
**TOWN OF BRIDGEWATER
POLICY**

RESERVE FUNDS

Policy No.	21
Approved:	Nov. 13, 1990 (90-400)
Revised/Replaced:	Jan. 24, 2022

Purpose

1. The purposes of this *Policy* is to:
 - (a) assist in planning for the long-term financial health and stability of the Town;
 - (b) assist in reducing the impact created by unstable and unpredictable tax rates;
 - (c) integrate the Reserve Business Cases into the Operating, Capital and Reserve Budgets;
 - (d) ensure the Town has the ability to fund projects and events:
 - (i) that produce long-term efficiency gains,
 - (ii) that are strategic or require significant cost sharing between the Town and another person, entity or level of government,
 - (iii) between budget approvals where there is sudden or unexpected business opportunity or obligation,
 - (iv) where future obligations can be reasonably foreseen,
 - (v) where substantial risk to the Town may occur, and
 - (vi) reduce the current and future financial impacts to the taxpayer by minimizing significant budget fluctuations and reliance on debt financing by balancing the need for sufficient funds for unforeseen opportunities or obligations.
-

Definitions

2. In this Policy,
 - (a) “Council” means the Council of the Town.
 - (b) “Town” means the Town of Bridgewater.
 - (c) “Reserve” is a fund that has been set aside by a Policy of the Town in which funds are held for a future use that is permitted under the *Municipal Government Act*.
 - (d) “Restricted Reserves” means the portion of Reserve Funds that the Town maintains, or that Council has designated (or “restricted”) for use in specific programs or initiatives for which funds are collected or that are restricted in use by the provider of the funds or by motion of council that has specifications related to its’ use.
 - (e) “Un-restricted Reserves” is a fund that is not dedicated to any one project and/or initiative. Council, by way of resolution or through annual budget process can direct the use of funds.
 - (f) “Reserve Business Case” means the formal application to council to set up a new Reserve and/or to create a Restricted Fund within an existing Reserve.

Roles and Responsibilities

3. Council shall consider,
 - (a) in respect of the annual Reserve Budgets, whether to approve the transfers to/from Reserve in the Reserve Budgets;
 - (b) with respect to the Reserve Business Case, whether to approve the Reserve Business Case;
 - (c) with respect to expenditure of Reserve Funds, whether to approve recommendations to expend Reserve Funds when not previously included in the Reserve Budget;
 4. The Chief Administrative Officer or designate may recommend to the Council that Reserve funds be expended. Council must approve any recommendations to expense reserve funds.
 5. The Director of Finance shall:
 - (a) review the active Reserves and Restricted Funds within Reserves annually to ensure that funds are contributed and withdrawn according to the approved
-

Reserve Business Case, relevant policies of the Town, Operating and Capital Budgets and accounting policies;

- (b) review each Reserve on a regular basis to ensure continuing relevance and adequacy with the strategic direction of the Town;
- (c) provide to the Council an annual report on Reserve activity and balances (non-consolidated financial statements); and
- (d) recommend to the Council the closure of any Reserves or Restricted Funds whose purpose is outdated or to combine any Reserves or Restricted Funds with similar purposes.

Establishing a Reserve

- 6. The establishment of a Reserve, or a Restricted Fund within an existing reserve fund shall require:
 - (a) a clear and specific purpose of the Reserve which captures the strategic goal and related success factors, and such purpose shall be set out in the Reserve Business Case;
 - (b) identifying the source of the funding for the Reserve and its relation to its stated purpose;
 - (c) identifying the risks and consequences of not establishing the Reserve;
 - (d) identifying a maximum and minimum balance which should be set to meet the purpose of the Reserve, and identified in the Reserve Business Case; and
 - (e) setting a start and end date for the Reserve based on its purpose, including any required conditions for renewal.

Types of Reserves

- 7. Council may only create Reserves for the following purposes:

- (a) a contingency fund for opportunities;
- (b) a contingency fund for risk; and
- (c) a saving fund for future obligations.

- 8. A contingency fund for opportunities recognizes that:

- (a) not all expenditures are planned or anticipated; and

- (b) an opportunity may arise to develop services or achieve efficiencies and that

the Town must react rapidly or lose that opportunity, such as a sudden change in the economy or the introduction of cost shared programs from other levels of government or the private sector.

9. A contingency fund for risk recognizes that:

- (a) the financial risk of unforeseen events involving substantial costs, such as emergencies or economic events, and that a Reserve can mitigate this risk by providing funding for sufficient public safety or preventing service interruptions.
- (b) a withdrawal from a contingency fund for risk must be quantifiable or subject to estimate based on assumptions.

10. A saving fund for future obligation recognizes that:

- (a) an obligation may be associated with recapitalization of a specific asset where the estimated lifecycle cost of an asset can be reasonably estimated;
- (b) an obligation may be associated with a strategic plan where the asset or project may not yet be specified, such as the purchase of land; and
- (c) that a future expenditure may be managed through the long-term operating or capital budget, depending on the magnitude or situation of the obligation.

11. Reserves and reserve funds will be categorized as either restricted or un-restricted within the Reserve Fund as approved by Council and as may be required by provider of the funds.

Borrowing from Reserves

12. From time to time, short-term working capital requirements of the Town or the Public Service Commission may require short term borrowing from Reserves to be repaid as soon as funds are available, this often occurs prior to the interim tax bill or while waiting for large capital project financing to be completed through a debenture.

13. Any funds borrowed from the Reserve Fund for longer than twelve months will be paid back through a prescribed repayment schedule. The Director of Finance shall request approval of any such usage and the proposed repayment schedule from through a motion of Council.

Administration of Reserves

14. No Reserve shall have a negative balance.

15. Staff shall not re-designate or transfer funds between Reserves for short-term needs unless approved by the Council.

16. If Council approves an inter-reserve transfer or to re-designate funds pursuant to Section (15) of this section, the resolution granting such approval shall prescribe the terms of repayment to return the Reserve to its original purpose, if applicable.
17. A Reserve may be funded by internal or external sources, providing that the source of the funds does not impose restrictions on the use of such funds that are contrary to the purpose of the Reserve.
18. Long Term Loans from the Reserve funds to other funds shall be approved by council.
19. Under the direction of Council, the Director of Finance or designate will ensure the funds are invested according to the guidelines set out in the Town's Investment Policy and in accordance with the Municipal Government Act.
20. Interest earned by the reserve fund must also remain in that fund unless there is a special resolution of council which allows the interest to be taken into the general operating fund or as approved in the general operating and reserve fund budgets as approved by council.

Financial Reporting

21. The Director of Finance shall include in the annual budget, a reporting of the reserve fund balances and expected future use of the reserves.

Amendments to Reserves

22. Amendments to an existing Reserve may result from a change in the strategic direction of the Town, or the relevance of the Reserve's defined purpose.
23. Upon review by staff of the change in strategic direction or the change in defined purpose, staff may recommend to the Council that the Reserve be revised or closed and Council may consider such a recommendation.

Corrections to Reserves

24. Management of Reserve balances and correction of errors may be approved by the Director of Finance, within the parameters of Council's direction as set out in the approved Reserve Business Case.

Repeal

25. The Reserves Policy as adopted by the Council on November 13, 1990 is hereby repealed and replaced by this policy.
-