

THE CORPORATION OF THE TOWNSHIP OF PELEE

POLICY:	General Reserve and Reserve Fund Policy
SECTION:	Finance
AUTHORITY:	Township Council
APPROVED BY:	Township Council
EFFECTIVE DATE:	December 7, 2015
REVIEW DATE:	Within one year of adoption and annually thereafter

1. POLICY STATEMENT

It is the policy of the Township of Pelee:

- o to establish reserves and reserve funds for planned future capital expenditures, unexpected or unpredicted events, or extraordinary expenditures which would otherwise cause fluctuations in the operating or capital budgets;
- o to manage reserves, reserve funds, and deferred revenue in a responsible manner, and;
- o to use reserves, reserve funds, and deferred revenue solely for the specific purpose previously determined.

2. PURPOSE OF POLICY

The purpose of this policy is to address some of the longer term funding strategies for the Township and to ensure good financial and cash management for the ongoing financial stability of the Corporation. In conjunction with investment and debt management policies, this policy will inform decisions relating to long-range financial planning for capital projects in order to minimize both debt servicing costs and significant annual budget impacts by allocating costs to benefiting users over a number of years through the prudent use of reserves and reserve funds.

3. DEFINITIONS

In this policy,

“Deferred revenue” means revenue that is considered a liability on the Township’s financial statements until, over time, it becomes relevant to current operations, such as a prepayment received for something that has not yet been provided.

Deferred revenue is set aside in an obligatory reserve fund for a specific purpose by legislation, regulation, or agreement. Development charges and federal and provincial gasoline tax are examples of deferred revenue.

“Reserve” means 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 or projects that are set out in annual budgets or budget forecasts, and is authorized under the provisions set out in the Municipal Act. It has no reference to any specific asset and does not require segregation as in the case of a reserve fund. A reserve may be established for a predetermined purpose and applied for that purpose at the discretion of council. Revenues set aside for working funds and for sick leave are examples of reserves.

“Reserve fund” means 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. There are two types of reserve funds: obligatory reserve funds and discretionary reserve funds.

“Obligatory reserve fund” means a reserve fund created when a provincial statute 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. See “deferred revenue” for examples of obligatory reserve funds.

“Discretionary reserve fund” means a reserve fund created under the Municipal Act when Council wishes to earmark revenue to finance a future expenditure for which it has the authority to spend money, and to set aside a certain portion of any year’s revenues so that the funds are available as required. Revenues set aside for road widening and for acquisition of fixed assets are examples of discretionary reserve funds.

4. SCOPE

The General Reserve and Reserve Fund Policy applies to all departments and local boards (including Library) of the Corporation of the Township of Pelee.

5. ADMINISTRATION

5.1 Creation

Council shall establish a reserve fund for liabilities of the Township which are incurred but not payable until later years, as prescribed by any provincial statute and may establish a reserve or reserve fund to be used for any other authorized exclusive purpose.

A discretionary reserve fund may be created where Council wishes to raise an amount from current revenue to finance future expenditures and this revenue is to be set aside from general operations to ensure that it will not be used for any other purpose and be available when needed.

Otherwise, a reserve is preferable to a reserve fund in order to keep money available for financing daily operations, reduce accounting entries caused by interfund transfers, and simplify financial statement preparation.

Reserves and reserve funds are created by specific by-laws or as part of other by-laws, such as those for annual budgets.

The use of reserves is one way of maintaining a sound financial position, but cash flow improvements, risk management, or other considerations may affect reserve requirements.

Reserves must be supported by financial evidence indicating the extent of the reserves required. Reserves and discretionary reserve funds help to stabilize the general municipal tax levy and reduce the need for debentures. The assets of reserve funds can be invested to earn income, thus helping to reduce the amount of money to be set aside.

5.2 Intended Use

Any change to the purpose for which the reserve or reserve fund is designated must be permitted by provincial statute and approved by by-law of Council.

Before creating a new reserve or reserve fund, the option of adding an incremental contribution to an existing reserve or reserve fund of a like nature will be considered.

Reserves or reserve funds for different purposes shall be separate, but each may include a group of services in the same category. Flexibility can be achieved by defining, in the establishing by-law, the intended use in more general terms.

The *Development Charges Act* requires a separate reserve fund for each service, but permits services to be grouped into a category of services provided that services for which there is a 10 % reduction are not grouped with services for which there is no such reduction. At the present time the Township does not collect development charges.

5.3 Limitations

Transfers shall be made into or from reserves or reserve funds as prescribed by provincial statute or approved by by-law, including but not limited to the Development Charges By-law and the annual budget by-law.

The annual budget shall set out the estimated portion of revenues considered necessary to be paid into Township reserves and reserve funds.

For reserves and discretionary reserve funds, revenue shall come only from contributions from the operating fund, contributions from the capital fund, and investment income.

For obligatory reserve funds, revenue may also come from development charges, developer contributions, or higher levels of government. Money in a reserve or reserve fund shall be spent only for the predetermined purpose(s) of the reserve or reserve fund.

5.4 Transfer timing

Contributions from operating budgets to reserves shall be transferred upon the approval of the Township's annual budget. Contributions from reserves and reserve funds to capital or operating accounts shall be transferred at least bi-annually (in June and December) or upon completion of a project.

Transfers from a reserve or reserve fund shall not occur if the transfer would put the reserve or reserve fund into a negative balance. If such is the case, inter-fund borrowing will be investigated as a funding source.

5.5 Interest Allocation

Reserve funds must be invested in accordance with the Township approved investment policy. Earnings from combined investments shall be credited to each separate fund in proportion to the amount invested from it.

Interest shall be allocated to reserve funds, and to reserves where it is appropriate to adjust their balances for inflation, but no interest revenue will be credited to capital work-in-progress accounts. Interest allocation shall be based on the actual annual average balance of the reserve fund (calculated as the sum of the opening and closing balances divided by 2) and the actual average interest rate received on deposits.

5.6 Authorization

The Chief Administrative Officer, Clerk and Treasurer (CAO) shall be responsible for monitoring the status of reserves and reserve funds, for determining the appropriate source of financing for the Township's programs and capital works, and for making recommendations to Council on the use of reserves and reserve funds.

Utilization of funds from a reserve or reserve fund must be identified in an approved annual budget or a separate report submitted to Council for approval outside the normal annual budget process.

Transfers from contingency reserves to address unanticipated fluctuations in expenditures shall be authorized by Council through approval of staff recommendations in periodic variance reports.

5.7 Adequacy

The adequacy of an individual reserve or reserve fund shall be determined on a case-by-case basis using an estimate of the timing and magnitude of the costs to

be incurred and a projection of expected contributions and interest earned.

Updated forecasts of reserve or reserve fund balances will be provided to assist with the evaluation of any increases / decreases in revenue or expenditures.

Forecasts will be developed for each reserve and reserve fund and will be updated at least annually.

5.8 Inter-Reserve Fund Borrowing

Temporary inter-fund borrowing to cover a reserve fund shortfall is permitted and encouraged to avoid external debt charges. However, borrowing from a reserve or reserve fund may occur only when an analysis of the reserve has determined that excess funds are available and that the use of these funds will not adversely affect the intended purpose of the reserve.

Other temporary inter-fund borrowing must be repaid with interest at a rate based on the actual annual average balance of the reserve fund and the interest rate currently received on Township accounts.

5.9 Reserve Fund External Debt

Debt repayment is not normally funded through a reserve. Instead, debt shall be incurred and repaid through the operating fund with corresponding transfers to and from reserves. Any funding of debt costs shall be identified in the Township's annual operating budgets. There are a few exceptions to this rule:

5.10 Reporting

Reserve and reserve fund balances, projected contributions, and planned expenditure withdrawals shall be presented with the annual budget.

Balances of reserves, discretionary reserve funds, and deferred revenue (obligatory reserve funds) with comparative figures shall be disclosed by way of a note to the financial statements, with specific reference made on the financial statements to the note, in conformity with the requirements of Public Sector Accounting Standards.

6. TARGET RESERVE LEVELS¹

Reserves and reserve funds are a critical component of the Township's long-term financial plan and offer liquidity which enhances the Corporation's flexibility in addressing operating requirements and in permitting the Corporation to fund capital projects internally.

¹(*to be implemented recognizing will take some time to achieve policy objectives)

The Township will take steps to:

- o Limit its reliance on debt for financing infrastructure.
- o Target that working capital reserves, capital reserves, and reserve funds are maintained at a minimum of 10% of own purpose revenues.

7.0 POLICY REVIEW

This policy shall be reviewed within one year of adoption.

Shall certify and sign documents on behalf of the Township with respect to the issuance of debt instruments of the Township.

REFERENCE:

Municipal Act, 2001, S.O. 2001, c. 25 Sections 405(1), 407(1), 408(3,4), 409(2)

(Drainage Act)

(Planning Act)

(Conservation Authorities Act)

(Ontario Municipal Board Act)

Ontario Regulation 266/02 - Financing Leases for Municipal Capital Facilities

Ontario Regulation 278/02 - Construction Financing

Ontario Regulation 403/02 – Debt and Financial Obligation Limits

Ontario Regulation 119/03 – Local Improvement Charges – Priority Lien Status

