

Municipality of West Elgin

Schedule “A” to By-Law #2023-XX

**Policy AD 3.5
Reserves and Reserve Funds**

Effective Date: November 23, 2023

Review Date:

1.0 Purpose

The purpose of this policy is to establish consistent principles, standards and guidelines for the maintenance, management and accounting of The Corporation of the Municipality of West Elgin reserves and reserve funds.

The core objective of this policy is to ensure that monies are set aside and made available for the long-term goals of the Municipality.

2.0 Scope

The Reserves and Reserve Funds Policy applies to all reserves and reserve funds established by The Corporation of the Municipality of West Elgin.

3.0 References

Municipal Act, 2001, S.O. 2001, c. 25

Municipal Act, 2001, S.O. 2001, c. 25 Section 290 provides that a municipality shall set out amounts to be paid into and out of reserves.

Under Section 417 of the *Municipal Act*, municipalities have the authority to provide for reserve funds in annual budgets for any purpose for which it has the authority to spend money. Additionally, a municipality may, by by-law, provide that the money raised for a reserve fund may be spent or applied to a purpose other than that for which the fund was established.

4.0 Definitions

Discretionary Reserve Fund – reserve funds created at the discretion of Council whenever revenues are earmarked to finance future expenditures for a purpose designated by Council. Interest earned by a discretionary reserve fund shall be allocated to the fund on an annual basis based on the actual balance of the fund. Revenues set aside for acquisition of fixed assets is an example of a discretionary reserve fund.

Obligatory Reserve Fund – reserve funds that are required by legislation or agreement to be segregated from the Municipality’s general revenues for a special purpose or for works to be undertaken on behalf of the contributors. These funds are classified in the financial statements as “Deferred Revenue”. Interest earned by an obligatory reserve fund shall be allocated to the fund on an annual basis based on the actual balance of the fund. Development Charges, the Federal Gas Tax and Cash-Lieu-of Parkland are examples of obligatory reserve funds.

Reserve – an allocation from net revenue at the discretion of council, after the provision for all known expenditures, as part of an overall strategy for funding programs and projects that are set out in the annual budgets or budget forecasts and is authorized under the provisions set out in the Municipal Act. It has no reference to any specific assets and does not require the physical segregation of money or assets. Revenues set aside for working funds is an example of reserves.

Reserve Fund – a fund with assets which are segregated and restricted to meet the purpose of the reserve fund. It is based on a statutory requirement or defined liability payable in the future and is usually prescriptive as to the basis for collection and use of monies in the fund. All interest earnings derived from such funds shall form part of the reserve fund and shall be allocated to the funds on an annual basis based on the actual balance of the reserve fund. There are two types of reserve funds: obligatory reserve funds and discretionary reserve funds.

5.0 Background

Reserves and reserve funds are valuable long-term financial planning tools used by municipalities to set aside funds for future purchases and projects. The Municipality of West Elgin includes provisions in its annual Operating Budget to fund its reserves and reserve funds, as well as draws from its reserves to partially fund the Corporation’s Capital Budget.

There are several instances in which the Municipality of West Elgin will use its reserves or reserve funds, including:

1. To facilitate long term financial planning;
2. To smooth tax rate impacts;
3. To plan for the impact and financing of major capital projects over time;
4. To absorb the cost of one-time expenses not included in the established annual operating budget contribution;
5. To provide for the cost of equipment or facility replacements; and/or
6. To fund known future obligations and take advantage of financial opportunities that may arise.

This policy establishes the objectives for reserves and reserve funds, a standard of care, as well delineates the responsibilities for their management and administration.

6.0 Roles & Responsibilities

1. Municipal Council

Council for the Corporation of the Municipality of West Elgin shall be responsible for:

- i. Developing and evaluating municipal policies;
- ii. Ensuring that administrative and controllership policies, practices and procedures are in place;
- iii. Approving transactions to and from reserves and reserve funds through the budget process or by specific resolution and/or by-laws; and
- iv. Maintaining the financial integrity of the Municipality.

Treasurer

The Treasurer shall be responsible for:

- v. Developing and updating this policy as necessary and presenting changes to Council;
- vi. Retaining the overall authority for establishing and managing reserves and reserve funds, or delegating this authority in writing when applicable;
- vii. Ensuring that the principles and requirements outlined in this policy are applied consistently across all departments;
- viii. Performing transfers to and from reserves and reserve funds as authorized by Council;
- ix. Recommending strategies for the adequacy of reserve levels;
- x. Reporting to Council the reserve balances and forecast as part of the annual budget approval process;
- xi. Developing long range fiscal planning strategy to effectively meet the Corporation's capital financing and capital asset replacement requirements;
- xii. Monitoring and reconciling all receipts to and disbursements from reserve and reserve fund accounts to ensure compliance with provincial regulations, PSAB and Reserve Policy;
- xiii. Determining the need for reserves and reserve funds for operating and capital operation;
- xiv. Ensuring a review and report to Council of the adequacy and continuing need for reserves and reserve funds is undertaken when deemed necessary;
- xv. Arranging for the preparation and presentation of required reports and/or bylaws for the creation or termination of any new or obsolete reserve or reserve funds; and
- xvi. Developing appropriate strategies, procedures and processes for the investment of reserves and reserve funds;

2. Department Heads

Department Heads shall:

- i. Provide the Treasurer with the most current capital asset information to be used in the assessment of the adequacy of capital lifecycle reserves;
- ii. Inform the Treasurer when reserve or reserve funds transfers are required; and
- iii. Consult with the Treasurer when reserve funds are required for unbudgeted transactions.

7.0 Objectives

Reserves and reserve funds are key components of the Corporation's long-term fiscal strategy. The Municipality of West Elgin will maintain adequate reserves in order to:

1. Replace and rehabilitate major capital infrastructure assets as required;
2. Provide a buffer for significant unanticipated expenditures beyond the control of the Corporation; and
3. Supply funds for new major capital assets identified in the Corporation's long-term corporate strategy.

This policy is intended to promote fiscal prudence, particularly as identified through the creation and management of reserves, as well as to establish best practices for the Corporation of the Municipality of West Elgin's reserves and reserve funds.

The primary objectives for reserves and reserve funds are:

1. Adherence to statutory requirements;
2. Promotion of financial stability and flexibility; and
3. Provision for major capital expenditures.

7.1 Adherence to Statutory Requirements

It shall be the Corporation's practice to establish and maintain segregated funds and/or reserves that meet all statutory obligations.

All reserves and reserve funds will be managed in accordance with provincial legislation as outlined in the *Municipal Act, 2001, S.O. 2001, c. 25*:

1. Money raised for a reserve fund shall be paid into a special account and shall be invested only in securities or classes of securities prescribed (*Section 417 (4)*);
2. As permitted by the Corporation, money held in any fund (including General, Capital and Reserves and Reserve Funds) may be combined for

- investment purposes (*Section 418 (3)*); and
3. Earnings from combined investments shall be credited to each segregated fund in proportion to the amount invested in it (*Section 418 (4)*).

Furthermore, it will be the Corporation's practice to establish all reserves and reserve funds by bylaw or resolution, and that all appropriations be approved by Council either through the annual budget or by specific resolution or bylaw. Notwithstanding, revolving reserves such as working capital, insurance and employee benefits may be used at any time for the purpose approved by Council.

7.2 Financial Stability & Flexibility

It will be the Corporation's practice to maintain adequate non-capital reserves to achieve long-term financial stability and flexibility.

To meet these objectives, the following types of funds will be established and adequately funded:

1. Reserves for known and recurring material cash flow deficiencies (e.g. Working Capital);
2. Reserves for large or lumpy periodic or one-time payments (e.g. Roads Capital);
3. Reserves for long-term contingencies (e.g. Property Rehabilitation);
4. Reserves for potential liabilities; and
5. Reserves for unanticipated expenditures (e.g. Contingency).

7.3 Provision for Major Capital Expenditures

It will be the Corporation's practice to maintain adequate reserves to replace and rehabilitate major capital assets as required, and to provide for new capital assets that have been identified in the Asset Management Plan.

To achieve this, the following principles will apply where practicable:

1. Reserves for the full cost of replacement or rehabilitation of major assets will be funded from ongoing operations at a rate which reflects the consumption of that asset by current ratepayers. Contributions to this reserve will commence in the fiscal year that the asset is acquired or put in service and will be based on an estimate of the useful life of the underlying asset.
2. Where the total cost is material, the purchase of minor assets which must be replaced on an ongoing basis (e.g. computers, furniture, vehicles) will be made from a reserve maintained at a three to five year rolling average (based on the asset's useful life) of the anticipated expenditure requirements and funded from operations and appropriations made by Council.
3. The established annual operating budget contribution will include an

annual contribution for the replacement of major capital assets of at least 5% of the prior year's tax levy. This amount will also depend on the required amount in the Asset Management Plan.

4. These contributions will be allocated to asset replacement reserves based upon reserve adequacy analyses or at the discretion of the Treasurer.
5. Reserves will be maintained for growth related capital projects that will be fully funded from developer contributions. That component of the growth-related project which benefits the existing ratepayers or for which a discount has been given, shall be funded from tax rates in the year the project is built. Notwithstanding, debt may be issued for growth projects when required.

8.0 Creating Reserves & Reserve Funds

Reserves shall be created one of two ways – through the reserve's inclusion in the annual operating or capital budgets approved by Council, or through a resolution of Council. The document or resolution which introduces the reserve or fund must clearly identify the name of the reserve being created, as well as its intended purpose. Note that, should it be necessary, Council has the ability to amend a reserve through a resolution of Council.

Municipal reserves and reserve funds are divided into two categories – Operating Reserves and Capital Reserves. Operating Reserves consist of the reserves that have been established to provide funding for unexpected events, losses of income and large unbudgeted expenses. Capital Reserves are used to fund specific replacement/renewal of capital assets which include equipment and vehicles, recreation facilities, municipal facilities, fire equipment and road infrastructure.

Reserves and reserve funds are further distinguished by their classification as either an Obligatory Reserve Fund or as a Discretionary Reserve Fund. An Obligatory Reserve Fund is established through either terms of an agreement entered into by the Municipality or through legislation from a higher level of government. A Discretionary Reserve Fund is established through by-law. In such a case, the by-law will clearly identify the name of the reserve fund, the funding method and the purpose for the reserve fund. Note that, a reserve fund can only be used for its identified purpose, unless Council amends or repeals the establishing by-law.

In order to create a reserve fund, at least one of the following conditions must apply:

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

8.1 Approval

Approval of funding to and from the reserves and reserve funds will be in accordance with the Municipality's budget and reports to Council as referred to above.

9.0 Investment of Reserves & Reserve Funds

Reserves and reserve funds may be invested for a term that will not exceed its expected date of need. The related investment income will be credited monthly to the specific reserve or reserve fund it was drawn from according to its proportionate share of the investment portfolio and based on the weighted average return for realized income during the month.

10.0 Contributions to and Withdrawals from Reserves & Reserve Funds

All contributions to and/or withdrawals from reserves and reserve funds shall be approved by Council as either part of the annual budget approval process or by resolution, with the following exceptions:

1. A direct contribution to a reserve or reserve fund, such as development charge contributions, or a settlement in account of prior year events.
2. Transfers that are the direct result of the year end surplus/deficit.
3. A transfer of funds between asset replacement reserves based upon reserve adequacy analyses, Asset Management Plan reports or other related information, at the discretion of the CAO/Treasurer.

All contributions to and/or withdrawals from reserve and reserve funds will be clearly identified and segregated within the Corporation's accounting system and will be accounted for by either an entry to or from an operating cost centre or a capital project.

Funding strategies developed for reserves and reserve funds will take into account fairness to current and future tax/rate payers.

11.0 Timing of Contributions to & Transfers from Reserves & Reserve Funds

Contributions to reserves and reserve funds which have been approved in the budget will be transferred to the reserves on an annual basis during the second half of the year and following final tax billing.

Transfers to Capital Projects as approved in the budget will begin in September and continue during the year-end process to ensure actual reserve allocations equal actual expenses incurred. Transfers from a reserve fund will not occur if the transfer puts the reserve in a negative balance.

Transfers to Operating projects as approved in the budget will be completed during the year end process to ensure actual reserve allocation equals actual expenses incurred.

Year-end water, sanitary sewer and stormwater budget surplus will be allocated to the relevant reserve fund during the year end process. Deficits will be funded from the reserve funds.

The year-end general operating surplus, after adjustments for capital transfers and specific operating surplus reserve allocations, will be transferred to the Asset Management Reserve during the year-end process.

Year-end operating deficits will be funded from the Surplus/Deficit Reserve during the year-end process. If funds in the reserve are inadequate to cover the deficit, the Treasurer will make a recommendation to Council for an alternative reserve funding source.

12.0 Closing Reserves & Reserve Funds

If the purpose or purposes for which a reserve or reserve fund was created has been accomplished and/or the reserve or reserve fund is determined to no longer be necessary, the Treasurer, in consultation with the Department Head and Chief Administrative Officer, shall report to Council with a recommendation to:

1. Close the reserve or reserve funds account;
2. Dispose of any remaining funds; and/or
3. Amend the reserve by-law.

A resolution of Council will be required in order to close a reserve. Additionally, in order to close a reserve fund, the by-law which established it will need to be repealed.

13.0 Allocation of Operating Surplus/Deficit

Provided there is a minimum balance of \$150,000 in the Surplus/Deficit Reserve, the following revenues shall be identified and transferred by the Treasurer to specific reserves as follows:

Dividends from investments or holdings of the Corporation will be identified and transferred by the Treasurer to the Council Initiatives Reserve.

Supplemental taxation revenues (net of write-offs) received in the current year contributing to a year-end operating surplus will be identified and transferred by the Treasurer to the Future Debt Payments Reserve or Industrial Land Sales Reserve as required to meet the objectives for future capital projects.

The remaining year-end operating surplus, after adjustments for capital transfers,

will be transferred to the Asset Management Reserve. The Treasurer can make a recommendation to Council that the surplus be transferred to an alternative reserve but such recommendations must be approved by Council through resolution.

14.0 Interest Allocation

Reserve funds will be invested in accordance with Section 418 of the *Municipal Act, 2001, S.O. 2001, c.25*. Earnings shall be credited to each separate reserve that invested funds.

Where multiple reserve funds are included in one bank account, interest shall be allocated to reserve funds on an annual basis based on the actual balance of the reserve fund.

15.0 Temporary Borrowing

Intra-fund lending from reserves and reserve funds is permitted to cover a reserve short-term deficit, and to temporarily finance capital fund expenditures or operating cash flow deficiencies to avoid external temporary borrowing costs. In order to lend from reserves, the following conditions must be met:

1. Borrowing must not adversely affect the intended purpose of the reserve.
2. A plan to repay the reserve within a reasonable timeframe is required.
3. Interest equivalent to the Municipality's interest of reserve fund bank accounts will be applied to outstanding amounts borrowed; and
4. Where applicable, legislative requirements may apply. For example, the Development Charges Act permits inter-fund borrowing only between development charge reserve funds, as well as prescribes a minimum interest rate (i.e. Bank of Canada prime rate).

16.0 Annual Reporting

A year-to-date reserve report will be included in the budget package created and provided to Council each year.

As required under development charges legislation, the Treasurer will provide Council with a financial statement related to the Development Charge By-law and will include information regarding Development Charge Reserve funds. This statement will then be forwarded to the Minister of Municipal affairs and Housing within 60 days of Council's receipt.

Year-end audit and financial statements, including the balances of reserves, both obligatory and discretionary, will be presented with note disclosure and comparative figures as required to meet PSAB reporting standards.

When required, reporting to Council or other agencies may exist for reserved

residual balances related to grants or other contributed funds (e.g. Federal and Provincial Grants).

17.0 Classification, Categories & Lists of Reserves & Reserve Funds

1. Schedule A: Listing of the Municipality Reserves

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