



Town of Whitby Policy

Policy Title:	Reserve and Reserve Fund Policy
Policy Number:	F 390
Reference:	Council Resolution #262-19
Date Approved:	September 23, 2019
Date Revised:	N/A
Approval:	Council
Point of Contact:	Financial Services Department

Policy Statement

The Corporation of the Town of Whitby is committed to responsible financial management. Decisions made with regards to reserve and reserve fund management are consistent with the goals set out by Council and the Corporate Strategic Plan and ensure that they respond to the changing needs and are fiscally responsible.

Purpose

Under the authority of Council, reserves and reserve funds are appropriations from the town's net revenues designated for purposes that may extend beyond the current fiscal year. They are an integral part of the municipal budget planning process and long range financial plan that contributes to the municipality's financial sustainability.

The primary purpose for maintaining reserves / reserve funds is to:

- Make provisions for replacement / acquisitions of assets / infrastructure that are currently being consumed and depreciated;
- Avoid spikes in funding requirements of the capital budget by reducing the reliance on long-term debt borrowings;
- Provide a source of internal financing;
- Ensure adequate cash flows;
- Provide flexibility to manage debt levels and protect the municipality's financial position and;
- Provide for future liabilities incurred in the current year but paid for in the future;
- Provide stability of tax rates in the face of variable and uncontrollable factors (consumption, interest rates, changes in subsidies);
- Provide financing for one-time or short term requirements without permanently impacting the tax rates.

Scope

This policy applies to all Town of Whitby reserves and reserve funds. It provides the guiding principles for the establishment, continuance and use of reserves and reserve funds and summarizes the town's legal authority and standards of care in relation to those financial provisions.

Reserves are set up for specific purposes. They are used to offset impacts and stabilize the operating and capital budgets. They typically cushion the impact of major expenditures on the tax rate in any one-year period.

Reserve Funds are typically established through a by-law of council, or by a requirement of federal or provincial legislation i.e. Development Charges Act, for a specific purpose and segregated from general revenues of a municipality to meet the financial requirements of a future event. Reserve Funds are further sub-divided into discretionary and obligatory reserve funds.

Index

1. Definitions	3
2. Responsibilities	5
3. Guiding Principles	6
4. Types of Reserve and Reserve Funds	6
5. Town of Whitby Reserve / Reserve Fund Categories	7
6. Individual Reserve / Reserve Fund Policies	7
7. Establishment of Reserves and Reserve Funds	8
8. Use and Administration of Reserve and Reserve Funds	8
9. Internal Borrowing	9
10. Investment Interest Allocation	9
11. Annual Review	9
12. Schedule 1, Individual Reserve and Reserve Fund Policies	11

1. Definitions

- 1.1. Annual Capital Budget and Forecast policy means the Annual Capital Budget and Forecast policy of the town, as amended.
- 1.2. Asset Management Related Projects means the lifecycle replacement and repair that extends the life of the asset for PSAB purposes and or includes capital expenses that support the assets (i.e. inspection).
- 1.3. Balance means the uncommitted balance of a reserve and reserve fund. It is the cash balance of the reserve/reserve fund net of any approved budgetary commitments.
- 1.4. Capital Budget means the plan for expenditures and financing sources to complete capital projects or capital expenditures, approved in either an annual budget, in a report to Council or under the Capital Budget Monitoring and Control policy.
- 1.5. Capital Budget Management and Control policy means the Capital Budget Management and Control policy of the town, as amended.
- 1.6. Capital Expenditure is determined by the nature of the work that is undertaken; it usually is in excess of \$5,000 and does not specifically impact a single fixed asset. It includes (but is not limited to) studies, roads crack sealing program etc. It can occasionally be one-time in nature, but usually the expenditure has a benefit lasting more than one year.
- 1.7. Capital Forecast means the forecasted plan for expenditures and financing sources to complete capital projects or capital expenditures presented in the annual budget. Typically this forecast is nine years (capital budget and nine years capital forecast).
- 1.8. Capital Project means any expenditure incurred to acquire or improve land, buildings, engineering structures, and to purchase machinery and equipment. It includes vehicles, office furniture and software applications. Normally, it has a benefit lasting more than one year, and results in the acquisition or extension of the life of a fixed asset or the betterment of an existing asset.
- 1.9. Community Benefits Charges (CBC) means a development related charge as calculated in the Community Benefits Charge Strategy and as defined in the Planning Act.
- 1.10. Council means the Mayor and members of Council for the Town of Whitby.
- 1.11. Debt Management policy means the Debt Management policy of the town, as amended.

- 1.12. Development Charges means a development related charge as calculated in the Development Charge Background Study and resulting by-law and as defined in the Development Charges Act.
- 1.13. Discretionary Reserves and Reserve Funds are created by Council to set aside revenue to finance future expenditures for which Council has the authority to spend money pursuant to the Municipal Act.
- 1.14. Federal Gas Tax Reserve Fund funds are allocated to projects that meet the guidelines per the Federal Gas Tax Agreement.
- 1.15. Financial Control policy means the Financial Control policy of the town, as amended.
- 1.16. Future Specified Contributions are development related payments pertaining to new sub-division agreements between the Town of Whitby and an outside party. Payments collected usually pertain to the construction / maintenance infrastructure that is needed to service the sub-division. Monies are considered to be deferred revenue until spent and are deposited into an interest bearing account. For the sake of uncommitted reserve financial reporting, future specified contributions are considered to be part of the Program Reserve/Reserve Fund category.
- 1.17. Internal Borrowing means the borrowing of funds from one reserve / reserve fund to another. The borrowed funds are subject to interest and repayment as outlined in the Council authorization.
- 1.18. Investment policy means the Investment policy of the town, as amended.
- 1.19. GAAP means Generally Accepted Accounting Principles.
- 1.20. Growth Plan means all growth related studies undertaken by the municipality including but not limited to the Development Charge Background Study as identified in the Development Charges Act and the Community Benefits Strategy as identified in the Planning Act.
- 1.21. Growth Related Projects means the capital projects or capital expenses required to plan for future growth in the Town of Whitby and / or maintain existing service levels as the Town's population grows.
- 1.22. Obligatory Reserve Funds: are charges levied or received under the authority of federal and provincial legislation and town by-laws (i.e. Development Charges Act, Planning Act). Legislation stipulates that revenue received for special purposes are segregated from the general reserves of the town. These amounts have been collected but the related services have yet to be performed. These amounts will be recognized as revenue in the fiscal year the services are performed (deferred revenue).
- 1.23. Program means a service area of the town (i.e. Arena, Parking, etc.).

- 1.24. PSAB means Public Sector Accounting Board.
- 1.25. Reserve is an appropriation of net revenues set aside at the discretion of Council to assist the maintenance of its financial position. It does not require the segregation of assets, and may be established for any municipal purpose. Reserves do not typically earn interest unless specified by Council.
- 1.26. Reserve / Reserve Fund Contribution is an authorized deposit into a reserve / reserve fund either from a tax based source, year-end operating surplus or other reserve / reserve fund. A reserve contribution is not internal borrowing and is not subject to repayment.
- 1.27. Reserve Fund is established through a by-law of Council, or by a requirement of provincial or federal legislation or for a specific purpose and segregated from the general revenues of a municipality to meet the financial requirements of a future event. Reserve Funds may be discretionary (funds authorized by Council) or obligatory (legislated funds that may only be used for their prescribed purpose). Reserve Funds typically earn interest.
- 1.28. Stabilization reserves / reserve funds are used to offset extraordinary and unforeseen expenditures requirements, revenue shortfalls and management of cash flows. This includes reserves to address volatility such as (but not limited to) winter control, tax stabilization and insurance costs.
- 1.29. Town means the Corporation of the Town of Whitby.
- 1.30. Treasurer means the employee designated as such by Council for the position. The Treasurer shall exercise all powers and duties of the Treasurer as set out in the Municipal Act.

2. Responsibilities

- 2.1. Council has the responsibility upon the recommendation of the Treasurer to approve the authorization to establish reserve and reserve funds, and to consolidate and close reserves and reserve funds as outlined in the policy and as required under legislative requirements.
- 2.2. The Treasurer or their delegate has the responsibility to:
- 2.2.1. Recommend reserve and reserve funds be established, maintained and used in compliance with this policy, the Financial Control policy, PSAB and GAAP guidelines and governing legislation.
 - 2.2.2. Conduct at minimum an annual administrative review of the reserves / reserve funds based on the parameters in the policy,
 - 2.2.3. Provide the authority to consolidate and close any discretionary reserves and reserve funds as a result of the administrative review and report to Council on the actions taken, and

- 2.2.4. Provide recommendations to Council to consolidate and close any obligatory reserve funds.

3. Guiding Principles

- 3.1. Reserves and reserve funds are governed by the provisions and requirements of the Municipal Act, 2001 and its regulations; Public Sector Accounting Board (PSAB) and Generally Accepted Accounting Principles (GAAP).
- 3.2. All reserve and reserve funds shall be established, maintained and used for a specific purpose authorized by town policy, statute or by-law.
- 3.3. Reserve and reserve funds are established and utilized by the town to assist the municipality maintain financial sustainability by;
- Buffering the impact of unusual or unplanned cost increases or revenue curtailment.
 - Providing financial flexibility to respond to extraordinary environmental or other events; and
 - Providing financing for capital projects and program operations, ensuring that capital assets/infrastructure are available to meet the needs of a growing community and existing assets are properly maintained, and replaced.
 - Avoiding spikes in funding requirements or future liabilities and to manage long term debt levels.
- 3.4. Town reserves and reserve funds shall be supported by Council approved policy, and where required by-laws that support financial planning of the fund by;
- Identifying contribution sources and projected disbursements required to meet planned future obligations to be funded;
 - Ensuring disbursements from reserves/reserve funds are used for their intended purposes and have Council approval; and
 - Ensuring the sustainability of town programs by providing planned annual contributions for the maintenance of stabilization reserves at target levels and for the future asset management / growth related replacement / acquisition of town assets and infrastructure.

4. Types of Reserve and Reserve Funds

- 4.1. Obligatory – A reserve fund created when a senior government statute and/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.

- 4.2. Discretionary – A reserve or reserve fund created by Council to set aside revenue and/or cost savings to finance a future expenditure for which Council has the authority to spend money.

5. Town of Whitby Reserve / Reserve Fund Categories

- 5.1. The Town of Whitby currently categorizes its reserves and reserve funds into 6 categories; Asset Management, Growth (tax based), Growth (other), Program, Stabilization and One-Time.
- 5.2. The Asset Management category consists of the tax based Asset Management Reserve (discretionary) and the Federal Gas Tax Reserve Fund (obligatory). This category of reserves is used to fund the town's capital asset management requirements.
- 5.3. The Growth (tax based) category consists of the Growth Reserve Fund (discretionary). This category is used to fund the town's share of capital growth costs as outlined in the Growth Plan.
- 5.4. The Growth (other) category consists of the various development based contributions as identified in the development charge by-law and community benefits charge by-law. This category is used to fund the development's share of capital growth costs as outlined in the Growth Plan.
- 5.5. The Program Category consists of a number of reserves and reserve funds (discretionary and obligatory) that are used to address expenditures in either the capital or operating budgets which result from cyclical spending / revenues, to provide financing for program specific assets / expenditures.
- 5.6. The Stabilization Category consists of a number of reserves and reserve funds (discretionary) that are used to offset in-year revenue shortfalls or expenditure overages due to unforeseen or emergency situations. The category can also be used to manage one-time tax risk (tax rate stabilization reserve) or ongoing internal risk (insurance reserve).
- 5.7. The One-Time Category consists of the Long Term Finance Reserve Fund (discretionary). The category can be used for the one-time needs of the town and for any strategic initiatives / community enhancements undertaken by the town.

6. Individual Reserve / Reserve Fund Policies

- 6.1. The Treasurer may choose to bring forward for Council's consideration individual reserve / reserve fund policies for specific reserves / reserve funds.
- 6.2. The individual reserve / reserve fund policy would specify the purpose of the reserve / reserve fund, the utilization of funds, funding sources and the

uncommitted target balance level and would be applicable to only the reserve / reserve fund identified in the policy.

- 6.3. Individual reserve and reserve fund policies have been established for the corporation, but are not limited to the list included in Schedule 1 of this policy.

7. Establishment of Reserves and Reserve Funds

- 7.1. Council, on the recommendation of the Treasurer or their designate, may establish a reserve or discretionary reserve fund, where advisable, and shall establish an obligatory reserve fund where required pursuant to legislation or contract.
- 7.2. The authorizing report which recommends the establishment of a reserve or reserve funds must include the following
- Statement of Purpose;
 - Rationale for appropriate funding level;
 - Initial contribution, if any;
 - Contribution and withdrawal policy; and
 - Criteria for review.

8. Use and Administration of Reserve and Reserve Funds

- 8.1. The Treasurer or their designate shall review uncommitted reserve and reserve fund balances on an ongoing basis to ensure the town is well positioned to meet its long-term financial commitments and take advantage of financial opportunities that may arise.
- 8.2. All appropriations to or from reserves or reserve funds must be in accordance with town policies, a Council resolution or an approved budget document.
- 8.3. The Treasurer, or their designate, subject to compliance with legislative and policy restrictions, determine if:
- The use of a reserve or reserve fund is an appropriate funding source for a program in the operating or capital budget.
 - Funds should be contributed to a reserve or reserve fund, and if so, the funding source.
- 8.4. If funds are withdrawn from a reserve or reserve fund, and not required, they shall be returned to their original source. If the original source cannot be traced or has been closed, the funds shall be transferred to a reserve/reserve fund determined by the Treasurer.

8.5. Approval of funding to and from the reserves and reserve funds will be in accordance with the town's established policies or by Council resolution.

8.5.1. The Treasurer, may recommend to Council a contribution (not internal borrowing) be authorized to a tax supported reserve or reserve fund to:

- Bring the reserve / reserve fund up to the recommended uncommitted target balance level, or to
- Reduce pressure on future years' expected tax rates based on the Long Range Financial Plan, Capital Budget and Forecast, Development Charge Background Study and /or the Community Benefits Charge Study.

8.6. Year to date inflows and outflows from each reserve and reserve fund shall be reported to Council periodically through the uncommitted reserve / reserve fund projection report.

- Reserve funds with specific legislated reporting requirements shall also be reported to Council annually on their transactions in accordance with the requirements of the legislation i.e. Development Charges Act / Planning Act.

8.7. The use of monies in reserves and reserve funds is subject to compliance with this policy.

9. Internal Borrowing

9.1. Internal borrowing to cover interim servicing requirements or internal financing is permissible, subject to any legislative restrictions, Council authorization, the town's Debt Management policy and the following requirements.

- Establishing and documenting a repayment plan, not to exceed a reasonable term or the life of the need / asset.
- Applying interest, equivalent to the town's interest earnings on its investment portfolio or as prescribed by legislation governing specific reserves funds to the outstanding amount borrowed.

10. Investment Interest Allocation

10.1. Interest earned on the investment of reserves and reserve funds shall be allocated in accordance with the Town's Investment policy.

11. Annual Review

11.1. Reserves and reserve funds shall be reviewed annually (at a minimum) to ensure they are still meeting the needs of the town.

- 11.1.1. Overall, the review includes an evaluation of the alignment of the town's existing reserve and reserve funds to the current strategic goals and evolving program pressures, looking at opportunities to consolidate similar funds to improve financial flexibility.
- 11.1.2. Any discretionary reserves / reserve funds with no historic financial activity for the past 3 years, and no forecasted financial activity in the capital forecast and long range financial plan shall be subject to a review to determine if the reserve / reserve fund should be closed.
- 11.1.3. The results of the review shall be reported in the year-end uncommitted reserve and reserve fund balance financial report to Council and shall include a list of actions taken / recommended actions (requiring authorization), subject to legislative restrictions on;
- Closure of those reserves and reserve funds that have accomplished their purpose;
 - Opportunities for consolidation;
 - The disposition of any remaining funds; and
 - Any necessary changes to policy.

This Policy is hereby approved by Council Resolution #262-19 on this 23rd day of September, 2019.

12. Schedule 1, Individual Reserve and Reserve Fund Policies

- Arena Reserve (program, discretionary)
- Asset Management Reserve Fund (asset management, discretionary)
- Building Permit Reserve Fund (program, obligatory)
- Contingency Reserve (stabilization, discretionary)
- Corporate Development Reserve (program, discretionary)
- Environmental Guide Reserve (program, discretionary)
- Federal Gas Tax Reserve Fund (asset management, obligatory)
- Growth Reserve Fund (growth, discretionary)
- Insurance Reserve Fund (stabilization, discretionary)
- Long Term Finance Reserve (one-time, discretionary)
- Marina Reserve (program, discretionary)
- Mayor's Community Development Fund (program, discretionary)
- Parking Reserve (program, discretionary)
- Parks Reserve Fund (program, obligatory)
- Tree Planting Reserve (program, discretionary)
- Town Property Reserve Fund (program, discretionary)
- Winter Control Reserve (stabilization, discretionary)
- Workplace Safety and Insurance Board Reserve (stabilization, discretionary)