

OVERVIEW RESERVE ACCOUNTS ESTABLISHED BY THE EASTERN REGIONAL SERVICE BOARD

INTRODUCTION

The Eastern Regional Service Board (ERSB) was formally established through the *Regional Service Board Act* in 2011. The Board is tasked with the implementation and delivery of regional municipal services in the eastern region of Newfoundland and Labrador.

The ERSB publishes a budget and financial statements annually per its legislative requirements as an arms-length agency of the Government of Newfoundland and Labrador. Since 2015, the ERSB has worked diligently in creating a strong financial position for itself by utilizing operational surpluses to fund capital and operational reserve accounts. These accounts are categorized as a Capital Reserve and an Operational Reserve.

Why are reserves required? Well, the answer is simple. The ERSB must ensure it can continue to operate in the event of unforeseen circumstances. You can't simply stop delivering municipal services. To appreciate the scope of the day-to-day costs of the delivery of these services, note that ERSB requires over \$700,000 a month to operate (pay contractors and staff, maintain equipment and buildings, tipping fees at the Regional Waste Management Facility at Robin Hood Bay, etc.). Without a reserve fund, the ERSB would have much more risk in the event of an emergency or impact to its revenue stream.

WHAT DO THESE RESERVES COVER

The capital and operational reserves of ERSB may contribute to the following purposes (if required based on the purpose of reserve accounts outlined above):

1. **Regional Capital Reserve** (for waste recovery facilities; transfer station; regional equipment): Building replacements (operational buildings such as transfer station, attendant huts, sheds, equipment depot); equipment replacements (grapple trucks, walking floor trailers, floats, backhoes, pick-up trucks, shipping containers) and future site closures.
2. **Operational Reserve**: Year-to-year operational funding for use if costs of delivering regional services is higher than the fees collected from property owners; cushion against loss of income and large unbudgeted and/or unforeseen expenses.

Currently, the Board has tangible capital assets (land, buildings, heavy equipment, computer equipment, etc.) with a value of \$5 million. Each year equipment depreciates in value.

WHY IS IT DIFFICULT TO SEE THE RESERVES ON THE ERSB FINANCIAL STATEMENTS

Unfortunately, the ERSB's current and historical financial statements do not capture the balance of the reserves clearly or effectively. Financial statements are not the tool many portray them to be, primarily because they are difficult to interpret effectively unless you know how each account connects to the day-to-day operations of the organization. For example, the ERSB financial statements regularly show a cash surplus, when in fact this "surplus" is (in part) the reserves the ERSB has established as well as the value of the property and equipment held by the Board.

So why do the financial statements not portray the ERSB reserve accounts in a way that the general public can understand. The reason is that ERSB must, as an arms-length government agency, follow the Public Sector Accounting Board (PSAB) accounting standards for the public sector. These independently set financial reporting standards are critical to promoting confidence in public sector entities. High quality accounting standards contribute to transparent and accountable information that is made available to the public, as well as quality financial information to support decision making.

WHAT IS THE CURRENT VALUE OF THE ERSB'S RESERVE ACCOUNTS

The following chart outlines the capital and operating reserves of the ERSB currently and following the proposed allocation of funds to reserves for 2020:

YEAR	Contribution to Capital Reserve – Regional	Contribution to Capital Reserve – Curbside	Contribution to Operational Reserve	Total Contribution (by year)
2015	366,234.00	0.00	0.00	366,234.00
2016	170,000.00	130,000.00	390,000.00	690,000.00
2017	320,000.00	150,000.00	350,000.00	820,000.00
2018	320,000.00	150,000.00	0.00	470,000.00
2019	0.00	0.00	0.00	0.00
2020	1,200,000.00	0.00	1,000,000.00	2,200,000.00
TOTAL	2,376,234.00	430,000.00	1,740,000.00	4,546,234.00