

Township of Brock Corporate Policy



Policy Name: Reserve and Reserve Fund Policy

Policy Type: Finance

Policy Number: F6

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Approval By: Finance Committee

Point of Contact:

1. Background

The Corporation of the Township of Brock is committed to providing service to residents in a fiscally responsible manner. With this commitment in mind, certain capital projects must be financed over a number of years. This financing can be obtained in advance through the use of debentures that require taxpayers to pay the principle and interest over 10 or 20 years. (The use of debenture financing is covered in a separate policy document.) Alternatively, the funds needed to finance the capital work can be set aside in a Reserve or Reserve Fund account as part of the annual budget process. The number of these accounts and the total dollars held will fluctuate from year to year depending on the purpose of the fund and the objectives of Council.

2. Purpose

Reserves and Reserve Fund accounts are used to set aside funds for specific purposes. These could include adherence to statutory requirements; promotion of financial stability and flexibility; provision for major capital expenditures; and to take advantage of financial opportunities that may arise. These accounts, once created, remain in place for the purpose they were created until legislation changes, Council directs they be closed or consolidated or completion. The purpose of this policy is to establish consistent principles, standards and guidelines for the maintenance, management and accounting of reserves and reserve funds.

3. Scope and Responsibility

The Treasurer is responsible for the maintenance and reporting on the activity in these accounts in accordance with the existing legislation and Council direction.

4. Definitions

This document is available in alternate formats upon request.
Please contact the Clerk's Department at 705-432-2355 or clerks@townshipofbrock.ca.

In this policy the following definitions are used:

- a) **“Deferred Revenue”** means revenue that is considered a liability on the Township’s financial statements until it becomes relevant to current operations, such as prepayment received for goods or services that have not yet been provided. Some Deferred revenue is set aside in obligatory reserve funds for specific purposes as required by legislation, regulation, or agreement such as development charges, cash-in-lieu of parkland, and federal and provincial gas tax allocation.
- b) **“Discretionary Reserve Funds”** means Reserve funds created at the discretion of Council whenever revenues are earmarked to finance expenditures of a purpose designated by Council.
- c) **“Obligatory Reserve Funds”** means Reserve funds that are required by legislation or agreement to be segregated from the Township’s general revenues for a special purpose or for works to be undertaken on behalf of the contributor. These funds are classified in the financial statements as Deferred Revenue.
- d) **“Reserves”** means an allocation of accumulated net revenue that makes no reference to any specific asset and does not require the physical segregation of money. Established primarily for the purpose of providing working funds, a reserve cannot have a revenue or expense of itself.
- e) **“Reserve Fund”** means a fund that is segregated and restricted to meet a specified purpose and includes both an obligatory reserve fund and a discretionary reserve fund.
- f) **“Trust Funds”** means a fund that is segregated and restricted to meet a specified purpose defined by the contributor in the case of bequests or legislative requirements in the case of cemetery perpetual care. These funds are not consolidated with the Township’s operations and reported in accordance with the Canadian accounting standards for not-for-profit organizations.

5. Guiding Principles

Section 290 of the Municipal Act, S.O. 2001, as amended provides that a municipality’s budget shall set out amounts to be paid into and out of reserves. A municipality may establish reserve funds for any purpose for which it has authority to spend money.

6. General Policy

Reserves will be maintained to meet one of the following purposes of the Municipality:

- a) Asset Replacement – established to control “spikes” in capital budgets to minimize property tax changes;
- b) Project Reserves – established to provide cost effective self-borrowing mechanisms to reduce risks associated with interest rate fluctuations;

- c) Economic Stability Reserves – established to buffer against significant fluctuations in the economy;
- d) Contingency Reserves – established to accommodate contingent, unfunded or known liabilities for current and/or future years; and
- e) Working Fund Reserves – established to provide cash flow for operations to eliminate the requirement to borrow funds to meet immediate obligations.

Reserve Funds will be maintained as Discretionary for Capital, Operating or other Specific Use or as Obligatory for Operating or Capital Purposes.

6.1 Establishing New Accounts

Reserves can be established through inclusion in the annual operating or capital budget which is approved by Council or through a resolution of Council.

Reserve Funds that are created for a discretionary purpose are established in a fashion similar to Reserves with documentation that identifies the name, funding method and purpose of the fund.

Reserve Funds that are created for an obligatory purpose are established through either the terms of an agreement entered into by the Township or through legislation from a higher level of government.

6.2 Closing and Consolidating Accounts

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 CAO, shall report to Council with the recommendation on closure of the reserve or reserve fund; disposition of any remaining funds; and necessary resolution.

6.3 Funding Accounts

Approval of funding to and from the Reserves and Reserve funds will be in accordance with the Township's established budget policy and reports to Council.

6.4 Interest Allocation

Reserve funds will be invested in accordance with the Township's approved investment policy. Earnings shall be credited to each separate reserve bank account that invested the funds. Where multiple reserve funds are included in one bank account, interest shall be allocated to reserve funds on a monthly basis based on the actual balance of the reserve fund. Reserves shall not be invested and are not allocated interest.

6.4 Temporary Reserve Fund Borrowing

Temporary borrowing to cover a reserve short-term deficit, interim servicing requirements or internal financing is permitted, when justified, adequately supported and authorized by Council. The following conditions must be met in order to allow borrowing from reserve funds:

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- a) Borrowing must not adversely affect the intended purpose of the reserve;
- b) A plan to repay the reserve within a reasonable timeframe is required and must be documented;
- c) Interest, equivalent to the Township's interest on reserve fund bank accounts, will be applied to outstanding amounts borrowed; and,
- d) 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 (ie. Bank of Canada prime rate as of the document approval date, updated on the first business day of every January, April, July and October).

7. Annual Reporting

Reporting of Reserves and Reserve Funds will occur through the following processes:

- a) As required under the Development Charges Act, the Treasurer will provide Council with a financial statement related to the Development Charge reserve fund. This statement will be forwarded to the Ministry of Municipal Affairs and Housing within 60 days following Council receipt;
- b) 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;
- c) An annual update report to Council summarizing all amounts held in reserves, reserve funds and trust funds and their intended uses; and,
- d) Where required, reporting to Council or other agencies may exist for reserved residual balances related to grants or other contributed funds (eg. Federal and Provincial Grants).