

Reserve Policy	APPROVED BY COUNCIL:
	AUGUST 2017
	REVIEWED / AMENDED BY COUNCIL:
	FEBRUARY 2020
	CAO / TREASURER APPROVAL

PURPOSE

The purpose of the Township of Bonfield Reserve Fund Policy is to establish the framework, provide guidance and outline requirements for establishing reserve funds, provide authorizations required for use of reserve funds, and for reporting requirements to Council.

SCOPE OF POLICY

This policy applies to all Departments; Local Agencies, Boards and Commissions controlled by the municipality; and Committees. The policy does not apply to legislated or contractual Obligatory Reserve Funds.

LEGISLATIVE AUTHORITY

This policy is not a legislative requirement. There are a number of legislated Obligatory Reserve Funds governed by various legislations. Section 417 of the Municipal Act, 2001 governs Discretionary Reserve Funds.

GUIDING PRINCIPLES

Reserves and reserve funds are an integral part of long-term financial planning.

Reserves and reserve funds should only be established for identified purposes and at reasonable target levels clearly identified by policy.

One-time revenue sources and budget surpluses should be used to build or replenish reserve funds to target levels identified in the policy.

GOALS AND OBJECTIVES

The goals and objectives of the Reserve Fund Policy include,

1. To stabilize tax rates;
2. To reduce the risks to the taxpayer of significant Operating Budget impacts arising from uncontrollable events and activities;
3. To provide a source of funding for emergency capital projects or major capital equipment requirements, which are not included in approved Capital Budgets and cannot be reasonably funded by delaying a lower priority capital project;
4. To provide a source of funding for an operating expenditure, including small capital, not in approved Operating Budget allocations;



5. To stabilize peaks and valleys in sustainable capital funding requirements in accordance with the Asset Management Plan and the Long-Term Capital Funding and Financing Plan.
6. To maintain a level of reserves that would reduce the Municipality's exposure to external shocks and, if possible, maintain at levels comparable to other Northern Ontario Municipalities.
7. To build or maintain reserve fund levels by utilizing one-time revenue sources, one-time expenditure savings and transferring year end operating surplus (deficit) to (from) reserve funds.

ROLES AND RESPONSIBILITIES

Treasurer is responsible to:

1. Ensure that all authorizations required for the establishment and uses of reserves and reserve funds are received.
2. Identify sources for building or utilizing reserve funds in accordance with the goals and objectives of this policy. Recommending the transfers to (from) the reserves funds for Council approvals.
3. Provide a report to Council by September 30 of the first year of the term of a newly elected Council. The report shall cover the previous fiscal year as at December 31, and outline:
 - a. The following information for each reserve and reserve fund:
 - i. a description of the purpose
 - ii. background information on the establishment
 - iii. legislative authority
 - iv. restrictions
 - v. origin and ongoing funding sources
 - vi. summary of the activity during the year including details of authorizations
 - vii. comments and recommendations
 - b. A summary of reserve and reserve fund balances including projected balances for the current year-end based on the most current information available.
 - c. A report with recommendations

Manager is responsible to:

1. Ensure that reports to Council or CAO that include recommendations to establish or use reserve funds are referred to the Treasurer for consideration under this policy.

Chief Administrative Officer is responsible to:

1. Ensure that all reports to Council that include recommendations to establish or use reserve funds have been reviewed and signed by the Treasurer for consideration under this policy.

Council is responsible to:

1. Review the Reserve Fund Policy at least once during each term of office.
2. *Authority to establish new reserves and reserve funds:* Council must approve any new discretionary reserve fund by resolution. Alternatively, a new reserve fund may be



established with the approval of the Operating Budget by specific reference within the budget detail.

3. *Authority to transfer funds to reserve funds:* Transfers into a reserve fund must be approved by Council. Approval may be granted by specific resolution, by policy approved by Council or by specifically approved budget allocations.
4. *Authority to use reserve funds:* Authorities to use reserve fund must be approved by Council. Approval may be granted by specific resolution, by policy approved by Council or by specifically identifying in approved budgets.
5. By authority of this policy the Treasurer or CAO shall transfer any year end Operating Budget surplus (deficit) identified in the audited financial statements to (from) discretionary reserve funds immediately after the financial statements are approved.

TARGET LEVELS

The implementation of the Reserve Fund Policy will be accomplished in part by establishing target levels as follows:

1. *The Tax Rate Stabilization Reserve Fund:* This reserve fund is a useful tool to protect taxpayers from a one-time uncontrollable increase in tax rates. Council has the option to authorize a transfer from this reserve fund to reduce the tax rate. This reserve fund shall only be used when the issue causing the unacceptable increase is clearly one-time or when there is a desire to spread the impact over a number of years. If this reserve fund is utilized in a budget year the Treasurer shall prepare a plan to demonstrate how reliance on this reserve fund is phased out and how the target level can be reached or maintained. The target level shall be maintained at a level totaling at a level between 5% and 10% of the total municipal tax levy.
2. *The Operating Stabilization Reserve Funds:* The Treasurer/Manager shall identify Operating Budgets with significant uncontrollable risks that could cause expenditure or revenue budgets to vary from the five-year indexed average by more than 20% and include proposals in the Operating Budget for consideration by Council. The Operating Budget detail sheets for each identified activity shall include a summary to demonstrate how this target can be reached or maintained. Operating Budget accounts protected by transfers to (or from) this reserve fund shall include winter maintenance group of accounts, building permit revenues, supplementary tax revenues, fire department capita equipment, election costs and any other clearly approved in annual budget proposals. The target level for these Operating Budget Stabilization Reserve Funds shall total at least 5% of total operating budget expenditure
3. *Emergency Capital Reserve Fund:* Council should approve the Capital Budget in the fall or winter before the construction season. The Capital Budget total expenditures are estimated based on the Asset Management Plan and funded or financed based on the Long-Term Capital Funding and Financing Policy (both coming later this year). The totals shall remain fixed leaving no room to deal with emergencies that arise later in the year or tenders that come in over the estimates. The first option to be considered should be to amend the capital program, by cutting back on the scope of one or more capital projects, or by eliminating a lower priority capital project. If the emergency arises later in the year, after all tenders have been awarded, then Council should have the option to transfer funds from this Emergency Capital Reserve Fund. The Treasurer and Department Manager should demonstrate that all options have been considered before recommending use of this reserve fund. The Treasurer should also address the status of the Emergency Capital Reserve Fund and how vulnerable it would leave the municipality to deal with another emergency. The target level for emergency reserve funds identified for unbudgeted emergency capital works shall total at least 40% of the five-year indexed average capital expenditure levels.
4. *Operating Budget Contingency Reserve Fund:* Occasionally an item or event comes up after the Operating Budget has been passed that has not been included or does not fit into an existing line budget item. The first consideration should always be to authorize a budget

transfer from an approved budget. This reserve fund eliminates the need to include a contingency fund line item in the Operating Budget.
The target level identified for unbudgeted Operating Budget expenditures shall total at least 1% of the approved Operating Budget.

5. *The Asset Management Sustainable Capital Funding Reserve Fund (Initially to be called Asset Management Fund Strategic Priorities Reserve Fund)* is used to manage the peaks and valleys in years when the expenditure levels identified in the Asset Management Plan are more or less than the sustainable capital funding levels. It will take a number of years for the municipality to reach the sustainable capital funding levels. Like most municipalities Bonfield does have an infrastructure funding deficit which means the needs exceed the funding or financing abilities. The magnitude of the deficit will not be known until the Asset Management Plan is completed. To allow Council some discretion to move critical projects forward the initial target level for the Asset Management Sustainable Capital Funding Reserve Fund is set equal to the Emergency Capital Reserve Fund. There should not be a need for a target level once the sustainable capital funding levels are reached and the infrastructure deficit is eliminated.
The initial target level will be equal to the Emergency Capital Reserve Fund target until the municipality reaches the sustainable capital funding level identified in the Long-Term Capital Funding and Financing Plan.

Total Discretionary reserve funds balances should total between a level equal to the Northern Ontario Discretionary Reserve Funds as a Percentage of Own Purpose Tax Revenues (64% in 2018 translates to \$1,654,000) and Northern Ontario Discretionary Reserve Funds per Household (\$2,047 in 2018 translates to \$2,262,000)

POLICY IMPLEMENTATION

The implementation of this policy shall be considered as a long-term goal over a period of up to twenty years.

The implementation of this policy shall be considered as a key component of the Township of Bonfield's Long Term Financial Plan.

DEFINITIONS

Reserve

A "reserve" is a discretionary appropriation from net revenue, after provision has been made 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.

Reserve Fund

A reserve fund that is funded from the revenue fund is normally established in the estimates by-law with a complementary by-law or resolution outlining its operational elements. A reserve fund that is funded from other sources is normally established in a specific by-law or resolution that also outlines its operational elements.

A reserve fund differs from a reserve in that reserve fund assets are segregated and restricted to meet the purpose of the reserve fund. There are two types of reserve funds, obligatory reserve funds and discretionary reserve funds.

Obligatory Reserve Fund

"Obligatory Reserve Fund" is created whenever a statute requires revenue received for special purposes to 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. Obligatory reserve funds are now disclosed as deferred revenue in the audited financial statements.



Discretionary Reserve Fund

"Discretionary Reserve Fund" is created under Section 417 of the *Municipal Act* whenever a Council wishes to designate revenues 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. In accordance with Section 417, municipalities should create new reserve funds (or additional allocations to reserve funds) by resolution or through the estimates process, defining the purpose for which the reserve fund is being created.