

THE CORPORATION OF THE TOWNSHIP OF SOUTH STORMONT

BY-LAW NO. 2021-057

BEING a by-law to adopt a Reserve and Reserve Fund Policy.

WHEREAS the *Municipal Act, 2001*, c. 25 s. 5 (1) provides that the powers of a municipal corporation are to be exercised by its council;

AND WHEREAS the *Municipal Act, 2001*, c. 25 s. 5 (3) provides that the powers of every council are to be exercised by by-law;

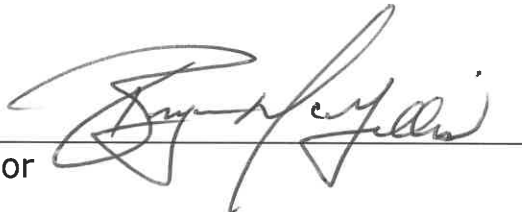
AND WHEREAS Council deems it advisable to adopt a Reserve and Reserve Fund Policy for the Township of South Stormont.

NOW THEREFORE Council of the Township of South Stormont enacts as follows:

1. That the Reserve and Reserve Fund Policy attached hereto as Schedule "A" and forming part of this by-law be adopted effective July 14, 2021.
2. That any other by-law inconsistent with this by-law is hereby repealed.


READ AND PASSED in open Council signed and sealed this 14th day of July, 2021.

Mayor



Clerk



	TOWNSHIP OF SOUTH STORMONT
	Title: Reserve and Reserve Fund Policy Schedule "A" to By-law No. 2021-057
	Policy Category: Finance
	Effective Date: July 14, 2021
	Revision Date:

Policy Statement

It is the policy of the Township of South Stormont to provide, use and maintain strong financial management tools. Reserves and Reserve Funds are important to support long term financial needs, goals and objectives.

The Township shall:

- 1) Maintain Reserves and Reserve Funds for:
 - a) planned future capital rehabilitation/replacement;
 - b) unexpected/unpredicted expenditures which would otherwise cause fluctuations in the operating or capital budgets;
 - c) irregular or occasional expenses;
 - d) defined purpose and segregated for that specific purpose or as required by agreement;
 - e) obligations payable in the future;
- 2) Manage Reserves, Reserve Funds in a responsible manner; and
- 3) Use Reserves, Reserve Funds solely for the intended purpose.

Purpose

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

Scope/Application

"Reserves" Municipal Councils have the discretion to establish reserves for specific or unspecified purposes. Reserves may be undefined and used based on requirements as defined by Council, and Reserves may also be established for a specific purpose. No by-law is necessary to establish a Reserve.

Section 417 of the Municipal Act, 2001 as amended, (the Act) allows for the establishment of reserve funds and outlines the requirements regarding the procedures in allowing for the use of reserve funds as follows:

"Reserve funds" Every municipality and local board, as defined in the Municipal Affairs Act, and any other body exercising a power with respect to municipal affairs under any Act in unorganized territory may in each year provide in its budget for the establishment or maintenance of a reserve fund for any purpose for which it has authority to spend money.

“Approval” If the approval of a Municipality is required by By-law for a capital expenditure or the issue of debentures by or on behalf of a local board, the local board must obtain the approval before providing for a reserve fund for those purposes in its budget.

“Expenditure of Reserve Funds” A Municipality may by By-law, provide that the money raised for a reserve fund established may be spent, pledged or applied to a purpose other than that for which the fund was established.

In summary, a Municipality may establish reserve funds and may pass By-laws to authorize expenditures from those funds.

This policy applies to all departments and local boards of the Corporation of the Township of South Stormont. This policy shall be applied fairly and consistently in a manner that maintains the purpose, intent, and meaning of the policy.

Policy

The Township categorizes Reserves and Reserve Funds into the following:

- Stabilization, such as Operating Contingency, Tax Stabilization
- Long-term community strategies
- Program Specific, such as WSIB, Self-Insurance, Energy Management
- Vehicle and Equipment Replacement
- Building Rehabilitation/Replacement
- Infrastructure Rehabilitation/Replacement
- Legislative, such as Development Charges, Building Permits
- Contractual, such as Gas Tax

In the administration of Reserves and Reserve Funds, the following processes will be followed:

1. Creation of Reserves

Council, on the recommendation of the Director of Finance/Treasurer, will approve the establishment of new Reserves by resolution. In the resolution the following will be established:

- Purpose and use
- Funding source and target funding level (if applicable)

The Director of Finance/Treasurer will, in the report, recommending a new Reserve provide the projected annual revenue and spending for at least 5 years, and indicate whether the Reserve will be interest bearing or non-interest bearing.

Reserves are typically non-interest bearing.

2. Creation of Reserve Funds

Council, on recommendation of the Director of Finance/Treasurer, will, with the adoption of a by-law, approve the establishment of new Reserve Funds. The following will be established:

- purpose and use
- interest bearing – generally for future liabilities, future development properties, emergency capital or legislated
- funding sources and target funding level (if applicable)
- projected annual revenue and spending for at least 5 years

3. Consolidation/Close

If the purpose of a Reserve or Reserve Fund has been accomplished or is no longer necessary, Council, on the recommendation of the Director of Finance/Treasurer, will approve the closure or consolidation, and transfer of any remaining funds.

4. Contributions, Commitments and Expenditures

Council, as a part of the budget approval process, approves the contributions and commitments from Reserves and Reserve Funds. If not approved through the budget, expenditures require a resolution of Council. Contributions such as interest, legislated or agreement-based contributions such as development charges and wastewater/water, donations, or net recoveries of prior year events.

Expenditures are managed by staff within the Council-approved commitments.

- At times, change orders may be required due to uncontrollable factors; the authority to utilize Reserve or Reserve Funds beyond the council-approved commitment will be directed by the Township's Procurement Policy. *[Council will be advised by the CAO for amounts under \$100,000. Amounts required over \$100,000 will require a resolution of Council.]*
- At times, implementation of program or project does not occur as originally planned due to unexpected conditions. Solutions may vary without additional approval if they are aligned with the purpose for which the commitment was approved. Otherwise repurposing of committed funds requires the approval of Council.
- Reserves or Reserve Funds cannot have a balance below zero, except where specified by legislation. If this occurs the expenditure will be allocated through the applicable operating budget or contingency reserve with a report to Council identifying the implications.

5. Interest Allocation

Interest income will be allocated on the following priority basis and reflected in the budget documents:

- Interest on Reserve Fund balances will be calculated and added on a yearly basis based on the interest obtained from the general operating bank account or a contractual agreement.
- Interest will be added to the capital infrastructure Reserve.

6. Lending/Transferring for Other Purposes

Inter-reserve lending to cover a Reserve or Reserve Fund shortfall is permitted and encouraged to avoid external borrowing costs. Lending may only occur when an analysis of the Reserve or Reserve Fund has determined that the amount will not adversely affect the intended purpose of the Reserve or Reserve Fund. Council will approve the amount and term by resolution, and staff will apply a reasonable market rate of interest to the Reserve Fund that has provided the borrowed funds.

Applicable legislation must be followed with respect to inter-fund lending, such as the Development Charges Act.

Only after viable alternatives are exhausted staff may recommend re-purposing of commitments. Council may, through the budget process or by by-law, authorize the re-purposing of a Reserve or Reserve Fund commitment to a purpose other than for which it was originally established, subject to applicable legislation.

7. Reporting

Finance staff will prepare the following reports, as a minimum, in relation to Reserves and Reserve Funds:

- Annual Audited Financial Statements and Financial Information Return (FIR) – for financial reporting purposes, Reserve Funds set aside by legislation, regulation, or agreement (obligatory), are reported as deferred revenue, a liability on the Consolidated Statement of Financial Position. Other Reserve Funds (discretionary) and Reserves are balances within the accumulated surplus.
- Budget Process – includes review of current forecast of revenue and expenditures and adequacy to meet future needs.
- Other legislated reporting – as required, such as Development Charges statement.

8. Adequacy and Targets

Reserve and Reserve Fund levels will be monitored and reported on a regular basis, generally within the budget process. When inadequate balances occur, staff will make recommendations to Council regarding strategies to work toward the target.

Adequacy will be assessed by reviewing actual balances versus specific targets and reviewing various ratios.

The ratio of Debt to Reserves is a common ratio which is an indicator of financial prudence. The ratio should be less than 1, which means that debt (excluding development charge funded debt) outstanding should not exceed reserve (excluding obligatory) balances.

The Township will work toward the following general targets:

- Tax-supported Stabilization 2-3% of gross expenditures
- Asset rehabilitation and replacement requirements will be aligned with the Asset Management Plan (AMP); however, a general target approximation based on replacement cost is:
 - a) Facilities/Buildings 0.5-1.5%
 - b) Roads/Bridges 1-2%
 - c) Water/Sewer 1-2%
 - d) Vehicles/Equipment 5%

As warranted, targets will be calculated for individual Reserve or Reserve Funds on a case-by-case basis, and the Director of Finance/Treasurer will make recommendations to Council. Consideration will be given to the following:

- a) purpose of the Reserve or Reserve Fund
- b) predictability of revenues and volatility of expenditures
- c) certainty of future liability
- d) economic factors (inflation, interest rates, cyclical pressures)
- e) industry/government/accounting standards and best practices

8. Operating Surplus/Deficit and Non-Recurring Revenues

Reserves and Reserve Funds shall receive priority consideration for the distribution of surplus funds and non-recurring revenues. If the transfer would result in a negative balance, an alternative will be recommended to Council, with the use of capital Reserves for operational funding being least desirable. Outline policy details.

Roles and Responsibilities

Council's authority and responsibility:

- Evaluate and approve the policy.
- Direct the transfer of funds to and from Reserves and Reserve Funds through the budget process.
- Direct the transfer of funds to and from Reserves and Reserve Funds through Council Resolution or By-Law outside of the budget process.
- Direct re-purposing of commitments and the lending or borrowing to and from Reserves and Reserve Funds through Council Resolution or By-Law.
- Direct the creation of new Reserves by Resolution and Reserve Funds by By-law.
- Direct the closure or amalgamation of existing Reserves and Reserve Funds that are no longer required.

Chief Administrative Officer's authority and responsibility:

- Ensure Council's authority and responsibility.
- Ensure finance staff's authority and responsibility.
- Ensure that the principles and mandatory requirements contained in this policy are applied consistently across all departments.

Director of Finance/Treasurer's authority and responsibility:

- Provide recommendations for the establishment, closure, or consolidation of Reserves and Reserve Funds.
- Provide analysis and recommendations on the adequacy levels of Reserves and Reserve Funds.
- Provide recommendations on the re-purposing of commitments and transfer of funds to and from Reserve and Reserve Funds.
- Provide recommendations on the borrowing/lending to and from Reserve and Reserve Funds.
- Manage Reserves and Reserve Funds in accordance with legislation, municipal financing strategies, and approved commitments.
- Prudently invest Reserve and Reserve Funds per the Investment Policy and allocate interest appropriately.
- Provide long range financial planning recommendations to link the capital and asset management plan with the reserve plan.

Departmental Staff's authority and responsibility:

- Plan for long-term asset management replacement and rehabilitation with consideration for minimizing general levy and user rate increases in conjunction with the remainder of Township services.
- Provide cost and revenue estimates to guide long-term planning and adequacy review.
- Consult Finance staff regarding requests to Council to commit Reserve or Reserve Funds outside of the annual budget process.
- Consult with Finance staff to determine when Reserves or Reserve Funds should be created, consolidated, or closed.
- Manage expenditures within Council-approved commitments. If change orders are required, the authority to utilize Reserve or Reserve Funds beyond the council-approved commitment, will be directed by the Procurement Policy.

Definitions

In this policy the following definitions are used:

- Reserve Fund – A reserve fund is the asset that is segregated from the general revenues of the municipality and is restricted to meet the purpose of the reserve fund. Obligatory and discretionary reserve funds may be established.
 - 1) Discretionary Reserve Fund – A reserve fund established in cases where Council wishes to earmark funds to finance a future expenditure for which it has authority to spend money and physically set aside for such purpose. The funds may be used for several different purposes, such as known or unknown contingencies (e.g., building repairs).
 - 2) Obligatory Reserve Fund – A reserve fund created by statute whereby special funds are received or obligated for specific purposes and must be segregated

from the general revenues of the municipality (e.g. Gas Tax Rebate). These funds must be used solely for the purpose prescribed for them by statute.

- Reserve – An appropriation from net revenue 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. A reserve cannot have a revenue or expense of itself, like a reserve fund.
- Deferred Revenue – Revenue that is considered a liability on the municipality's financial statements, until such time it becomes relevant to current operations. It is set aside as an obligatory reserve fund for a specific purpose required by legislation, regulation, or agreement.
- Township – The Corporation of the Township of South Stormont.
- Contribution – funds added to a Reserve or Reserve Fund account, for example revenues transferred directly to specific reserves as included in the annual budget documents or an expense included in the operating budget.
- Commitment – approval by Council to spend funds up to a specified amount on projects or tasks, such as capital projects, one-time expenditures, or direct from reserve expenditures.
- Expenditure – disbursement of funds associated with a commitment.
- Non-recurring Revenue – revenue that is unlikely to occur again in the normal course of business.

Review and Evaluation

This policy will be implemented and administered by the Director of Finance/Treasurer and reviewed once every Council term.

Contact

For more information on this policy, contact:

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