



Title:	<i>Reserve & Reserve Fund Policy</i>		
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1.0 PURPOSE

Reserves and reserve funds are financial management tools that are an essential part of a sound fiscal policy to address long-term municipal objectives and to balance current and future monetary requirements.

The purpose of this policy is:

- i. To provide guidelines with respect to the consistent and effective development, establishment, management, and use of Town reserves and reserve funds;
- ii. To develop appropriate and adequate reserves and reserve funds to meet future financial obligations with respect to, but not limited to, tangible capital assets, emergencies, and other fiscal needs;
- iii. To establish and delegate the appropriate level of authority and responsibilities to Town staff;
- iv. To ensure processes and decisions are in compliance with applicable legislation and are conducted with transparency through identifying accountabilities and reporting requirements;
- v. To maintain timely and relevant policies and procedures.

2.0 SCOPE

This policy shall apply to all reserves and reserve funds established by the Town of Grimsby.

3.0 DEFINITIONS

Definitions for the purposes of this Procedure:

Deferred Revenue - Revenue that is considered a liability (or unearned) until it is recognized into income, such as prepayment received for goods or services not yet provided.

Reserve - Appropriation of accumulated net revenues at the discretion of Council. Established to account for assets or Town priorities that have been segregated for a specific purpose, as determined by Council. E.g. Asset renewal and rehabilitation reserves or contingency reserves.



Reserve Fund - Established to account for assets that have been segregated for a specific purpose as required by statute. These funds must be used solely for the purpose prescribed for them by statute. E.g. Building Code Act – Building Reserve Fund, Development Charges Reserve Funds, Planning Act – Parkland Dedication Reserve Fund.

4.0 PRINCIPLES AND OBJECTIVES

All reserves and reserve funds must be established, maintained, and used for a specific purpose as mandated by this policy. Reserves and reserve funds shall be established and expended for the following purposes:

i. Contingency & Stabilization Reserves

Set aside to ensure stable & predictable levies and provide for operating emergencies.

The Town recognizes that unstable and unpredictable tax levies can adversely affect residents and businesses in Grimsby. In order to maintain stable and predictable levies, the Town will maintain sufficient reserves to buffer the impact of unusual or unplanned cost increases and revenue reductions over multiple budget cycles. The Town will also provide a means of internal financing which is more cost-effective than external borrowing or leasing.

Contingency & stabilization reserves also provide a source of funding for budget deficits that may occur.

The Town may be exposed to unusual operating emergencies resulting from inclement weather, catastrophic events, environmental hazards, and so on. It may not be feasible, or cost-effective, to absorb the costs of such emergencies during one budget cycle. The Town will maintain adequate reserves to prevent fiscal hardships, avoid extensive service interruptions, and prevent risks to infrastructure and public safety.

A target balance should be identified for these reserves to ensure that the reserves are sufficiently funded to perform their purpose while not being overly funded, which would prevent better use of available funds.

ii. Asset Renewal and Rehabilitation Reserves

Set aside to provide for maintenance and renewal of existing capital assets.

The Town has significant capital assets which require maintenance and renewal over their lifecycle to provide a certain level of service. The costs of maintenance and renewal may be significant. By planning for these costs and maintaining adequate reserve contributions, the Town will prevent future fiscal hardships and promote optimal use of municipal assets.

A target annual funding level should be identified for these reserves to ensure that the reserves are sufficiently funded to perform their purpose. Having reserves that are



sufficiently funded ensures that maintenance and renewal work can occur as planned without having to rely on debt financing to complete work.

Target funding levels should consider external sources of regular, reliable, long-term sources of funding.

iii. **Special Purpose Reserves**

Provides for the creation of new assets or supports special projects.

The Town may undertake special studies, projects or strategic initiatives. These reserves would be used to finance those initiatives. Some may be time-limited and related to a specific purpose, while others may be ongoing.

Target contributions or target balances would be determined based on the purpose of the reserve.

iv. **Reserve Funds**

For adherence to Statutory and Legal Requirements.

The Town is required to maintain certain reserve funds as a requirement of Acts such as the Building Code Act and the Planning Act.

5.0 **STATUTORY REQUIREMENTS**

Municipal Act SO 2001

Section 290 (4) provides that a municipality may provide for such reserves and reserve funds as the municipality considers necessary during the budget process.

Section 417 allows for the establishment of reserve funds and outlines the management and expenditure thereof.

Section 293 allows the Ministry of Municipal Affairs to require municipalities to establish a reserve fund designated for prescribed liabilities.

Building Code Act 1992

O. Reg 332/12 Section 1.9.1.1.(d) states that the Building Department must report their surpluses and deficits as a separate entity. Fees collected are to be used to administer the Act and surpluses cannot be used to fund general Town expenditures nor can deficits be funded by Town funds.

Sections 4 & 5 require an annual report be prepared regarding prescribed fees and the costs to administer and enforce the Act and that report be made available to the public.

**Development Charges Act 1997**

Section 33-37 states monies received as development charges must be maintained in a separate reserve and may only be used to meet the growth related capital costs for which the development charge was imposed.

Section 43 requires an annual financial statement be presented to Council and also be made available to the public.

Planning Act, R.S.O. 1990

Section 37 states that all monies received related to Community Benefits Charges must be retained in a special account or reserve fund. There is also the requirement to spend or allocate at least 60 per cent of the monies that are in the reserve fund at the beginning of the year.

Section 42 & 51 states that municipalities are given authority to request the conveyance of land to the municipality for parks and may be taken as cash in lieu of parkland at the discretion of the municipality and all monies must be retained in a special account and spent only on park or other public recreational purposes. There is also the requirement of an annual financial statement to be presented to Council and also be made available to the public regarding parkland dedication monies received.

The Town of Grimsby Official Plan may place further restrictions on the use of Parkland Dedication monies received.

Other

Federal and Provincial grant programs may require the segregation of grant monies into a distinct reserve fund. **The Canada Community Building Fund** has such a requirement for grant monies.

6.0 RESPONSIBILITIES**Council shall:**

- i. Establish reserves and reserve funds in accordance with this policy;
- ii. Ensure that transactions to and from reserves and reserve funds are authorized through the budget process or by specific resolutions.

The Chief Administrative Officer shall:

- i. Support the Treasurer in ensuring the principles and requirements contained in this policy are applied consistently across all Town departments.

The Treasurer shall:

- i. Ensure that reserves and reserve funds are established, maintained, dissolved, and reported on in compliance with this Policy;
- ii. Perform the transfers to and from reserves and reserve funds as required by Council;
- iii. Conduct an annual review of the reserves and reserve funds and report the results to Council;
- iv. Recommend strategies for the adequacy of reserve and reserve fund **target balances and target annual funding** levels;



- v. Ensure that the Policy is reviewed regularly and updated as required to ensure compliance with changes in applicable statutes or accounting standards.

The Directors shall:

- i. Inform the Treasurer when reserve transfers are required as per the resolution of Council and provide supporting documentation;
- ii. Consult with the Treasurer for advice regarding the interpretation of this policy.

7.0 ADMINISTRATION

Establishment or Modification

A reserve or reserve fund is created through the budget process or **Council approval** and by the by-law with which the budget/**approval** is associated. If Council should decide to spend the monies in a reserve for purposes other than what it was originally intended for, then an amendment to the respective by-law must be passed under section 417 of the Municipal Act.

The report recommending the establishment of or modification to a reserve or reserve fund must include the following:

- i. **Statement of purpose, or modification** to reserves and reserve funds must have a unique and specific corporate purpose. A reserve or reserve fund shall have a description of the purpose for and how it may be utilized. Every effort must be made to:
 - Reduce complexity by combining amounts with similar purposes
 - Eliminating those with redundant or outdated purposes, and
 - Re-focusing departmental reserves to corporate purposes and strategic plans.
- ii. **Rationale for the target level to be maintained, **targeted annual contributions**, or **modification**** to each reserve and reserve fund shall identify the methodology to be utilized to determine the target level **or targeted annual contribution, as appropriate.**

For reserves with a targeted level, a minimum balance and maximum balance should be identified. A minimum balance will ensure that each fund is not depleted to the degree that it is no longer able to serve its intended purpose. Similarly, a maximum level will ensure that it does not grow beyond its intended purpose

For reserves with a targeted annual contribution, an amount should be identified that will enable the reserve to meet its objectives and remain sustainable long-term.

Reserve replenishment methods should also be identified.

The methodology for calculating targets are specific to each reserve or reserve fund, however consideration will be given to the following:

- Purpose of the fund;
- Certainty of end needs (i.e. contingent liability or long-term asset replacement);
- Economic factors (inflation, interest rates, cyclical pressures);
- Multi-year forecast of contribution and projected usage.



- iii. **Initial and subsequent contributions, or modification to reserves & reserve funds** are determined based on target level, **target contributions**, and the time period required to reach those targets given forecasted expenditures.

Transfers to Reserves and Reserve Funds

Council must authorize all municipal or external contributions to reserves and reserve funds through the annual budget process or a resolution of Council outside of the annual budget process. Interest allocation may be transferred to reserves and reserve funds without specific Council resolution as long as it is calculated and allocated as per this Policy.

External contributions, which are required to be segregated by legislation or agreement (e.g. development charges or **Canada Community Building Fund**), will be transferred to the appropriate reserve fund.

Transfers from Reserves and Reserve Funds

Council must authorize all expenditures or transfers from reserves and reserve funds through the annual budget or by specific resolution outside of the annual budget process.

Transfers from reserves or reserve funds shall be for the amounts budgeted. All transfers from reserves and reserve funds that exceed the actual expenditure will be tracked and reported in the Town Year End Results and Transfer report, which would identify how the unused funds are being transferred back to reserves and reserve funds.

If the actual expenditures are greater than the budgeted reserve fund and no other funding sources are identified, this would be reported to Council in the Town's Year End Results and Transfer report and recommendations to draw additional funds from the reserve or reserve fund may be approved.

Internal Loans / Transfers

Lending between reserves and reserve funds shall be permitted in order to finance capital and/or operating cash flow deficiencies to avoid external borrowing costs. Internal loans/transfers must be temporary in nature and authorized by Council.

Intra-fund lending can be accomplished by allowing the reserve or reserve fund to go into a deficit position with a documented plan on how the reserve will be replenished back to its established target in a reasonable timeframe provided the following conditions are met:

- i. Borrowing will not adversely affect the intended purpose of the reserve or reserve fund;
- ii. If applicable per the investment and interest allocation section below, interest equivalent to the Town's market rate of return earned will be applied to outstanding amounts borrowed from reserve funds.

If funds are borrowed from Development Charge reserve funds, The Development Charges Act Section 36 requires interest to be paid on loaned amounts at the prescribed minimum rate, identified as the Bank Rate as per the Bank of Canada.



Investment and Interest Allocation

Reserves and reserve funds are to be invested in accordance with the Town’s investment policy.

Interest earned on reserves will go towards offsetting the Town’s operating tax levy and rate supported needs.

All reserve funds will earn interest each year which is calculated based on the audited reserve fund balance at the end of the prior year unless there is an obligation to do otherwise. The interest rate used will be determined annually and based on investment returns.

Dissolution of Reserves and Reserve Funds

If the purpose or purposes for which the reserve or reserve fund were created have been accomplished or it is deemed no longer necessary, the Treasurer, in consultation with the respective Director, shall report to Council with the recommendation on:

- i. The closure of the reserve or reserve fund;
- ii. The disposition of any remaining funds;
- iii. The necessary amendment to the Reserve and Reserve Fund policy and the respective by-law.

Reporting

The Treasurer shall report on the reserves and reserve funds at a minimum annually. The Treasurer shall fulfill any legislated or contractual reporting requirements associated with the established reserve funds. The reporting shall include, but not be limited to:

- i. The balance of each reserve and reserve fund at the financial statement reporting date and the inflows to and outflows from each reserve and reserve fund that occurred during the year to date;
- ii. The forecasted balance of each reserve and reserve fund at year end, as well as the forecasted inflows to and outflows from for each reserve and reserve fund that occurred from the reporting date to year end for budget purposes.

8.0 REVISION HISTORY

Revision No.: _____

Date of Last Revision: _____

Last Approval Date: _____

Reason for Change(s): _____

Summary of Change(s): _____