

# Corporate Policy

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**Subject: Reserves and Reserve Funds**

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## Policy Statement:

The primary objectives for reserves and reserve funds shall be:

- Adherence to statutory requirements
- Promotion of financial stability and flexibility
- Provision for major capital expenditures
- Smooth expenditures which would otherwise cause fluctuations in the operating budget; and
- To take advantage of financial opportunities that may arise.

This policy establishes the objectives for reserves and reserve funds, standard of care, as well as it delineates the responsibilities for their management and administration. Under section 417(1) of the Municipal Act, municipalities have the authority to provide for reserve funds in annual budgets for any purpose for which it has the authority to spend money.

## Scope:

The Reserves and Reserve Funds Policy applies to all reserves and reserve funds established by the Town of Caledon.

## 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.

## Definitions:

**Deferred Revenue** - means revenue that is considered a liability on the Municipality's financial statements until, over time, it becomes relevant to current operations, such as 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 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 and projects that are set out in the annual budgets or budget forecasts, and is authorized under the provisions set out in the Municipal Act. It has no reference to any specific assets and does not require the physical segregation of money or assets.

**Reserve Funds** - Reserve funds differ from reserves in that reserve funds assets are segregated from general revenues and restricted in use to meet the purpose of the reserve



6311 Old Church Road  
Caledon, ON L7C 1J6  
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funds. There are two types of reserve funds: discretionary reserve funds and obligatory reserve funds.

**Discretionary Reserve Funds** - Discretionary reserve funds are created under Section 417 of the *Municipal Act, 2001* (S.O. 2001, c.25) and under similar sections in the *Regional Municipalities Act*, the *Municipality of Metropolitan Toronto Act*, the *County of Oxford Act* and the *District of Muskoka Act*. Discretionary reserve funds are established whenever a municipal Council wishes to earmark revenues to finance a future expenditure for which it has the authority to spend money and set aside a certain portion of the year's revenues so that the funds are available as required. In accordance with Section 417 of the *Municipal Act, 2001* (S.O. 2001, c.25), it is suggested that municipalities create new reserve funds or additional allocations to a reserve fund through the estimates process, defining the purpose for which the reserve fund is being created.

**Obligatory Reserve Funds** - These funds must be created whenever a statute requires revenue received for special purposes to be segregated from the general revenues of the municipality.

## Roles & Responsibilities

### **Municipal Council**

- a) In accordance with the *Municipal Act 2001*, Section 224 develop and evaluate policies, ensure that administrative policies, practices and procedures and controllership policies, practices and procedures are in place and maintain the financial integrity of the municipality.
- b) Approve transactions to and from reserves and reserve funds through the budget process or by specific resolution and/or by-laws.

### **Chief Administrative Officer**

- a) Support the Treasurer in ensuring the principles and mandatory requirements contained in this policy are applied consistently across all Municipality departments.

### **Treasurer**

- a) Develop and update this policy as necessary and present changes to Council;
- b) The Treasurer will retain the overall authority for establishing and managing reserves and reserve funds and may delegate this authority in writing when applicable.
- c) Ensure that the principles and requirements contained in this policy are applied consistently across all departments;
- d) Perform the transfers to and from reserves and reserve funds as authorized by Council;
- e) Recommend strategies for the adequacy of reserve levels;
- f) Report to Council the reserve balances and forecast as part of the annual budget approval process.
- g) Develop long range fiscal planning strategy to effectively meet the Corporation's capital financing and capital asset replacement requirements.



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- h) Monitors and reconciles all receipts to and disbursements from reserve and reserve fund accounts to ensure compliance with provincial regulations, PSAB and this Policy;
- i) Determines need for reserves and reserve funds for operating and capital operation;
- j) Ensures a review and report to Council of the adequacy and continuing need for reserves and reserve funds is undertaken when deemed necessary;
- k) Adherence to the Development Charges Act, Federal Gas Tax Agreement and the Ontario Community Infrastructure Fund Agreement;
- l) Arranges for the preparation and presentations of required reports and/or bylaws for the creation or termination of any new or obsolete reserve or reserve funds; and
- m) Develops appropriate strategies, procedures and processes for the investment of reserves and reserve funds;

## Department Heads

- a) Provide the Treasurer with the most current capital asset information to be used in the assessment of the adequacy of capital lifecycle reserves;
- b) Inform the Treasurer when reserve or reserve funds transfers are required; and
- c) Consult with the Treasurer when reserve funds are required for unbudgeted transactions.

## Reserve Management Principles:

A report which recommends the establishment of a reserve fund must include the following:

- Statement of purpose;
- Rationale for the appropriate level to be maintained or targeted in the reserve;
- Initial contribution; and
- Contribution policy.

A **Discretionary Reserve Fund** will be established through by-law. The by-law will clearly identify the name of the reserve fund, the funding method and the purpose for the reserve fund. A reserve fund can only be used for the identified purpose, unless the Council amends or repeals the establishing by-law.

An **Obligatory Reserve Fund** is established through either terms of an agreement which is entered into by the Municipality or through legislation from a higher level of government.

## Investment of Reserves and Reserve Funds

Reserves and reserve funds may be invested for a term that will not exceed its expected date of need. The related investment income will be credited monthly to the specific reserve or reserve fund according to its proportionate share of the investment portfolio and based on the weighted average return for realized income during the month. Investments shall be further governed by the Corporation's Investment Policy.



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## **Contributions to/withdrawals from Reserves and Reserve Funds**

All withdrawals from reserves and reserve funds shall be approved by Council, normally as part of the annual budget approval process or specifically by resolution or by-law unless authority has been delegated by Council.

## **Timing of Contributions to and Transfers from Reserve and Reserve Funds**

Contributions to reserves and reserve funds as approved in budgets will be transferred to the reserves on an annual basis. Transfers to capital projects as approved in budgets will be done on an annual basis or as required.

## **Closing Reserves and Reserve Funds**

If the purpose or purposes for which the reserve or reserve fund was created have been accomplished and the reserve or reserve fund is determined to be no longer necessary, the Treasurer, in consultation with the Department Head and Chief Administrative Officer, shall report to Council with the recommendation on:

- a. The closure of the reserve or reserve funds
- b. The disposition of any remaining funds
- c. The necessary amendment to the Reserve by-law;

A resolution of Council is required to close a reserve. The By-law establishing the reserve fund will be required to be repealed or amended.

## **Allocation of Operating Surplus/Deficit**

The Treasurer shall recommend to Council an appropriate reserve allocation of any year-end operating deficit or surplus.

## **Interest Allocation**

1. Reserve and Reserve funds will be invested in accordance with the Municipality's approved investment policy. Interest shall be allocated to reserve funds on an annual basis, calculated on the monthly balance of the reserve fund unless dictated otherwise by an agreement or legislation.
2. If the Town is in a deficit position only obligatory reserve funds will receive interest as mandated by the agreement or legislation in place.

## **Target**

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

- a. Purpose of fund (i.e. operating or capital)
- b. Certainty of end needs (i.e. for contingent liability or long-term asset replacement)
- c. Economic factors (inflation, interest rates, cyclical pressures)
- d. Industry/Government/Accounting standards
- e. Multi-year forecast of contribution and projected usage



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The target for each reserve and reserve fund, as appropriate, will be identified in the by-law. The Treasurer will review the targets annually and propose changes to the target level as required.

## Temporary Borrowing

Temporary borrowing from reserves and reserve funds is permitted to cover a reserve short-term deficit, to temporarily finance capital fund expenditures or operating cash flow deficiencies to avoid external temporary borrowing cost provided that the following conditions must be met:

- Borrowing must not adversely affect the intended purpose of the reserve;
- A plan to repay the reserve within a reasonable timeframe is required;
- Interest, equivalent to the Municipality's interest of reserve fund bank accounts, will be applied to outstanding amounts borrowed.
- Where applicable, legislative requirements may apply. For example, the Development Charges Act permits inter-fund borrowing only between development charge reserve funds and prescribes a minimum interest rate (i.e. Bank of Canada prime rate).

## Annual Reporting

1. An annual continuity schedule will be provided to Council each year.
2. A schedule with the forecasted uncommitted reserve balances and description of the reserves will be included in the annual budget package.
3. As required under Development Charges Act, the Treasurer will provide Council with a financial statement related to the Development Charge By-laws and include information regarding development charge reserve funds.
4. Year-end audit and financial statements - balances of reserves, both obligatory and discretionary reserves and reserve funds will be presented with note disclosure and comparative figures as required to meet PSAB reporting standards.
5. When required, reporting to Council or other agencies may exist for reserved residual balances related to grants or other contributed funds e.g. Federal and Provincial Grants.



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