



Policy

Section: 2.0 Finance/Treasury

Policy: Reserve and Reserve Fund Policy

By-Law: 2022-xx

Date: 17 October 2022

Revision:

Coverage:

This policy applies to all reserves and reserve funds of the Township of Huron-Kinloss.

Policy Statement:

This policy is intended to provide a framework for the establishment, maintenance, accounting treatment and closure of reserves and reserve funds in order to ensure the ongoing financial stability of the Township.

Legislative Authority:

Subsection 290 (4) (g) and Section 293 of the Municipal Act, 2001 S.O., as amended

Contents:

1.0 Definitions

- 1.1 Reserve Fund: A reserve fund requires the physical segregation of assets and is restricted to meet the purpose of the reserve fund. There are two types of reserves funds; Discretionary and Obligatory.
- 1.2 Discretionary Reserve Fund: A reserve fund established at the discretion of Council whenever revenues are earmarked to finance future expenditures. All earnings derived from such investments must form part of the reserve fund.
- 1.3 Obligatory Reserve Fund: A reserve fund that is created by legislation which stipulates that revenue received for a specific purpose be segregated from the general revenues of the municipality. All earnings derived from such investments must form part of the reserve fund.
- 1.4 Reserve: An allocation of accumulated net revenue which is part of the reserve fund and does not require the physical segregation of money or assets. The primary source of revenue for reserves is from current operations, usually surpluses at year end or as a deliberate allocation during budget deliberations. Reserves do not earn interest on their own. Any earnings derived from investment of reserves are reported as revenue fund earnings.

2.0 Principles and Objectives

- 2.1 The Township recognizes that the strategic use of reserves and reserve funds is essential for long term financial planning. Reserves and reserve funds shall receive priority consideration for the distribution of surplus funds and non-recurring revenues.
- 2.2 Council may establish a reserve or discretionary reserve fund and shall have the authority to establish an obligatory reserve fund as stipulated by legislation.
- 2.3 Reserves and reserve funds may be closed by by-law.
- 2.4 Reserve transfers not part of the annual operating or capital budget or set out in the Year End Transfer Policy shall be approved by Council by resolution or by-law.
- 2.5 The Treasurer is authorized to process transfers to and from reserves and reserve funds in accordance with the annual budget or as directed by Council resolution or by-law.
- 2.6 The operating surplus from an audited year end balance shall be transferred to the Tax Mitigation Reserve at the end of each fiscal year.

3.0 Procedure for Establishment and Closure of Reserve/Reserve Funds

- 3.1 A reserve will be established by the following:
 - i. Through the budget process as recommended by the Treasurer or Chief Administrative Officer.
 - ii. Through legislation that requires a reserve to be established for specific purposes.
 - iii. Through Council resolution or by-law.
- 3.2 A reserve fund will be established by the following:
 - iv. Through the budget process as recommended by the Treasurer or Chief Administrative Officer.
 - v. Through legislation that requires a reserve fund to be established for specific purposes.
 - vi. Through Council by-law.
- 3.3 If the purpose for which the reserve or reserve fund was created has been accomplished and the reserve or reserve fund is determined to be no longer required, the Treasurer shall report to Council with recommendations on:
 - i. The closure of the reserve or reserve fund account.
 - ii. The reallocation of any remaining funds.

4.0 Procedure for Use and Administration of Reserve/Reserve Funds

- 4.1 The use of money in reserves and reserve funds is subject to compliance with any legislative restrictions and must be authorized by Council.
- 4.2 If funds are withdrawn from a reserve or reserve fund for the specified purpose and it is subsequently determined that the funds are not necessary, in whole or in part, for the intended purpose, any unused funds shall be returned to the reserve or reserve fund from which they were withdrawn.
- 4.3 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 mitigated and a projection of contributions.
- 4.4 Inter fund borrowing to cover a reserve fund shortfall is permitted and encouraged to avoid debt borrowing costs. Interest shall be paid to any interest earning fund that has provided borrowed funds.
- 4.5 Contributions to and from reserves and reserves funds to capital or operating accounts will be done following the adoption of the annual budget, upon project completion or at year end.
- 4.6 Transfers from a reserve or reserve fund will not occur if the transfer will put the reserve or reserve fund into a negative balance. If executing a transfer would result in a negative balance, the Treasurer will report to Council recommending alternate courses of action.
- 4.7 Reserve and reserve funds balances, projected contributions and withdrawals will be reported to Council during the annual budget process.

5.0 Responsibilities for Reserve/Reserve Funds

- 5.1 Council's responsibility shall be to:
 - i. Establish new reserves and reserve funds
 - ii. Close existing reserves and reserve funds no longer required
 - iii. Amalgamate reserves and reserve funds
 - iv. Transfer funds to and from reserves and reserve funds through the annual budget process
 - v. Transfer funds to and from reserves and reserve funds by resolution or by-law outside of the budget process
- 5.2 The Treasurer's responsibility shall be to:
 - i. Provide recommendations for the establishment or dissolution of reserves and reserve funds.
 - ii. Provide analysis and recommendations on the required levels of reserves and reserve funds

- iii. Provide recommendations on the transfer of funds to and from reserves and reserve funds
- iv. Manage reserves and reserve funds in accordance with legislation and municipal financing strategies