAST UPDATED: June, 2009

Directive

RESERVES ARE FUNDS THAT HAVE BEEN SET ASIDE FOR DESIGNATED PURPOSES; PRUDENT ADMINISTRATION OF RESERVES REPRESENTS AN IMPORTANT COMPONENT OF SOUND FINANCIAL MANAGEMENT. MAINTAINING ADEQUATE RESERVES PROVIDES THE CITY OF WINNIPEG WITH THE ABILITY TO RESPOND TO UNEXPECTED EVENTS, MAINTAIN STABLE TAXES, AND ENSURE THAT SUFFICIENT FUNDS ARE AVAILABLE FOR MAJOR CAPITAL PROJECTS.

THE CITY OF WINNIPEG HAS A NUMBER OF RESERVES ESTABLISHED FOR A VARIETY OF PURPOSES. THE MEANS BY WHICH THESE RESERVES HAVE BEEN ESTABLISHED VARY. ALTHOUGH EACH RESERVE HAS ITS OWN ESTABLISHED OPERATING CRITERIA, THERE IS A NEED FOR OVERARCHING GUIDELINES TO ENSURE THAT THERE IS CONSISTENCY IN COMPLIANCE AND A MECHANISM TO DOCUMENT AND TRANSFER KEY KNOWLEDGE TO USERS.

A. PURPOSE OF DIRECTIVE

To provide direction to the City of Winnipeg Public Service concerning the creation of and amendment to reserve funds, as well as how reserve funds should be administered.

B. ROLES AND RESPONSIBILITIES

The City of Winnipeg Charter Act

Section 289(1) of The City of Winnipeg Charter Act (the "Charter") denotes that *Council may provide for the establishment or maintenance of a reserve fund for any purpose for which the city has authority to make expenditures.* By virtue of this, Council is the legislated authority regarding the establishment of reserve funds for The City of Winnipeg.

Section 289(4) goes on to state:

Money raised for a reserve fund established under subsection (1) shall not be expended or pledged for any purpose other than that for which the fund was established, except where

(a) the chief financial officer certifies that the amount in the fund is greater than the amount required for the purpose for which the fund was established;

(b) the amount in the fund is no longer required for the purpose for which the fund was established; or
(c) the purpose for which the fund was established is terminated.

Upon establishment, specific purposes and rules will delineate what reserve funds can be expended upon. By their very reason for being established, the reserves must be closely controlled to ensure funds are available for the special purposes for which they have been designated. Only where the purpose has been satisfied or determined to be no longer required, or where the Chief Financial Officer has certified otherwise, can the funds be used for something beyond their intended purpose, subject to Council's approval.

Reserve funds are an integral part and important mechanism to ensure that governments can deliver their service mandates and protect themselves against unexpected, unique financial challenges. They are a critical component of the City's overall financial management strategy.

The City utilizes a number of reserves that fall into three categories:

Stabilization Reserves

These reserves are designed to stabilize the effect of certain expenses on the current operations of the City. As of the effective date of this Administrative Directive, the City has two funds (Fiscal Stabilization Reserve Fund and the Mill Rate Stabilization Reserve Fund) in this category. The purposes of these reserves are:

- mitigation of the budgetary impact of year to year fluctuations in tax revenue caused by the additions to and deletions from the tax roll arising from new construction, land improvements and demolition.
- Funding of operating deficits in the General Revenue Fund in order to assist in the stabilization of the City's mill rate and/or property tax requirements.

Special Purpose Reserves

Reserves in this category are established for particular, specified program needs. As of the effective date of this Administrative Directive, there are 20 reserves in this category including cemetery perpetual maintenance funds, the general purpose reserve fund and the land operating reserve fund.

Capital Reserves

This final category of reserves is also for specific purposes which are capital in nature. They typically are designated as a funding source for capital projects, accumulating the funds necessary to make the relevant expense, as incurred. As of the effective date of this Administrative Directive, there are 13 reserves in this category.

Reserves form a critical component of the City's overall financial management strategy. They support "pay as you go" strategies, reduce the amount of borrowing that would otherwise be necessary and minimize the impact on mill rates. Reserves are also one indicator, of many, in the credit rating assigned by agencies. The credit rating affects the interest rate the City can pay when it issues bonds. With a higher credit rating and lower costs of borrowing, this leaves more funds for the delivery of City services.

In the Audit Report *Reserves Administration Audit,* a comparison was made to three other cities with comparable or better credit ratings. Those three cities had a range of 18 to 28% when comparing total expenses to total reserve balances. On that basis and for indicative purposes only, the City should target between 20 and 25% as an optimal reserve balance compared to consolidated expenses. Anything outside of these parameters will trigger a review to determine whether any adjustments need to be made.

Chief Financial Officer

1. Consider reserve proposals and make recommendations to the Chief Administrative Officer.

Department Head

1. In creating a new reserve, amending existing Reserve terms and conditions, or terminating a Reserve, and in consultation with and with concurrence from the Chief Financial Officer, submit an administrative report to the Chief Administrative Officer for dispensation.

Establishing a Reserve

On May 23, 2001, Council approved the Administrative Report *Review of Reserves.* Included in the recommendations was that a policy be adopted that the timing of the establishment of any new reserve be done annually at the same time as Council adopts the current estimates. As such, through the annual budget process, proposals concerning the creation of new reserves, amendment to existing terms and conditions of existing reserves and termination of existing reserves will be approved by Council.

If necessary, for reasons of expedience, where the creation of a Reserve cannot wait for the budget process to complete, make similar proposals through an Administrative Report to Council.

When Council is requested to establish a new or amend an existing reserve, the following should be included for consideration:

- Purpose – a clear, concise description of the reserve's purpose.
- Fund Manager(s) – the individual(s) (position, not the individual's name) that will be responsible for the reserve fund.
- Source of Funding – identify what funding source will provide financing for the reserve and any other related details.
- Use of Funds – identify what the funds in the Reserve can be spent on, which should be consistent with the purpose of the Reserve.
- Reserve Fund Balance targets – clear minimum and/or maximum target balances shall be identified.
- Other – any restrictions or rules that are unique to the Reserve being created.

As noted earlier, the City has a number of reserves in use already that support a wide range of purposes. Before deciding to establish a new reserve, consideration will be given to utilizing an existing reserve for the new purpose identified. While the existing reserve may not be a perfect fit for the purpose, it may align closely and an amendment to the terms and conditions of the existing reserve may be all that is required.

Reserves with a target accumulation of less than $1 million should not be proposed. The management of reserves is not without cost to the City of Winnipeg. For purposes of this amount, there are other alternatives including utilizing existing reserves or the operating and capital budget processes.

Reserve Fund Manager(s)

Reserve fund manager(s) are those individuals Council has approved as being responsible for the specific reserve fund. Their responsibilities include:

- Ensuring transactions made by the reserve are in accordance with the approved terms and conditions of the reserve.
- Ensuring that the reserve fund has adequate resources to meet the reserve's purpose. This applies to having both a sufficient amount but also not having surplus amounts.
- Considering Council's approved terms and conditions, supplement with any additional administration guidelines, as required.

In support of these responsibilities:

1. On an annual basis, the Reserve Fund Manager(s) shall review all reserves under his or her control with specific attention to:
    a. On-going need for the reserve for the purposes intended
    b. Sustainability
    c. Sufficiency and appropriateness of current fund balances
2. Demonstrate his or her review and approval of:
    a. financial statements for the Reserve.
    b. Budget and forecast documentation for the Reserve.

Corporate Controller

1. Ensure that transactions accounted for in the Reserve are permissible under the current terms governing the Reserve and consider the CICA's Public Sector Accounting Handbook.

City Solicitor

1. Ensure that any creations of new or amendments to existing Reserves terms and conditions are in accordance with the Charter.

Departmental Controllers

1. Support Reserve Fund Managers in Reserve reviews and terms and conditions proposals by providing financial analysis and business case development.
2. For purposes of annual budget process, prepare appropriate documentation, as required.
3. Prepare annual financial statements for Reserves that shall include Council approved budget amounts.

City Treasurer

1. In accordance with Council's approved *Investment Policy*, manage the appropriate investment of the reserve funds.

2. In support of the Reserve Fund Manager(s)'s annual review, meet with the Reserve Fund Manager to determine the reserve's forthcoming investments and cashflow needs.

   Reserve balances will earn a rate of interest commensurate with its investment position. Those funds identified as being required for short-term purposes will earn a rate related to the average monthly Bank of Canada overnight rate. Those funds identified with a mid or long-term need will earn the actual rate associated with these investments.

   Investment management fees will consider the costs associated with managing the Reserve's investments. Management fees will not exceed interest earnings.

C. REFERENCES AND RELATED LINKS TO PROCEDURES

The City of Winnipeg Financial Management Plan, Council Meeting, April 25, 2001

City of Winnipeg Charter, Section 289

Council Meeting, May 23, 2001

D. AMENDMENTS

None

E. REVIEW PROCESS

The Chief Financial Officer is accountable for the review and maintenance of this Administrative Directive.

F. KEY CONTACTS

Chief Financial Officer
Corporate Controller