

2016 TRIENNIAL RESERVE REVIEW REPORT

EXECUTIVE SUMMARY

This report summarizes the results of the Triennial Reserve Review and the process performed by an Administrative Reserve Review Committee.

ADMINISTRATION RECOMMENDATION(S)

That the Priorities and Finance Committee recommends that Council:

1. Approve the changes to reserves as outlined in Attachment 1 and Attachment 2; and
2. Approve the list of reserves to be reviewed in 2017 as outlined in Attachment 3.

PREVIOUS COUNCIL DIRECTION / POLICY

The City Auditor's Office completed an audit of The City's Financial Reserves in 2009. The FCS2010-01 (AC2009-74) report dated 2010 January 18 detailed the recommendations of the audit and Administration's response and work plan to address the recommendations. One of Administration's responses was to create a Triennial Reserve Review process in which every reserve will be reviewed at least once every three years. The list of 16 reserves reviewed in 2016 was approved by Council (PFC2015-0917 Attachment 3) on 2015 December 01.

As previously approved by Council (PFC2015-0917 Attachment 1) for the Millican-Ogden Community Enhancement Reserve, the community association was to approve a plan by end of 2016 for the use of the reserve funds, or the reserve would be closed and funds transferred to the Fiscal Stability Reserve. To date, the community association has used the majority of the reserve balance for community improvement projects and is anticipating the entire reserve balance to be used no later than 2017 December 31.

BACKGROUND

Reserves are part of good management that allows for funds to be either spent judiciously over time or to ensure service levels are maintained and not immediately impacted by potential downturns in the economy. Reserves provide a measure of financial flexibility to react to budget shortfalls or to financial impacts of significant unexpected issues in a timely manner. A properly balanced approach to the planning and use of reserves is considered good financial management and is a key component of The City of Calgary's strong credit rating. For the majority of reserves, expenditures from and contributions to reserve funds are included in the Budget and Budget Adjustments approved by Council.

The City's reserves consist of the following:

Reserve Type	# of Reserves	Reserve Balance as of 2015 Dec 31
Operating	17	\$721 million
Capital	17	\$990 million
Sustainment	9	\$284 million
Total per Reserve Report	43	\$1,995 million

There are 17 operating reserves totalling \$721 million, of which \$544 million is held in the Fiscal Stability Reserve as an operating contingency fund and to provide for one-time funding. The majority of the 17 capital reserves totalling \$990 million are either fully committed or have substantial

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commitments against them to finance existing approved projects and these commitments will reduce the balances over time. A total of \$284 million is held in nine separate sustainment reserves.

In 2010, Council approved Policy CFO013, Financial Reserves. The primary objective of the revised policy was to authorize or clarify processes required for:

- The creation of new reserves, including the purpose, funding, conditions, restrictions and appropriate minimum/maximum funding ranges;
- Administration of reserves, including annual contributions and withdrawals, investment income bearing status, the treatment of one-time or unanticipated revenue sources and courses of action if a reserve is over or under funded;
- Periodic reviews of all reserves; and
- Amendment or closure of a reserve.

Administration also developed and approved Administrative Policy FA-050, Financial Reserves, in support of the Council Policy. The Policy and associated procedures reflect best practices and provide additional guidance, procedures and responsibilities in the administration and reporting of reserves.

Council Policy CFO013 outlines a triennial review process requiring that every active reserve be reviewed at least once every three years.

The purpose of the Triennial Review process is to ensure that:

- i. Reserve activity meets all authorizing documents requirements;
- ii. Reserve activity is in accordance with City reserve policies and procedures;
- iii. The reserve's purpose, conditions and/or restrictions are still relevant; and
- iv. The reserve is still required in its current form.

The review for each active reserve will cover a period including the current year and the previous full year of operations for that reserve and shall be completed by an Administrative Reserve Review Committee comprised of:

- The Chief Financial Officer;
- Finance Manager, Corporate Budget Office;
- Finance Manager, Corporate Financial Reporting;
- A General Manager; and
- A Business Unit Director.

By the end of the year, the Administrative Reserve Review Committee prepares a report for the Priorities and Finance Committee. The report includes the criteria used to evaluate the reserves, a summary of all findings, any applicable recommendations based upon the findings, follow up of the previous year's review recommendations if required, and a list of reserves to be reviewed during the following year.

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INVESTIGATION: ALTERNATIVES AND ANALYSIS

For 2016, Council approved the review of 16 reserves representing a \$654 million reserves' balance as of 2015 December 31, or approximately one third of all reserves' balances.

1.0 Initial Review

A review team completed a detailed review of reserve transactions and documentation of each reserve. The review team collected all relevant reserve documents and reviewed selected 2014 and 2015 transactions in order to evaluate:

- Contributions from operations to reserves;
- Contributions from reserves to operations or capital;
- Transfers between reserves;
- Compliance of reserve activities with the reserve's mandate and all other City policies and procedures; and
- Completeness and accuracy of the disclosure of financial information in the Annual Reserve Report.

The review team provided findings to the Administrative Reserve Review Committee. The committee met several times throughout the year to consider the initial review results, evaluate recommendations made by the review team, determine whether the reserves are still relevant today, and whether they continue to align with current Council objectives.

2.0 Review Guiding Principles

Over the years, reserves have been created for a number of reasons and with various purposes. In order to consistently evaluate various types of reserves and determine whether changes should be recommended, the Administrative Reserve Review Committee previously agreed on a number of guiding principles.

2.1 Minimize Number of Open Reserves

Where ever possible, the number of reserves should be reduced. The Administrative Reserve Review Committee looked to consolidate or close reserves where multiple reserves serve similar purposes and to eliminate miscellaneous and redundant reserves.

2.2 Business Categories

Currently, reserves are categorized in accounting terms as operating, capital or sustainment. However, the Administrative Reserve Review Committee also categorized reserves by business purpose such that reserves can be evaluated consistently based on the business reason for the reserve. For example, some reserves have been created to manage the timing of cash flows. Such reserves should have a reserve plan and transactions should be budgeted wherever possible, but they do not necessarily lend themselves to a target balance.

Alternatively, reserves created for contingency purposes should have a target balance. Not all transactions for these reserves can be budgeted since Administration can not anticipate a contingent event, but establishing a target balance based on an estimate of risk is appropriate.

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2.3 Ongoing relevance of Reserves

The Administrative Reserve Review Committee also looked to ensure that the business reason for the reserve was still relevant and where applicable, that Administration has a plan on the strategic use of the reserve going forward and that reserve activity be budgeted where applicable.

3.0 Results of the Reviews

For the past several years, Administration has been following a number of control measures, such as annual checklists and documentation protocols, which have improved reserve processes and oversight.

3.1 Reserve activity meets all authorizing documents requirements

All reserves reviewed are being administered as intended. There were a few instances where authorizing document requirements are no longer relevant and have been replaced with alternate processes. Refer to Attachment 1 for further information.

3.2 Reserve activity is in accordance with City reserve policies and procedures

All reserve activity reviewed was recorded in a timely fashion and in accordance with Council and Administrative reserve policies and Administrative reserve procedures. No issues identified with recorded reserve activity.

3.3 The reserve's purpose, conditions and/or restrictions are still relevant

The reserves' purposes, conditions and/or restrictions are still relevant. There are instances where a reserve's purpose, conditions and/or restrictions are recommended for update. Refer to Attachment 1 for further information.

3.4 The reserve is still required

As part of the review, the Administrative Reserve Review Committee questions whether every reserve being reviewed is needed, or can be closed. No reserve is recommended for closure.

Refer to Attachment 1 for a complete list of general comments and reserve recommendations.

Attachment 2 includes reserve summaries from the 2015 Annual Reserve Report for the reserves reviewed. Suggested changes to the text are highlighted in red and underlined. Strikethrough text to be removed.

Attachment 3 includes the list of reserves to be reviewed in 2017.

All three Attachments require Council approval.

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Stakeholder Engagement, Research and Communication

All relevant reserve leads and General Managers were informed and consulted as part of the review.

Strategic Alignment

The Triennial Reserve Review process helps The City become a more effective organization by ensuring its reserves are being managed properly and effectively.

Social, Environmental, Economic (External)

A number of reserves reviewed support social and environmental programs which assist The City in providing such services. Proper management of the reserves helps The City maintain its commitment to these social and environmental initiatives.

Financial Capacity

Current and Future Operating Budget:

In certain instances, some reserve transactions are a result of unplanned activities (for example, use of contingency funds) and therefore cannot be budgeted. However, where reserve activities can be planned, those transactions are included in the operating budget. There is no impact on the current operating budget resulting from this report.

Current and Future Capital Budget:

Where reserve activities can be planned, those transactions are included in the capital budget. There is no impact on the current capital budget resulting from this report.

Risk Assessment

The Triennial Reserve Review process helps to mitigate risk by ensuring reserve balances are neither too high, where cash is held unnecessarily, or too low, where funds are insufficient to meet future needs.

REASON(S) FOR RECOMMENDATION(S):

The recommendations help to streamline administration of reserves and, where required, update reserve purposes, conditions and restrictions to Council and the general public.

ATTACHMENT(S)

1. Reserve review comments and recommendations
2. Relevant excerpts from the 2015 Annual Reserve Report
3. Reserves to be reviewed in 2017