CAPITAL ASSET RESERVE fund POLICY AUTHORIZATION

**Effective Date:** [Insert date]

[Insert Council Resolution or reference number]

CAPITAL ASSET reserve fund PROCEDURES AUTHORIZATION

**Effective Date:** [Insert date]

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|       |  | [Insert date] |
| Chief Administrative Officer Signature |  | Date |

# CAPITAL ASSET RESERVE fund

POLICY

Policy Statement

It is Council’s policy to establish a process around capital asset replacement reserve funds that includes a separately managed institutional account to effectively plan, manage, and account for funding capital asset replacements and to accurately reflect these in the First Nation’s financial statements.

Purpose

The purpose of this policy is to provide guidance on the planning, management, and accounting treatment for capital asset replacement reserve funds over the entire capital asset life cycle so the First Nation can manage its resources efficiently and effectively to meet its goals and priorities.

Scope

This policy applies to the Council, Finance and Audit Committees, Officers and employees directly involved in capital asset management.

Responsibilities

### Council is responsible for:

* approving policies for establishing a capital asset reserve fund in accordance with the Financial Administration Law
* approving capital asset reserve fund transactions
* making sure capital asset reserve fund budgeting requirements are implemented
* establishing a capital asset reserve fund
* establishing a separate institutional account, while ensuring that the account is CIDC insured and ensuring the funds are invested according to the investment policy
* approving the addition or removal of authorized signatories for the capital asset reserve fund institutional account

### The Finance and Audit Committee is responsible for:

* reviewing on or before [January 15] the financial information provided on the capital asset reserve fund by the Director of Finance
* reviewing and recommending to Council the annual budget for capital asset replacement costs
* reviewing status reports on the capital asset reserve fund and making recommendations to Council relative to the funding contribution
* reviewing any scheduled capital asset replacement costs including supplemental information and their budgets and developing recommendations for Council

### The Chief Administrative Officer is responsible for:

* developing the capital asset reserve fund in accordance with the requirements of this policy and the Financial Administration Law and making recommendations to the Finance and Audit Committee on matters concerning the management of the First Nation’s capital asset reserve funds
* ensuring the capital asset reserve fund meets government requirements and proposes reasonable and possible goals for replacements and investment
* maintaining the capital asset reserve fund as required in this policy and the Financial Administration Law
* making sure First Nation members are informed and involved in capital asset reserve fund and borrowings for construction as required in the Financial Administration Law

### The Director of Finance is responsible for:

* the accurate and timely recording and reporting of the capital asset reserve fund in the financial statements in accordance with Canadian GAAP
* updating and monitoring the application of this policy on a regular basis
* preparing on or before [December 31] annually the financial information related to maintenance and or replacement of capital assets as required in the Financial Administration Law and this policy
* preparing the quarterly reporting to the Finance and Audit Committee, or more frequently if necessary, on the status of the capital asset reserve fund
* developing the budget for capital project plans, annual capital plans, and expected replacement costs
* using the list of recommended priorities from employees involved in the life-cycle management plan to prioritize capital asset replacement reserves

### Employees involved in the life-cycle management program are responsible for:

* maintaining capital asset information and implementing asset security and safeguarding measures as provided through the application of these policies and safeguarding procedures approved by Council
* recording and reporting changes in capital assets to the Chief Administrative Officer
* assisting with making recommendations on priorities in the replacement schedule

ADMINISTRATIVE PROCEDURES

Procedures

## Estimate replacement costs

The Council will establish a capital asset reserve fund to be applied for the purposes of construction, acquisition, maintenance, rehabilitation and replacement of the First Nation’s capital assets.

A capital asset register will be established and updated by the Chief Administrative Officer. The asset register will reflect the life-cycle management program including maintenance, rehabilitation, and replacement activities as well as provide an accurate inventory of capital assets.

The capital asset register may be used as to construct a replacement schedule, which is a timeline showing the replacements for each year, to assist with determining costs for the annual budget and the multi-year financial plan.

The replacement schedule may be completed using the following steps:

* Put current costs into future replacement years, use the remaining life to determine the next replacement
* Calculate the total number of replacements to be made and the total costs of making the replacements each year
* Calculate the inflation index for each year, by using the inflation index (CPI)
* Calculate future costs; for each year, multiply the current cost by the inflation index (CPI)

Replacement priorities can assist the First Nation in making choices when the First Nation cannot afford to do all the capital replacements at the scheduled time, per the life cycle management program. An approach to assign a priority is to consider is the following:

* Health/safety concerns
* Structural integrity
* Legal requirements
* End of useful life
* Cost-effective initiatives

## Allocations to the capital asset reserve fund

Future planned allocations must increase every year to keep pace with future inflation.

Refer to the relevant policy to develop the investment plan that suits the First Nation’s needs.

Make lump-sum payments by transferring surpluses from the following:

* Planned amounts, as set out in the First Nation’s annual budget and multi-year financial plan
* Fund-raising efforts
* Operating surpluses from interdepartmental charges for use of the community van, for example
* Trust fund investment income, if allowed per the trust rules

The Director of Finance and Chief Administrative Officer will make sure the capital asset reserve fund and accounting records are updated and make recommendations to the Finance and Audit Committee for changes to the annual capital reserve fund plan based on the results of the replacement schedule.

## Investment income

A starting point for assumption about investment income is to review the investment returns in previous years. To maintain a conservative approach, a starting point may be to use the current five-year rate available for the Guaranteed Investment Certificates (GICs).

Consider external economic conditions that may have a direct/indirect impact on your investment return.

When deciding on how to invest allocations to the capital asset reserve fund, the First Nation should ensure that the account is CIDC insured and ensuring the funds are invested according to the investment policy.

## Cash flow forecasts

Using the estimated replacement costs and the annual inspection review, as noted in the relevant policy, the First Nation can construct the cash flow forecast by doing the following:

* Start with the balance in the First Nation’s capital asset reserve fund
* Use the future replacement costs that you calculated in the replacement schedule
* Use the amount that you are now setting aside each year, per the First Nation’s planned allocations to the capital asset reserve fund
* Estimate investment income
* If the balance at the end of the year is at zero dollars or below zero dollars: (balance at the start – expenses + allocations + investment income), then the First Nation has a shortfall and you may need to make some adjustments.

The Finance and Audit Committee will review by the annual capital reserve fund plan by [January 15] and report to Council on its findings and recommendations by [February 15] for review and consideration of the annual budget for the upcoming fiscal year.

## Adjustments to the replacement schedule for expected shortfalls

When creating the replacement schedule, there may be expected shortfalls to be able to perform the required replacements. Some of the adjustments that the First Nation can make are the following:

* Reducing expenses
* Extending the useful life of the asset with remediation
* Spreading replacement of an item over several years; for example, if all windows need to be replaced in year 2 on 10 houses, but some windows require immediate replacement and others do not, then it may be beneficial to replace the windows that require immediate repair and defer replacement the windows that may last a few extra years
* Redistributing annual expenses

References and Related Authorities

FMB’s Financial Management System Standards

* Standard 25.0 – Tangible Capital Assets

FMB’s Financial Administration Law Standards

* Standard 25.0 – Tangible Capital Assets Management