


# POLICY

	Policy:	<b>RESERVE AND RESTRICTED FUNDS</b>		
	Department:	Corporate Services		
	Division:	Finance	By-Law No:	2016-19
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## 1. POLICY STATEMENT

- 1.1. The Corporation of the Town of Amherstburg is committed to the creation, use and management of reserve and restricted funds within a formalized financial framework.
- 1.2. A properly balanced approach to the planning and use of reserves is considered good financial management and is a key component of the financial stability of the Town.

## 2. PURPOSE

- 2.1. This policy ensures that proper guidelines and criteria are established for the administration of financial reserves.
- 2.2. This policy defines and delineates how the Town of Amherstburg reserves are created, amended, closed, and reviewed.

## 3. SCOPE

- 3.1. This policy applies to all and any Town of Amherstburg financial reserves.
  - 3.1.1. No Town reserves are exempt from this policy.

## 4. DEFINITIONS

- 4.1. **Accountability** means the obligation to answer to the general public, Council, and vendors for procurement results and for the manner in which purchasing responsibilities are discharged.
- 4.2. **Chief Administrative Officer (CAO)** is the Chief Administrative Officer for the Corporation of the Town of Amherstburg, which includes the roles and responsibilities as laid out in Section 229 of the Municipal Act, 2001.
- 4.3. **Clerk** is the Municipal Clerk for the Corporation of the Town of Amherstburg, which includes the roles and responsibilities as laid out in Section 228 of the Municipal Act, 2001.
- 4.4. **Council** refers to the current elected Council for the Corporation of the Town of Amherstburg. This includes, as an entirety, the Mayor, Deputy Mayor and Councillors.
- 4.5. **Director** is the person responsible for direction and operational control of a division as defined on the Town's organizational structure.
- 4.6. **Generally Accepted Accounting Principles** refers to the accounting principles for municipal government as recommended by the Canadian Institute of Chartered Accountants and the Public Sector Accounting Board.
- 4.7. **Manager** reports directly to a Director (or the CAO in some instances) and who is responsible for a department within a division of the Corporation, as defined on the Town's organizational structure.
- 4.8. **Reserve** refers to funds that are authorized by Council to be set aside for funding of future expenditures.
- 4.9. **Reserve Condition** refers to Council mandated terms specifying either minimum or a maximum reserve balance or other specific terms concerning the type of contributions into a reserve.
- 4.10. **Reserve Restriction** refers to Council mandated terms limiting the use of reserve funds.
- 4.11. **Senior Management Team (SMT)** is comprised of the Chief Administrative Officer and the Directors. If a Director is unavailable, a delegate may be assigned.
- 4.12. **Town** is the Corporation of the Town of Amherstburg.
- 4.13. **Treasurer** is the Treasurer for the Corporation of the Town of Amherstburg, which includes the roles and responsibilities as laid out in Section 286 of the Municipal Act, 2001.

## **5. INTERPRETATIONS**

- 5.1. Any reference to this Policy to any statute or any section of a statute shall, unless expressly stated, be deemed to be reference to the statute as amended, restated or re-enacted from time to time. Any references to a By-law or Town policy shall be deemed to be a reference to the most recent passed policy or By-law and any replacements thereto.

## **6. GENERAL CONDITIONS**

- 6.1. Financial Services shall manage the Town's reserves in accordance with the reserve's purpose and any or all conditions and/or restrictions placed upon the reserve by Council and shall ensure reserves continue to be aligned with Council's goals and objectives.
- 6.2. Proper management of reserves include the following:
  - 6.2.1. Ensuring all reserve-related transactions abide by the purpose of the reserve, any condition and/or restriction, and with all applicable regulations and legislations.
  - 6.2.2. Ensuring operating and capital budgets include reserve activity where applicable.
  - 6.2.3. Ensuring that reserve transactions and balances are properly disclosed in the Town's Annual Financial Statements and summary reserve activity is reported accurately in the Annual Report on Reserves and Long Term Liabilities, including any reserve amendment or closure.
  - 6.2.4. Preparing an action plan to return a reserve bank into compliance when a reserve is either over or under funded, as per conditions set out in the reserve's authorizing documents as approved by Council.
  - 6.2.5. Ensuring documentation of reserve activity is accurate, complete and maintained as per this Policy.

### **6.3. Creating a New Reserve**

- 6.3.1. The Director of Financial Services/Treasurer shall forward a report requesting a new reserve to Council for approval.
  - 6.3.1.1. The report will include:
    - a. Reserve name.
    - b. Intended purpose of the reserve.
    - c. Designation of whether the reserve is capital, operating or sustainment.
    - d. Whether the reserve relates to a specific project or on-going program.

- e. Funding source(s).
- f. General calculation of funding source(s) (i.e. one-time contribution, annual value or formula based).
- g. Budget programs affected (for both contributions to the reserve and withdrawals from reserve).
- h. Any special reporting requirements.
- i. Conditions (i.e. limitations on fund balance and/or contributions).
- j. Restrictions (i.e. limiting how much can be withdrawn).
- k. Consequences of not creating the reserve (i.e. risks, alternatives and consequences).

#### 6.4. **Approval of Reserves**

- 6.4.1. Requests for new reserves will be made through a Council report.
- 6.4.2. Reports shall be reviewed by the CAO and then forwarded to Council for approval.

#### 6.5. **Amending or Closing a Reserve**

- 6.5.1. Amendments to a reserve may be undertaken:
  - 6.5.1.1. As a response to the annual review process in accordance with Section 6.7.
  - 6.5.1.2. Proactively by the Financial Services Department
- 6.5.2. The process for amending or closing a reserve for any purpose shall follow the same process as approving a new reserve as per Section 6.4.

#### 6.6. **Administering a Reserve**

- 6.6.1. Administration shall manage a reserve in accordance with the intended purpose of the reserve and any and all conditions and/or restrictions placed upon the reserve by Council.
- 6.6.2. Revenue sources for reserves and expenditures from reserves are to be budgeted for in departmental budgets programs.
- 6.6.3. **Investment Income**

- 6.6.3.1. Reserves and Restricted funds meeting any of the following criteria shall earn investment income:
  - a. Endowment funds contributed to a reserve.
  - b. Legacy funds contributed to a reserve, including funds transferred from a closed reserve that earned investment income.
  - c. Funds where external agreements specify investment income will be earned
  - d. Specifically mandated by Council.

6.6.4. **Instances of Over or Under Funding**

- 6.6.4.1. The appropriate department shall prepare an action plan to return a reserve back in compliance when:
  - a. A reserve has been overfunded and has exceeded its applicable maximum target balance as approved by Council.
  - b. A reserve has been under funded and does not maintain its applicable target minimum target balance as approved by Council.
- 6.6.4.2. The action plan will be reviewed by the Director of Financial Services/Treasurer and the CAO and will be reported to Council as part of the Annual Reserves Report.

6.6.5. **Reserve Reporting Requirement**

- 6.6.5.1. Reserves and Restricted fund information shall be reported to Council in the Quarterly Reserves Report for information purposes and in the Notes to the Financial Statements section of the Annual Report.

6.6.6. **Submitting Reports Directly to Council**

- 6.6.6.1. Any report being submitted directly to Council that relates to reserves must be approved by the Director of Financial Services/Treasurer and the Chief Administrative Officer prior to the report being added to the subsequent Council agenda.

6.7. **Review of a Reserve**

- 6.7.1. Every active reserve will be reviewed at least once every year.

- 6.7.2. By the end of each year, the Financial Services Department shall provide a report on the results of its review of the applicable reserves to the Audit and Finance Committee.
- 6.7.3. The Audit and Finance Committee will forward the report, along with any recommendations derived from the review, to Council for its approval.

6.8. **Approvals For Reserve Activity**

6.8.1. **Council Approval**

6.8.1.1. Council approval is required for the following reserve related activities:

- a. Request to create a new reserve.
- b. Request to amend or close an existing reserve.
- c. One time use of funds not defined in authorizing documents (i.e. budget).
- d. Recommendations as a result of the Quarterly Reserve Review Report.

6.8.2. **Administration Approval**

6.8.2.1. Administration can approve the following reserve related activities and/or reports:

- a. Ongoing activities of reserves as per the reserves purpose, conditions and/or restrictions.
- b. Annual Report on Reserves and Restricted Funds
- c. Over or under funded action plans.

6.9. **Reserves Of The Town Of Amherstburg**

6.9.1. **Equity Reserves (Non-Cash)**

- 6.9.1.1. Tax Stabilization Reserve.
- 6.9.1.2. Wastewater Reserve.
- 6.9.1.3. Water Reserve.

6.9.2. **Equity Reserves (Cash Backed)**

6.9.2.1. Working Capital Reserve.

6.9.2.2. Computer Reserve.

6.9.2.3. Police Reserve.

6.9.2.4. Insurance Reserve.

6.9.2.5. Wastewater Capital Reserve.

6.9.2.6. Water Capital Reserve.

6.9.3. **Reserve Funds (Cash Backed)**

6.9.3.1. General Reserve.

6.9.3.2. Life Cycle Replacement Reserve.

6.9.3.3. Water main Reserve.

6.9.3.4. Capital Replacement Reserve.

6.9.4. **Restricted Funds (Cash Backed)**

6.9.4.1. Gas Tax.

6.9.4.2. Employee Benefits.

6.9.4.3. Development Charges.

6.9.4.4. Government Grants and Funding (i.e. OCIF, SCF).

6.9.4.5. Donations and Bequests.

**7. CONSEQUENCES OF NON-COMPLIANCE**

7.1. Failure to adhere to this policy may result in:

7.1.1. Loss of reputation for the Town, if its financial stewardship is perceived to be non-transparent.

7.1.2. Violation of the *Municipal Act, 2001*, if reserves are not correctly identified and recorded.

- 7.1.3. Violation of Council policy or external agreements if the conditions and restrictions of reserves are not followed.
- 7.1.4. Disciplinary action against any employee found to be in violation of this policy.