

POLICY TITLE	Reserves and Reserve Funds Policy
CATEGORY	Financial
POLICY NUMBER	To be assigned
DEPARTMENT	Corporate Services
POLICY AUTHOR	Financial Services
POLICY TYPE	City Policy
APPROVED BY	Council
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POLICY STATEMENT

This policy establishes a financial framework governing the management and administration of reserve and reserve funds. This supports the City of Cambridge's, hereby referred to as "the City", strategic goal of focusing on the responsible management of financial resources, ensuring transparency and accountability.

PURPOSE

The purpose of the Policy is to establish guiding principles, primary objectives, key management and administrative responsibilities, and standards of care for reserves and reserve funds managed by the City.

DEFINITIONS

Budget: An estimated financial plan of revenue and expenditure for a set period of time.

City: The Corporation of the City of Cambridge.

Debt: Any obligation for the payment of money. For Ontario municipalities, debt would normally consist of debentures as well as either notes or cash from financial institutions, but could also include loans from discretionary reserves and reserve funds.

Discretionary Reserve Funds: A reserve fund created by Council to set aside revenue to finance a future expenditure for which Council has the authority to spend money.

GFOA: Refers to the Government Finance Officers Association of the United States and Canada, a professional association of state, provincial and local finance officers dedicated to the sound management of financial resources.

Intergenerational Equity: In economic, psychological, and sociological contexts, is the concept or idea of fairness or justice between generations.

Liquidity: A measure of an asset's convertibility to cash.

MFOA: Refers to Municipal Finance Officers Association of Ontario, a professional association which promotes the interests of its members in carrying out their statutory and financial responsibilities by initiating studies and sponsoring seminars to review, discuss and develop positions on important policy and financial management issues.

Obligatory Reserve Funds: A reserve fund created when senior government statute or agreement requires that revenue received for special purposes be segregated from the general revenues of the municipality. Obligatory reserve funds are to be used solely for the purpose prescribed for them by statute or agreement.

PSAB: Refers to the Public Sector Accounting Board, an independent board with the authority to set accounting standards for the public sector.

Reserve: An appropriation from net revenue and/or cost savings at the discretion of Council, 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. Municipal Councils may set up reserves for any purpose for which they have the authority to spend money.

Reserve Fund: Funds that have been set aside either by a by-law of the municipality or by a requirement of senior government statute or agreement to meet a future event. As a result, reserve funds are either "discretionary" being those set up by Council, or "obligatory" being those set up by virtue of a requirement of senior government statute or agreement. Municipal councils may set up reserve funds for any purpose for which they have the authority to spend money.

AUTHORITY

This policy operates under the *Municipal Act, 2001, as amended*.

SCOPE

The Reserves and Reserve Funds Policy applies to all reserves and reserve funds established by the City. Furthermore, the Policy applies to all City employees and members of Council who are responsible for the establishment, monitoring, administration, management and governance of the City's reserves and reserve funds.

POLICY

Objectives

The guiding principles for reserves and reserve funds are listed below and ordered in priority. The order of the priorities will be considered in managing the City's reserves and reserve funds.

- a) To adhere to statutory requirements;
- b) To protect against known risks and unforeseen events;
- c) To promote financial stability and flexibility;
- d) To provide for life cycle replacement of capital assets;
- e) To meet specific liabilities;
- f) To smooth out expenditures which would otherwise cause fluctuations in operating or capital budgets;
- g) To provide for planned future expenditures;
- h) To provide a source of internal financing; and
- i) To promote intergenerational equity.

Reserve and Reserve Fund Management

a) Establishment and Modification of Reserves and Reserve Funds:

Council approval must be established prior to the formation or dissolution of any reserve or reserve fund. New reserves and reserve funds must have a council approved policy that outlines the purpose, funding source, intended use, and funding target. All proposed reserve and reserve fund policies must be reviewed by the City Treasurer prior to seeking council approval to ensure the policy is in line with current financial strategies, policies and procedures. Prior to creating a new reserve or reserve fund, it is recommended that a review of existing reserve or reserve fund be completed to determine if the goals and needs identified in the proposed reserve and reserve fund policy can be accommodated by an existing reserve or reserve fund.

b) Investment of Reserve and Reserve Funds:

Reserve fund balances will be invested in accordance with the City's approved Investment Policy. Investment income earned on the total cash and investment portfolio shall be allocated to each separate reserve fund based on the actual balance of the reserve fund. Reserves form a part of the City's overall operating cash flows and are not allocated interest.

c) Contributions To/Drawdowns from Reserve and Reserve Funds:

Contributions to/drawdowns from reserves and reserve funds shall be made in accordance with applicable resolution, by-law and this Policy.

Contributions to and/or withdrawals from reserves and reserve funds shall be approved by Council, normally as part of the annual budget approval process, in-year financial updates, or specifically by resolution with the following exceptions:

Transfers that are a direct result of Council approved by-laws or resolutions; and
Direct contribution to/drawdowns from reserve and reserve fund such as development charge contributions.

d) Temporary Borrowing of Reserves and Reserve Funds:

Inter-Reserve Fund Borrowing

Temporary inter-reserve fund borrowing to cover a reserve fund shortfall is permitted and encouraged to avoid external debt charges. However, borrowing from a reserve fund may occur only when an analysis of the reserve fund has determined that excess funds are available and that the use of these funds will not adversely affect the intended purpose of the reserve fund.

Internal Borrowing from Reserves

Borrowing from reserves for the purpose of addressing capital financing needs is permitted under the following conditions:

A reserve providing funding will not be adversely affected as result of providing funding for a purpose other than what it was originally intended;

The reserve should have a balance that is above its mid-level target;

The amount borrowed will be repaid with interest over a term not to exceed five years; and

Interest to be repaid will reflect annual interest that the reserve would have earned if the funding hadn't been provided.

e) Termination of Reserves and Reserve Funds:

A discretionary reserve or reserve fund shall be terminated (wound down and closed) when the program or project it supports meets any of the following criteria:

No longer in the scope of the City's strategic plans;

Program commitments have been completed and no future commitments are expected; and

The City Treasurer is confident that balances in other areas can mitigate the need to hold any remaining reserve or reserve fund balance.

Reserves or reserve funds identified for termination shall be reported to Council for review and approval. Reports to Council shall include recommendations regarding the timing of wind down, closure and the allocation of fund balances.

Roles and Responsibilities

Municipal Council

Evaluate and approve policies, ensure that administrative policies, practices and procedures and controllership policies, practices and procedures are in place that maintain the long-term financial integrity of the municipality.

Approve transactions to and from reserves and reserve funds through the budget process or by specific resolution and/or by-laws.

City Manager

Support the City Treasurer in ensuring the principles and mandatory requirements contained in this policy are applied consistently across all departments.

City Treasurer

Develop and update this policy as necessary and present changes to Council;

Retain the overall authority for establishing and managing reserves and reserve funds.

Ensure that the principles and requirements contained in this policy are applied consistently across all departments;

Perform the transfers to and from reserves and reserve funds as authorized by Council;

Recommend strategies for the adequacy of reserve balances;

Report to Council the reserve balances and forecast as part of the annual budget approval process, and as needed or directed;

Develop long range fiscal planning strategy to effectively meet the City's capital financing and capital asset replacement requirements.

Monitors and reconciles all receipts to and disbursements from reserve and reserve fund accounts to ensure compliance with provincial regulations, PSAB and this Policy;

Ensures a review and report to Council of the adequacy and continuing need for reserves and reserve funds is undertaken when deemed necessary;

Arranges for the preparation and presentation of required reports and/or bylaws for the creation or termination of any new or obsolete reserve or reserve funds; and

Develops appropriate strategies, procedures and processes for the investment of reserves and reserve funds balances.

Deputy City Managers

Provide the City Treasurer with the most current capital asset information to be used in the assessment of the adequacy of capital lifecycle reserves;

Provide the City Treasurer with the most current operating plans that are associated with reserve and reserve funds, in order to assess adequacy of the reserve and reserve fund;

Inform the City Treasurer when reserve or reserve funds transfers may be required; and

Consult with the City Treasurer when reserve or reserve funds may be required for unbudgeted transactions.

Idea Exchange Board of Trustees

Submit annually to the City Treasurer the most current operating and capital plans that are associated with reserve and reserve funds, in order to assess long term sustainability of the reserves and reserve funds;

Submit annually to the City Treasurer any requests to draw from reserves and reserve funds for library operations or replacement/rehabilitation of library capital assets;

Submit to the City Treasurer any requests to draw from reserves and reserve funds for library operations or replacement/rehabilitation of library capital assets on an as needed basis throughout the year.

Reporting Requirements:

The City Treasurer, or designate shall prepare the following reports regarding reserves and reserve funds managed by the City:

Annual Audited Financial Statements: the annual audited financial statements shall be prepared in accordance with Public Sector Accounting Standards.

Budget Reports: reserve and reserve fund balances, projected contributions and planned drawdowns shall be presented as part of the annual budget. Annual

changes to reserve and reserve fund balances shall be presented with each annual budget update, or specifically by resolution if required.

The budget report will include a financial plan forecasting reserve and reserve fund balances and a comparison to target objectives shall be prepared based on the most current information available.

Development Charges Report: an annual report detailing pertinent information regarding DC reserve funds shall be presented to Council as required by the *Development Charges Act, 1997, as amended*.

Other reports in line with this Policy, or as required by legislation in the case of obligatory reserve funds, shall be brought forward to Council as needed.

Review

This Policy shall be presented to Council for review and update, if applicable, with each term of Council, or as deemed necessary by Council or the City Treasurer.

The Treasurer has the authority to administratively amend this policy when deemed necessary.

POLICY COMMUNICATION

This policy will be made available to staff.

RELATED PROCEDURES

There are no related procedures.

RELATED DOCUMENTS/LEGISLATION

Municipal Act, 2001, as amended.