

**1.0 Policy Statement and Purpose**

A policy to establish guiding principles, primary objectives, key management and administrative responsibilities, and standards of care for reserves and reserve funds managed by the Municipality.

**2.0 Scope**

The policy applies to all reserves and reserve funds administered by the Municipality, including those administered for any of the Municipality's Local Boards.

Furthermore, the policy applies to all Municipal employees who are responsible for the establishment, monitoring, administration and management of the Municipality's reserves and reserve funds.

**3.0 Objectives****3.1. Principles & Objectives**

The guiding principles for reserves and reserve funds shall be:

**A) Budget and Long-Term Financial Planning**

Reserves and reserve funds shall form an integral component of the Municipality's budget and long-term financial plan.

**B) Liquidity**

Reserves and reserve funds shall be kept at an adequate level to ensure the Municipality has sufficient cash flow to meet its financial obligations; including but not limited to:

- i. Replace and rehabilitate capital infrastructure assets as required
- ii. Supply funds for new capital assets identified in the Municipality's long-term plans, or that arise from time-to-time
- iii. Fund long-term contingencies and potential liabilities
- iv. Provide a buffer for significant unanticipated expenditures, or loss of revenues beyond the control of the Municipality

**C) Intergenerational Equity**

Reserve and reserve fund balances shall be maintained to support the principle of intergenerational equity whereby the generation of citizens who benefit from an investment are also responsible for financing it to the greatest extent possible.

**D) Cost of Borrowing**

Reserve and reserve fund balances impact the Municipality's cost of borrowing, thus at a minimum, reserve and reserve fund balances shall be maintained at levels that support the Municipality's favourable cost to borrow.

## **E) Reserves and Reserve Fund Types**

The type of reserves and reserve funds the Municipality shall maintain are as follows:

- i. *Obligatory* - A reserve or reserve fund created when a senior government statute and/or agreement requires that revenue received for special purposes be segregated from the general revenues of the municipality. Obligatory reserve funds are to be used solely for the purpose prescribed for them by statute or agreement.
- ii. *Discretionary* - A reserve or reserve fund created by Council to set aside revenue and/or cost savings to finance a future expenditure for which Council has the authority to spend money.

## **F) Adherence to Statutory Requirements**

- i. It shall be the Municipality's practice to establish and maintain segregated reserve funds that meet all statutory obligations.
- ii. Reserves and reserve funds shall be managed in accordance with the Municipal Act, 2001, as amended, this includes:
  - Section 10 (2) authorizing single-tier municipalities to pass by-laws respecting accountability, transparency and financial management;
  - Section 290 (2) the budget shall set out the estimated revenues and expenditures of reserves and reserve funds contained within a municipality's budget;
  - Section 291 covering multi-year budget requirements of municipalities;
  - Section 417 (4) that 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 418 (3) as allowed by the Corporation, shall combine money held in any fund (including General, Capital and Reserves and Reserve Funds) for investment purposes; and
  - Section 418 (4) that earnings from combined investments shall be credited to each segregated fund in proportion to the amount invested in it.
- iii. Reserves and reserve funds shall be established by Council, which governs the purpose, funding sources, and drawdowns of the fund.

## **G) Promotion of Financial Stability and Flexibility**

- i. It shall be the Municipality's practice to maintain adequate reserves and reserve funds within the following categories to achieve long-term financial stability and flexibility (see glossary of terms for detailed description of categories):
  - Obligatory
  - Capital Asset Lifecycle
  - Capital Asset Growth
  - Special Projects and New Initiatives
  - Contingencies/Stabilization and Risk Management
- ii. The Municipality shall strive to maintain reserve and reserve fund levels in line with public service associations' best practices (Municipal Finance Officers

#### **H) Provision for Major Capital Expenditures**

- i. It shall be the Municipality's goal to maintain adequate reserves and reserve funds to replace and rehabilitate major capital assets, as required, and to provide for new capital assets that have been identified in the capital plan. To achieve this goal, the following budget practices will be applied where applicable:
  - Reserve and reserve funds 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 as per the Asset Management Plan. Contributions to these funds will commence in the fiscal year that the asset is acquired or put into service and will be based on an estimate of the useful life of the asset.
  - Obligatory reserve funds will be maintained for Canada Community Building Fund (formerly federal gas tax) related capital projects, parkland, and building code act (Bill 124).

#### **I) Reduce Tax/Rate Supported Debt**

- i. As per the principles of the Council approved Debt Management Strategy, the Municipality shall use reserve and reserve fund balances as a source of financing for capital projects.
- ii. When appropriate, the Municipality shall use reserve and reserve fund balances as a source of debt substitution for capital projects which were previously approved with debt financing.
- iii. If discretionary reserves and reserve funds are below established targets within the Asset Management Plan, all or a portion of the future debt servicing cost savings resulting from reserve and reserve fund balances applied towards debt substitution shall be considered for future contributions to discretionary reserves or reserve funds at the discretion of the Treasurer, it being noted that such contributions are subject to Council approval through the Municipality's budgetary process.

### **3.2. Reserves and Reserve Funds Management**

#### **A) Establishment and Modification of Reserves and Reserve Funds**

- i. Reserves and reserve funds shall only be established or modified if they are supported by a financial plan identifying the funding needs, targets, contribution sources, projected drawdowns and investment of funds.
- ii. Target funding levels shall be established for all reserve and reserve funds. Methods for calculating reserve and reserve fund targets shall be determined on a case-by-case basis considering the following:
  - Purpose of fund
  - Certainty of end needs

- Best practices/standards regarding the identification of need and target balance levels (MFOA, GFOA, PSAB, etc.)
  - Economic factors
- iii. Reserve and reserve fund balances and associated targets shall be reviewed periodically to ensure adequate reserve and reserve fund levels.
  - iv. Changing of Reserve and Reserve Fund names can be made with the approval of the Chief Financial Officer or designate while ensuring the purpose and intended use of the reserve or reserve fund is not changed.

#### **B) Investment of Reserves and Reserve Funds:**

- i. Reserves and reserve funds shall be invested for a term that will not exceed its expected date of need.
- ii. Reserves and reserve funds shall be invested in accordance with the Council Approved Investment Policy.
- iii. Interest earned on reserves shall be recognized as revenue in the operating budget.
- iv. Interest earned on the below reserve and reserve funds shall be recognized as revenue in each specific reserve and reserve fund:
  - Canada Community Building Fund Reserve Fund (formerly federal gas tax)
  - Provincial Gas Tax Reserve Fund
  - Parkland Reserve Fund
  - Insurance Risk Reserve
  - Children Services Mitigation Grant Reserve
  - OCIF (Ontario Community Infrastructure Fund) Reserve
  - Medavie Severance Fund Reserve
  - Municipal Development Charges Reserve Fund

#### **C) Contributions To/Drawdowns From Reserves and Reserve Funds:**

- i. Contributions to/drawdowns from reserves and reserve funds shall be made in accordance with applicable resolution, by-law and this Policy.
- ii. Contributions to/drawdowns from reserves and reserve funds shall be approved by Council as part of the annual budget process, or specifically by resolution, with the following exceptions:
  - Contributions to/drawdowns from reserves and reserve funds with an overall amount less than or equal to the organizational approval levels identified in Section 36 of the Purchasing Policy plus the approval of the Treasurer or designate;

<b>Level</b>	<b>Dollar Value of Approval Level</b>	<b>Who Approves</b>
0 to \$5,000	Up to \$5,000	Employee + Treasurer
\$5,000 to \$30,000	\$5,000 to \$30,000	Manager + Treasurer

Level	Dollar Value of Approval Level	Who Approves
\$30,000 to \$100,000	\$30,000 to \$100,000	Senior Management Team + Treasurer
Over \$100,000 (without approved project budget)	Over \$100,000	Council
\$0 to \$50,000 (consulting/professional services direct appointment)	Up to \$50,000	Executive Management Team + Treasurer

- Transfers that are a direct result of Council approved by-laws or resolutions such as Surplus/Deficit Policy;
  - Transfer of funds less than or equal to the organizational approval levels identified in Section 36 of the Purchasing Policy between reserves and reserve funds based upon adequate analysis or other related information, at the discretion of the Treasurer, or designate;
  - Use of “revolving” reserves and reserve funds for the purpose approved by Council such as Workplace Safety Insurance Board claims;
  - Contributions to/drawdowns from closed session reserves that fall under the purpose that was defined by Council when the reserve was established, with an overall amount of \$200,000 or less per closed session occurrence with the approval of the Chief Human Resource Officer or designate; and
  - Contributions to/drawdowns from the Insurance Risk reserve that relate to insurance claims and recoveries, with an overall amount of \$200,000 or less per claim/recovery with the approval of the Director of Legal Services or designate.
- iii. Council approved contributions to/drawdowns from reserves and reserve funds not realized due to significant changes in scope or feasibility of the project/purchase for which they were approved shall be reported to Council as part of the budget variance reports, budgetary process, or a report to Council.
- iv. Contributions to/drawdowns from reserves and reserve funds shall take into account intergenerational equity between current and future tax/ratepayers

#### **D) Lending/Temporary Borrowing of Reserves and Reserve Funds:**

- i. Intra-fund lending between reserves and reserve funds shall be permitted to temporarily finance capital and/or operating cash flow deficiencies to avoid external borrowing costs. Intra-fund lending can be accomplished by allowing the reserve or reserve fund to go into a deficit position with a plan on how the reserve will be replenished back to its target reaching state.
- ii. External loans shall be approved at the discretion of Council according to Section 107 of the Municipal Act, 2001, as amended, to any person, group, or body for any purpose considered to be in the best interest of the Municipality. Prior to recommending such a loan to Council, staff shall consider the following:
- That external loans shall only be made to public agencies/groups and shall benefit the public
  - That the term of external loans shall not exceed five years

- That appropriate security shall be provided by the borrower to protect the interests of the Municipality
  - The financial profile of the borrower
  - Whether adequate reserves and reserve funds are available for the term of the external loan
  - The rate which the external loan shall bear and that principal and interest shall be credited to the appropriate reserve or reserve fund source
  - The Municipality's Bridge Financing Policy is followed with appropriate signoffs
- iii. All lending/temporary borrowing shall be provided from non-mandated discretionary reserve and reserve fund balances.

#### **E) Termination of Reserves and Reserve Funds:**

- i. A discretionary reserve or reserve fund shall be terminated (wound down and closed) when the program or project it supports meets any of the following criteria:
- No longer in the scope of the Municipality's strategic plans
  - Program commitments have been completed and no future commitments are expected
  - The Treasurer is confident that balances in other areas can mitigate the need to hold any remaining reserve or reserve fund balance
- ii. Reserves or reserve funds identified for termination shall be reported to Council for review and approval. Reports to Council shall include recommendations regarding the timing of wind down, closure and the allocation of fund balances.

### **3.3. Standard of Care**

#### **A) Reporting Requirements**

- i. The Treasurer, or designate, shall prepare the following reports regarding reserves and reserve funds managed by the Municipality:
- Annual Audited Financial Statements - the annual audited financial statements shall include a statement of financial position, financial activities, and changes in fund balances for reserves and reserve funds.
  - Reserve and Reserve Fund Report - a financial plan forecasting reserve and reserve fund balances; this report may include the establishment of new, modification of existing, and termination of existing reserves and reserve funds.
  - Budget Reports - reserve and reserve fund balances and projected contributions shall be presented in each budget. Annual changes to reserve and reserve fund balances shall be presented with each annual budget update, or specifically by resolution if required.
  - Other reports in line with this Policy shall be brought forward to Council as needed.

#### **B) Policy Review**

- i. This Policy shall be presented to Council for review and updated as deemed necessary by Council or the Treasurer.

## **4.0 Responsibilities**

The Treasurer has overall responsibility for the management and administration of reserves and reserve funds.

- i. Once Council approves reserves and reserve funds, the Treasurer shall have overall authority for the reserves and reserve funds managed by the Municipality.
- ii. The Treasurer may delegate management authority over the reserves and reserve funds managed by the Municipality to a designate.
- iii. The Treasurer, or designate(s) has the responsibility for setting reserve and reserve fund targets. (see Reporting Requirements above in section 3.3 A).
- iv. The Treasurer, or designate(s) shall have overall responsibility for this Policy, and the authority to implement a program for reserves and reserve funds and establish procedures consistent with the content of this Policy. Administrative responsibilities shall include, but are not limited to, the following:
  - Determines need for reserves and reserve funds for operating and capital budgets
  - Sets targets for reserves and reserve funds in line with directives contained in this Policy and other pertinent policies
  - As part of the reporting to Council, reviews and reports on the adequacy and continuing need for reserves and reserve funds managed by the Municipality
  - Preparation and presentation of reports and/or by-laws associated with the establishment, monitoring, or termination of reserves and reserve funds
  - Develops appropriate practices, procedures and processes for the investment of reserves and reserve funds in line with legislative requirements, the Municipality's Investment Policy and other pertinent policies
  - Prepares the Municipality's long-term financial strategy with consideration of appropriate reserves and reserve funds to effectively meet the Municipality's operating and capital budget financing needs
  - Ensures reserves and reserve funds managed by the Municipality are in line with senior government statutes and agreements and other pertinent policies

## 5.0 Glossary of Terms

<b>Budget</b>	An estimated financial plan of revenue and expenditure for a set period of time.
<b>Capital Asset Growth</b>	A category of reserve funds established to provide funding for the repair and maintenance of existing municipal assets to ensure municipally owned assets do not deteriorate over time.
<b>Contingencies/Stabilization &amp; Risk Management</b>	A category of reserves and reserve funds designed to fund future obligations which are based on calculated estimates and to mitigate unforeseen events or one-time unanticipated revenue losses and expenses.
<b>Debt</b>	Any obligation for the payment of money. For Ontario municipalities, debt would normally consist of debentures as well as either notes or cash from financial institutions, but could also include loans from discretionary reserves and reserve funds.

**Discretionary Reserves and Reserve Funds**

A reserve or reserve fund created by Council to set aside budget to finance a future expenditure for which Council has the authority to spend money.

**GFOA**

Refers to the Government Finance Officers Association of the United States and Canada, a professional association of state, provincial and local finance officers dedicated to the sound management of financial resources.

**Intergenerational Equity**

In economic, psychological, and sociological contexts, is the concept or idea of fairness or justice between generations.

**Liquidity**

A measure of an asset's convertibility to cash.

**MFOA**

Refers to Municipal Finance Officers Association of Ontario, a professional association which promotes the interests of its members in carrying out their statutory and financial responsibilities by initiating studies and sponsoring seminars to review, discuss and develop positions on important policy and financial management issues.

**Municipality**

The Corporation of the Municipality of Chatham-Kent.

**Obligatory Reserve Funds**

A reserve fund created when senior government statute or agreement requires that revenue received for special purposes be segregated from the general revenues of the Municipality. Obligatory reserve funds are to be used solely for the purpose prescribed for them by statute or agreement.

**PSAB**

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

**Reserve**

An appropriation from net revenue and/or cost savings at the discretion of Council, after the provision for all known expenditures. It has no reference to any specific asset and does not require the physical segregation of money or assets as in the case of a reserve fund. Municipal Councils may set up reserves for any purpose for which they have the authority to spend money.



**Reserve Fund**

Funds that have been set aside either by a by-law of the Municipality or by a requirement of senior government statute or agreement to meet a future event. As a result, reserve funds are either “discretionary” being those set up by Council, or “obligatory” being those set up by virtue of a requirement of senior government statute or agreement. Municipal Councils may set up reserve funds for any purpose for which they have the authority to spend money.

**Revolving Reserves and Reserve Funds**

Reserves and reserve funds used to fund normal course operating requirements or cash flow deficiencies that do not require Council approval provided they conform with intent of originating resolution or by-law.

**Special Projects & New Initiatives**

A category of reserves and reserve funds established for planned savings within the budget to fund projects or expenses either identified at the time the reserve or reserve fund is set-up or after, which allows the Municipality to save for planned or unanticipated projects or expenses that may arise and do not have another funding source.

**Treasurer**

The individual appointed by the Municipality as treasurer and/or deputy treasurer(s).