



# Policy FIN-03-2019

## Reserve and Reserve Fund Policy

**Implemented: August 7, 2019**

**Revision Date: October 2024**

**References and Related Documents:** Township Investment Policy

**This document is public and available in an accessible format upon request.**

### **Policy Statement**

The Township of Georgian Bluffs (Township) is committed to responsible financial management and spending, revenue generating and program delivery within approved budgets and staff complement to ensure that the integrity of the municipality is maintained in accordance with the Municipal Act.

It is the policy of the Township to:

- Establish reserves and reserve funds for planned future capital expenditures, unexpected events or extraordinary expenditures which would otherwise cause fluctuations in the operating or capital budgets;
- Manage reserves and reserve funds in a responsible manner; and
- Utilize reserves and reserve funds solely for their intended purpose.

### **Purpose and Scope**

The purpose of this policy is to establish consistent principles, standards and guidelines for the maintenance, management, and accounting of reserves and reserve funds. Under the authority of council, reserve and reserve funds are appropriations from the Township's net revenues designated for purposes that may extend beyond the current fiscal year. They are an integral part of the townships budget process and long-term financing plan that contributes to the Township's sound financial position. The primary purpose for reserves and reserve funds is:

- To facilitate long-term financial planning;
- To adherence to statutory requirements;
- To provide for the cost of equipment or facility replacements;
- To smooth tax rate impacts and revenue fluctuations;
- To smooth expenditures which would otherwise cause fluctuations in the operating budget;



- To absorb the cost of one-time expenses not included in the operating budget;
- To fund future obligations.

## Definitions

Budget – an estimated financial plan of revenue and expenditures for a set period of time.

Discretionary Reserve Fund – monies set aside for a specific purpose by Council and legislated by municipal by-law. If Council should decide to spend the money for purposes other than what it was originally intended for, then a new by-law must be passed under Section 417 (4) of the *Municipal Act*, 2001.

GAAP – refers to Generally Accepted Accounting Principles of Canada who provide the framework of broad guidelines, conventions, rules and procedures of accounting.

Obligatory Reserve Fund – monies set aside and legally restricted by provincial legislation, corporate agreement, or municipal by-law establishing a specific restricted fund. The funds are raised for a specific purpose and cannot be used for any other purpose.

PSAB – refers to the Public Sector Accounting Board, an independent board with the authority to set accounting standards for the public sector.

Reserve – monies set aside by approval of Council (either by Council resolution or budget adoption) and not restricted by legislation. These monies do not require the physical segregation of money and do not receive annual interest allocation.

Reserve Fund – monies set aside for a specific purpose as required by provincial legislation, a municipal by-law, or agreement. There are two types of reserve funds, discretionary reserve funds and obligatory reserve funds. Reserve funds receive an annual interest allocation based on the average annual balance.

Treasurer – the individual appointed by the Township as treasurer.

## Policy Requirements

### *Legislative Requirement*

All reserve and reserve funds will be managed in accordance with the *Municipal Act*, 2001.

- Section 290 (4) g: In preparing the budget, a local municipality may provide for such reserve funds as the municipality considered necessary.



- Section 293: The Minister may make regulations, requiring a municipality to establish a reserve fund designated for prescribed liability of the municipality, defining “liabilities”, requiring a municipality to make payments into the reserve fund, prohibiting the municipality from changing the purpose for which the reserve fund is designated, and prescribing the conditions under which the municipality may change the designation of all or any part of the reserve fund, and borrow from the reserve fund.
- Section 417 of the *Municipal Act*, 2001, provides a municipality may establish and maintain reserve funds for any purpose for which it has authority to spend money.

### *Responsibilities*

#### Municipal Council

- Approve transactions to and from reserves and reserve funds through the budget process or by specific resolution and by-laws.
- In accordance with Section 224 of the *Municipal Act*, 2001, ensure that administrative policies, practices and procedures and controllership policies, practices, and procedures, are in place and maintain the financial integrity of the municipality.

#### Treasurer

- Develop and update this policy as necessary and present changes to Council;
- Determine need for reserve and reserve funds for operating and capital budget;
- Set targets for reserves and reserve funds in line with directives contained in this Policy and other pertinent policies;
- Ensure that the principles and requirements contained in this policy are applied consistently across all departments;
- Perform the transfer to and from reserves and reserve funds as authorized by Council;
- Ensure that reserves and reserve funds are established, maintained, and used in compliance with this policy, PSAB and GAAP guidelines, and governing legislation;
- Recommend strategies for the adequacy of reserve levels;
- Report to Council the reserve balances and forecast as part of the annual budget approval process;
- Oversee the preparation of the annual financial statements (which are audited by an external audit firm). The annual audited financial statements shall include a statement of financial position, financial activities, and changes in fund balances for all reserves and reserve funds;



- Prepare, in conjunction with the Chief Administrative Officer, department Directors, and Managers, an annual operating and capital budget. Contributions to and draws from reserves and reserve funds are part of the annual budget; and
- Prepare annually a Reserve and Reserve Fund Report that provides a review to determine whether modifications are appropriate for the policy. The report will include a current year reserve continuity schedule reflecting the reserve provisions contained in the approved budget, and projected contributions and planned draws for a ten-year period. This report may also include new, modification of existing, and termination of existing reserve and reserve funds.

#### Chief Administrative Officer/Directors/Managers

- Provide the Treasurer with the most current capital asset information to be used in the assessment of the adequacy of capital lifecycle reserves;
- Inform the Treasurer in ensuring the principles and mandatory requirements contained in this policy are applied consistently across all departments; and
- Consult with the Treasurer when reserve monies are required for unbudgeted transactions.

#### *Delegation of Authority*

Once Council approves reserves by resolution and reserve funds by-law, the Treasurer shall have overall responsibility for this policy, and the authority to implement procedures consistent with the content of this policy.

The Treasurer has the responsibility for setting reserve and reserve fund targets. Targets will be periodically reported to Council through Reserve and Reserve Fund Reports (as discussed in the Annual Reporting section).

#### *Establishment of Reserves and Reserve Funds*

**Reserves** can be established through the following processes:

1. Inclusion in the annual operating or capital budget which is approved by Council;  
or
2. Through resolution of Council.

The budget document or resolution will clearly identify the name of the reserve being created and the purpose for the reserve. A reserve may be amended through resolution.

Reserves will be maintained to meet on the following purposes of the Township:



1. Asset Replacement Reserve – established to assist in the financing of community enhancements, equipment, supplement capital levy funding for infrastructure renewal and provide for unknown capital contingencies;
2. Stabilization Reserves – established to buffer against significant fluctuations in the economy and provide cash flow for operations to eliminate the requirement to borrow funds to meet immediate obligations; or
3. Specific Project and New Initiatives Reserves – established for planned savings within the budget to fund projects or expenses either identified at the time of the reserve is set-up or after. This allows the Township to save for planned or unanticipated projects or expenses that may arise and do not have another funding source.

**Reserve Funds** will be maintained in the following categories: Discretionary or Obligatory. Council, on the recommendation of the Treasurer, may establish a discretionary reserve fund and shall establish an obligatory reserve fund.

A reserve fund can be recommended only if at least one of the following applies:

1. A mandatory obligation exists, either pursuant to legislation or contract.
2. The funds are intended for purchasing or maintain capital assets.
3. The funds are donated for a specific purpose.
4. The funds are intended to fund a future liability.

Reserve Funds will be maintained to meet on the following purposes of the Township:

1. Obligatory – legally restricted by provincial legislation, corporate agreement, or municipal by-law establishing a restricted fund; or
2. Discretionary – set aside for a specific purpose by Council and legislated by municipal by-law.

#### *Closure of Reserves and Reserve Funds*

If the purpose or purposes for which the reserve or reserve fund was created has been accomplished and the reserve or reserve fund is determined to be no longer necessary, the Treasurer shall report to Council with the recommendation on:

1. The timing of closure of the reserve or reserve fund,
2. The allocation of any remaining funds, and
3. The necessary amendment to the Reserve and Reserve Fund policy and by-law.

A resolution of Council will be required to close a reserve and reserve fund.



### *Allocation of Operating Surplus/Deficit*

Any ending annual operating surplus/deficit, as identified during the annual financial audit, shall be addressed as follows:

1. Annual general tax levy surplus will be allocated 25% to the Climate Change Reserve, with the remaining 75% to be allocated to reserve/reserve funds as recommended by the Treasurer. Council must approve surplus allocation by resolution.
2. Annual general tax levy deficit will be funded from reserve/reserve funds as recommended by the Treasurer. Council must approve deficit allocation by resolution.
3. Departmental surplus/deficits should be contributed to/funded from the appropriate reserve as identified by the reserves or reserve funds source of funding.
4. Annual water and wastewater surplus will be allocated to the appropriate water or wastewater reserve.
5. Annual water and wastewater deficits will be funded from the appropriate water or wastewater reserve.

### *Interest Allocation*

1. Reserve funds will be invested in accordance with the Township's approved investment policy. Earnings shall be credited to each separate reserve bank account that invested the funds.
2. Where multiple reserve funds are included in one bank account, interest shall be allocated to reserve funds annually based on the actual balance of the reserve fund.
3. Reserves shall not be invested and are not allocated interest.

### *Temporary Reserve Fund Borrowing*

Temporary borrowing to cover a reserve short-term deficit, interim servicing requirements or internal financing is permitted, when justified, adequately supported, and authorized by Council. The following conditions must be met to allow borrowing from reserve funds:

- Borrowing must not adversely affect the intended purpose of the reserve fund;
- A plan to repay the reserve fund within a reasonable timeframe is required and must be documented;
- Interest, equivalent to the township's interest on the reserve fund bank account, will be applied to outstanding amount borrowed; and
- Where applicable, legislative requirements may apply.



### *Annual Reporting*

1. A Reserve and Reserve Fund Report that provides a review to determine whether modifications are appropriate for the policy. The report will include a current year reserve continuity schedule reflecting the reserve provisions contained in the approved budget, and projected contributions and planned draws for a ten-year period. This report may also include new, modification of existing, and termination of existing reserve and reserve funds.
2. A year-to-date continuity schedule, with estimated forecasts, will be included for Council's review during the budget process.
3. Year-end audit and financial statements including balances of reserves, obligatory reserve, discretionary reserve, and reserve funds will be presented with note disclosure and comparative figures as required to meet PSAB reporting standards.
4. Where required, reporting to Council or other agencies may exist for reserved residual balances related to grants or other contribution funds (e.g., Federal or Provincial Grants).

### **Monitoring and Review**

This policy shall be presented to Council for review at least once in the term of each elected Council, or earlier as deemed necessary by Council, or the Treasurer.





## Appendix A to Reserve and Reserve Fund Policy – Specific Reserve/Reserve Funds

The following individual Reserves and Reserve Funds have been established with Council's approval:

### **Asset Replacement Reserves**

**Policy:** The asset replacement reserves are established to fund specific replacement, renewal, or acquisition of capital assets.

Included:

- Balmy Beach Boat Launch
- Balmy Beach Tennis Courts
- Bridges
- IT Hardware and Software
- Equipment and Fleet
- Municipal Facilities and Fixture
- Parks
- Roads
- Stormwater Management

**Sources of Funding or Revenues:** Many of these reserves receive annual allocations of operating and/or capital budget transfers based on annual lifecycle costing.

**Expenditures or Uses:** Used to fund replacement, renewal, or acquisition of capital assets.

**Target Balance or Levels:** The balance of each reserve should be sufficient to fund average annual replacement requires for capital purposes relating to the respective department based on the ten-year capital forecast, lifecycle replacements schedules, building condition assessments, and the asset management plan.

### **Stabilization Reserves**

**Policy:** Stabilization reserves are used to offset extraordinary and unforeseen expenses requirements, one-time expenses (including capital expenses), revenue shortfalls, and to avoid significant fluctuations on the general tax levy and to manage cash flows.





Included:

- Building Permit Sustainability
- Cemeteries Stabilization
- Compensation Sustainability
- Emergency Management
- Working Capital
- Weather Stabilization

Sources of Funding or Revenues: Annual operating budget transfers, portion of net revenue budgeted from cash and investments that are greater than 1% of own purpose levy, any surplus funds realized from the annual budget. Other stabilization reserves will be based on historical costs and/or actuarial evaluations.

Expenditures or Uses: Used to mitigate one-time operating or capital costs for all departments, used to manage cash flows or mitigate significant increases in tax rates as determined by Council.

Target Balance or Levels: Minimum balance for the Working Capital Reserve a minimum target balance is 2% of net tax levy, and a maximum balance of 10% of net tax levy. If funding levels reach maximum, funds to be redirected to other reserves.

Other stabilization reserves will be based historical costs and/or actuarial evaluations.

## **Specific Projects & New Initiatives Reserves**

Policy: Specific project and new initiatives reserves are used for planned savings within the budget to fund projects or expenses either identified at the time the reserve is set-up or after. This allows the Township to save for planned or unanticipated projects or expenses that may arise and do not have another funding source.

Included:

- Asset Management Plan
- Biodigester
- Climate Change
- Elections
- Modernization
- Planning
- Waste Management



Sources of Funding or Revenues: Transfer from budget, Federal or Provincial government.

Expenditures or Uses: To fund specific projects and new initiatives.

Target Balance or Levels: The balances of these reserves should be sufficient to fund the identified project, upgrades, or replacements, based on an annual funding requirement and costing information.

## **Discretionary Reserve Funds**

Policy: Discretionary reserve funds are used to offset extraordinary and unforeseen expenses requirements, one-time expenses (including capital expenses), revenue shortfalls, and to avoid significant fluctuations on the water system user rates and to manage cash flows.

Included:

- East Linton Water System
- Gateway Water System
- GVI Sewage System
- Oxenden Water System
- Pottawatomie Water System
- Shallow Lake Water System

Sources of Funding or Revenues: Annual operating budget transfers, any surplus funds realized from the annual budget and interest allocations.

Expenditures or Uses: To mitigate one-time operating or capital costs and used to manage cash flows or mitigate significant increases in water system user fees as determined by Council.

Target Balance or Levels: The balance of each reserve fund should be sufficient to fund average annual replacement requires relating to the respective water system based on the ten-year capital forecast, lifecycle replacements schedules, and the asset management plan.

## **Obligatory Reserve Funds**

Policy: Reserves which are set aside and legally restricted by Provincial legislation, corporate agreement or municipal by-law establishing a specific restricted fund.

Included:



- Canada Community-Building Fund;
- Parkland Dedication; and
- Cash in lieu of Parking.

Sources of Funding or Revenues: The Township receives funds from the Association of Municipalities of Ontario (AMO) on behalf of the Federal Government per the Agreement for the transfer of Canada Community-Building Fund or contributions under the Planning Act.

Expenditures or Uses: Expenditures for the Canada Community-Building Fund are to be used for the construction, renewal or enhancement of capital assets as approved in the agreement. For Parkland Dedication and Cash in lieu of Parking to provide funding for future park space and development.

Target Balance or Levels: The balance of the obligatory reserve funds should be monitored regularly to ensure all planned construction and development projects can be sufficiently funded. Reserve balance must be positive.