



Date: Wednesday, October 23, 2024

From: Samantha Buchanan

Subject: Updated Reserve and Reserve Fund Policy

Report COR2024-044

This document and its attachments are public and available in an accessible format upon request.

Recommendation

That Council receive the amended Policy FIN-03-2019 titled Reserve and Reserve Fund Policy; and

That Council approves the revised Reserve and Reserve Fund balances as presented in the attachments to this report as of January 1, 2024; and

That Council approves the transfers between Reserve and Reserve Funds as required to revise the Reserve and Reserve fund schedules; and

That staff be directed to take all administrative steps required to open and close reserve and reserve funds as proposed;

That staff be directed to present an updated Reserve and Reserve Fund Policy and approving by-law for Council's consideration at an upcoming Council meeting.

Background

Section 290 of the *Municipal Act*, 2001, S.O. provides that a municipality's budget shall set out amounts to be paid into and out of reserves. A municipality may establish reserve funds for any purpose for which it has authority to spend money.

On August 7, 2019, Council passed By-law 2019-090 being a by-law to adopt policy FIN-03-2019 – Reserve and Reserve Fund Policy. Since its approval staff and Council have identified the need for further clarification on target balances, funding sources and uses of reserves.



Analysis

Purpose of Reserves and Reserve Funds

Reserves and Reserve funds allow the Township to facilitate long-term financial planning, adhere to statutory requirements, provide for the cost of equipment or facility replacements, smooth tax rate impacts and revenue fluctuations, smooth expenditures which would otherwise cause fluctuations in the operating budget, absorb the cost of one-time expenses not included in the operating budget and to fund future obligations.

Legislative Authority

All reserve and reserve funds must be managed in accordance with the *Municipal Act*, 2001. Applicable sections include:

- 290 (4) g: in preparing the budget a local municipality may provide for such reserve funds as the municipality considered necessary.
- 293: The Minister may make regulations, requiring a municipality to establish a reserve fund designated for prescribed liability of the municipality.
- 417: a Municipality may establish and maintain reserve funds for any purposes for which it has authority to spend money.

Types of Reserves and Reserve Funds

Obligatory Reserve Funds are monies which are set aside and legally restricted by provincial legislation, corporate agreement, or municipal by-law which establishes a specific restricted fund. These monies are raised for specific purposes and cannot be used for any other purpose. Obligatory reserve funds are interest earning, meaning that the balance of each reserve fund is allocated out a portion of the total interest earned. Examples for the Township include Canada Community Building Fund, Parkland Dedication and Cash in lieu of parking.

Discretionary Reserve Funds are monies which are set aside for a specific purpose by Council and legislated by municipal by-law. If Council should decide to spend these funds for purposes other than what it was originally intended for, then a new by-law must be passed. Discretionary reserve funds are interest earning meaning that the balance of each reserve fund is allocated out a portion of the total interest earned. Examples for the Township include GVI Sewage System, Wiarton Area Fire, and individual water systems.

Reserves are monies set aside by approval of Council (either by Council resolution or budget adoption) and are not restricted by legislation. Reserves are not interest earning



meaning that the balance of each reserve is not allocated out a portion of the total interest earned. Reserves are categorized into three objectives:

- Asset Replacement – assist in the financing of community enhancements, equipment, supplement capital levy funding for infrastructure renewal and for unknown capital contingencies, e.g., equipment & fleet,
- Stabilization – buffer against significant fluctuations in the economy and provide cash flow for operations to eliminate the requirement to borrow funds, e.g., building permit sustainability, or
- Specific Project & New Initiatives – planned savings to fund projects or expenses either identified at the time of the reserve is set-up or after, e.g., climate change.

Responsibilities

Council is responsible to approve transactions to and from reserves and reserve fund through the budget process or by specific resolutions and by-laws. Each year staff include in the budget the proposed reserve and reserve funds transfers and as part of year-end financials staff present a report outlining the actual reserve transfers required.

Treasurer is responsible to develop and update the policy, determine the need for reserves and reserve funds, set targets for each reserve and reserve fund, overseeing the application of the principal and requirements of the policy, perform the transfer to and from reserves and reserve funds as authorized by Council, recommend strategies to Council to maintain adequacy of reserve levels, report to Council the reserve balances and forecast, and prepare annually a reserve and reserve fund report which provides a review to determine whether modifications are appropriate for the policy.

Chief Administrative Officer/Directors/Managers are responsible to provide the Treasurer with the most current capital asset information to be used and consult with the Treasurer when reserve monies are required for unbudgeted transactions.

Closure of Reserves and Reserve Funds

If it is determined that a reserve or reserve fund is no longer required the Treasurer shall report to Council with the recommendation on the timing of closure of the reserve and reserve fund, allocation of any remaining funds and necessary amendments to the policy.

Allocation of Operating Surplus/Deficit

In a year where the Township experiences an operating tax surplus 25% of the surplus will be allocated to the Climate Change Reserve, with the remaining 75% to be



allocated to the reserve/reserve fund as recommend by the Treasurer and approved by Council.

In a year where the Township experiences an operating tax deficit the Treasurer will provide a recommendation to Council on which reserve/reserve fund should be used, Council must approve the allocation through resolution.

The policy outlines various reserves and reserve funds where any departmental surplus/deficit would be contributed to/funded from. These departments include, but are not limited to, boat launch, tennis courts, water systems, building, cemeteries, compensation, road maintenance, drainage, winter control, etc.

Financial Impact

With the proposed changes, there is no overall financial impact to the Township reserves and reserve funds. The only financial change would be in the allocation of reserve and reserve fund balances as detailed herein. The updated policy would also result in any future departmental surpluses and deficits being automatically funded from reserves and therefore, not generating an annual Township surplus or deficit.

Strategic Priorities

5. Deliver Effective and Cost-Efficient Services

Conclusion

The updated Reserve and Reserve Fund policy further defines target balances, funding sources and reserve usages for each reserve and reserve fund held by the Township. This will allow Council and Staff to ensure that Reserves and Reserve Funds are being used appropriately.

Respectfully Submitted: Samantha Buchanan, Treasurer



Report Approval Details

Document Title:	COR2024-044 - Updated Reserve and Reserve Fund Policy.docx
Attachments:	<ul style="list-style-type: none">- Updated Reserve and Reserve Fund Policy.docx- Updated Reserve and Reserve Fund Policy - Appendix B.xlsx- FIN-003-2019 Reserve and Reserve Fund Policy.pdf
Final Approval Date:	Nov 5, 2024

This report and all of its attachments were approved and signed as outlined below:

Brittany Drury, Deputy CAO/Director of Corporate Services

Niall Loble, Chief Administrative Officer