



CORPORATE POLICY

Sub Topic: Reserves and Reserve Funds

Policy No. FIN.4.01

Topic: Financial Services Policy

Employees Covered: All Employees

Section: Financial Services

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Policy Statement & Strategic Plan Linkages

The Corporation of the Town of Newmarket strives for the best practice of fiscal management to maintain financial stability and flexibility, while adhering to statutory requirements. This policy is in line with the Town's "Well Equipped & Managed" Strategic Plan objective.

Purpose

This policy is to establish guidelines for the creation, consolidation, closure and management of reserves and reserve funds.

Definitions

Town: Refers to the Corporation of the Town of Newmarket.

Reserve: An appropriation from net revenue at the discretion of Council or the Treasurer, after the provision 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. Reserves are typically used for short-term purposes. As a general practice, reserve and reserve fund may both be referred to as a reserve.

Reserve Fund: A fund that has been set aside either by a by-law of the municipality or by a requirement of legislation to meet future events. A reserve fund can have a revenue and/or expenditure stream and earns interest. Reserve funds are typically used for long-term purposes such as reserve fund for capital.

Obligatory Reserve Fund: A reserve fund that is set up by statutory requirement. For financial reporting purposes, in accordance with Public Sector Accounting Board, this kind of reserve fund is treated as deferred revenue.

Development Charges: Fees against land to pay in full or in part for the increased capital costs required due to increased needs for municipal services arising from the development of the area in which the land is located. Development charges are defined by the Development Charges Act, 1997.

Procedures

Objectives of Reserves and Reserve Funds

The primary objectives for reserves and reserve funds shall be:

- Adherence to statutory requirements - to establish and maintain reserves to meet all statutory obligations;
- Promotion of financial stability and flexibility – to establish appropriate reserves and maintain a targeted level to achieve long-term financial stability and flexibility;
- Provision for capital expenditures – to maintain adequate reserves to replace or rehabilitate major capital assets as required, and to provide funding for new capital assets;
- Assurance of fairness & equity to taxpayers - reserves should serve to balance the impact of the operating costs and capital costs, on both current and future taxpayers

Category of Reserves and Reserve Funds

Reserves and reserve funds will be maintained in the following categories:

1. Discretionary – subdivided into:

a) Operating:

- i) Reserves for development related revenue (e.g. tree planting);
- ii) Reserves for cyclical events/expenses (e.g. customer survey, election);
- iii) Reserves for operational carry-overs (e.g. Human Resources consulting);

- iv) Reserves for operational contingencies (e.g. winter control);
 - v) Restricted operating reserves (e.g. Long-term disability reserve);
 - vi) Reserves for capital assets condition assessment (e.g. road needs study);
 - vii) Reserves for major repairs and maintenance (e.g. crack sealing).
- b) Capital:
- i) Asset replacement funds (e.g. roads, facilities);
 - ii) General capital funds (e.g. sale of property);
 - iii) Designated capital funds (e.g. official plan);
 - iv) Growth capital funds (e.g. trail voluntary levies)

2. Obligatory – subdivided into:

- a) Development charges (Development Charges Act);
- b) Parkland (Planning Act);
- c) Gas tax grant (Transfer of Federal gas tax revenues agreement);
- d) Reserve fund for engineering review and administration of development;
- e) Other required

The detailed list of reserves and reserve funds may change from time to time due to creation, closure or consolidation of reserves and reserve funds.

Management of Reserves and Reserve Funds

The Town will strive to use the best practices among municipalities to manage its reserves and reserve funds. These practices include:

1. Establishment of new reserves or reserve funds

Unless required by legislation or authorized by other Policies or Council direction, a reserve or reserve fund will be established as recommended by the Treasurer and approved by Council. The purpose, target if applicable, and source of funding of the reserve fund shall be identified prior to approval.

2. Closure or consolidation of reserves or reserve funds

Unless authorized by other Policies or Council direction, a reserve or reserve fund may be closed or consolidated with another reserve or reserve fund as recommended by the Treasurer and approved by Council.

3. Interest and Calculation Method

All reserve funds will earn interest. Interest will be calculated monthly based on the fund balance at the end of each month. The interest rate used will be the same rate that the Town's bank account earns. Reserves do not earn interest.

4. Investment of Reserve Funds

Reserve funds may be invested for a term that will not exceed its expected date of need. The related investment of income will be credited monthly to the specific reserve fund according to its proportionate share of the investment portfolio. Investment shall be further governed by the Corporation's Investment Policy and Procedures.

5. Transfers to/from reserves and reserve funds

All transfers to/from reserves and reserve funds shall be approved by Council, normally as part of the annual budget approval process or at year-end, as recommended by the Treasurer through the reserves and reserve funds report.

6. Internal and external loans

Intra-fund lending from reserves and reserve funds is permitted to finance capital expenditures or operating cash flow deficiencies. All loans will bear the market rate of return and the interest income will be credited to the original reserves and reserve funds.

External loans may be made at the discretion of Council under Section 107 of the *Municipal Act, 2001* to any group or body for purposes considered to be in the best interest of the municipality. External loans must bear the market rate of return, commensurate with the term of loan and be credited to the appropriate reserve source.

Delegation of Authority

The Treasurer of the Town will retain the overall responsibility for creation, closure and managing the Town's reserves and reserve funds. This authority is to be exercised in consultation with the Senior Leadership Team (SLT). The Treasurer may delegate this authority to the Deputy Treasurer.

There is one exception to the general rules on the Establishment of New Reserves and Transfers to/from Reserves. A Reserve may be created in respect of any existing budget or financial obligation, which in the opinion of the Treasurer is material, and where funds have been appropriated but not expended prior to the end of the fiscal year. The Treasurer has delegated authority to create the necessary provisions or allowances by transferring the appropriate funds to a Reserve, and to subsequently transfer from the Reserve to satisfy the obligation. Use of this authority is to be reported in compliance with the relevant policies.

Reporting

The Treasurer shall submit to Council the following reports annually:

- Reserves and Reserves Funds Continuity Report including reserves and reserve funds created, closed or consolidated during the year;
- Reserves and Reserve Funds Budget Report;
- Development Charges Report;
- Building Permit Fees Report;
- Other reports required by legislation, or by Council, or deemed necessary

Responsibilities

The Treasurer has overall responsibility for the management and administration of reserves and reserve funds. These include but are not limited to the following:

- Determines the need for creation, consolidation, and closure of reserves and reserve funds;
- Sets and adjusts targets for various reserves and reserve funds, where appropriate;
- Recommends transfers to/from reserves and reserve funds;
- Manages the investment of reserves and reserve funds as per the Investment Policy;
- Prepares the required reports to Council regarding reserves and reserve funds;
- Develops and updates this policy, as necessary

Cross-References

Municipal Act, 2001

FIN. 2.01 Operating and Capital Financial Policy

FIN. 3.01 Investment Policy