



Staff Report

Report To: Dan Best, Chief Administrative Officer
From: **Sandy Becker, Financial Services
Manager/Treasurer**
Date: April 3 2018
Report: FIN.18.06 Reserve Summary
Subject: Reserve/Reserve Funds Summary 2014-2018

Recommendations:

That South Huron Council receives the report from S. Becker, Financial Services Manager/Treasurer re: Reserves/Reserve Funds Summary 2014-2018 for information.

Purpose:

The purpose of this report is to provide Council with a summary of the Reserve and Reserve Funds financial activity for the period December 31, 2014 to December 31, 2018.

Background and Analysis:

At the March 5th, 2018 council meeting Council requested that staff prepare a summary of investments into the reserves and withdrawals from the reserves for the period December 2014 to December 2017 along with estimated amounts for the 2018 fiscal year.

The 2017 data is unaudited at this point and therefore considered draft. The 2018 estimates are based on approved budget documents and also includes amounts identified in Resolution #100-2018 for the Huron St Reconstruction project.

Section 417 of the *Municipal Act* states that every municipality and local board may provide in its budget for the establishment or maintenance of a reserve fund for any purpose for which it has the authority to spend money.

Reserves fulfill a critical financial need for municipalities. They:

- Make provisions for the replacement/rehabilitation of existing municipal assets;
- Provide for future liabilities – planning for the impact and financing of major capital projects
- Provide a source of contingency funding for one time and unforeseeable events; and,
- Provide flexibility to manage debt levels (minimize short term borrowing) and protect the municipality's financial position.

Reserve and Reserve Funds have been established with approval of Council and have been maintained consistent with the Reserve and Reserve Fund policy (attached) adopted by Council in October 2011 and amended by resolution thereafter.

As part of the annual budget process a report on the inflows and outflows from each reserve and reserve fund is provided to Council.

The attached Reserve/Reserve Fund Summary is broken into categories;

General Reserves

These reserves are mainly 'contingency reserves' to protect against large fluctuations in premiums, claims, weather, etc. Some of these reserves were established to be used for specific purposes such as Rodeo, election, etc. Most of the department specific reserves were established from prior year surpluses and may be used to offset an unexpected operating deficit.

The 'working fund' reserve provides funding to offset extraordinary and unforeseen expenditure requirements, one time expenditures, in year shortfalls and/or to minimize fluctuations on the general tax levy. The reserve policy recommends that, at a minimum, this reserve balance be an amount equivalent to 75% of current year's taxes receivable (for 2017 this would be approximately \$400,000). This reserve is also used as a flow through for the carry forward of capital projects from previous years budgets.

There has been an overall increase of approximately \$200,700 in the general reserves since 2014.

Capital Replacement Reserves

These reserves were established to provide funding for the future replacement of municipal capital assets. The policy recommended a phase-in funding approach based on amortization levels and that the proposed annual contribution be, at a minimum, the amount equal to the previous years' contribution, recognizing that this amount would be dependent upon budget pressures and therefore reviewed during budget deliberations.

2018 was the final year of the 10 year phase-in plan noted above. A review of the appropriate capital replacement reserve levels will be addressed as part of our asset management program and proposed in future budget deliberations.

There has been an overall increase of approximately \$1.175M in the capital replacement reserve since 2014.

Discretionary Reserve Funds

Discretionary reserve funds are segregated from the general funds of the municipality and, as such, are placed in a separate bank account with any interest earned added to the reserve fund. The use of these funds is restricted to meet a specific purpose.

There has been an overall increase of approximately \$841,000 in the discretionary reserve funds.

Obligatory Reserve Funds

Obligatory reserve funds are mandatory reserves created by statute such as Development Charges. They are established and restricted by provincial legislation, a municipal bylaw or an agreement. The funds are raised for a specific purpose and cannot be used for any other purpose. These funds are also segregated from the general funds and placed in a separate bank account.

There has been an overall decrease of approximately \$31,700 in the obligatory reserve funds.

Operational Considerations:

As this report is being presented for information purposes only, no alternatives are presented.

South Huron's Strategic Plan:

The recommendation(s) included in this Staff Report does not have a direct correlation to the Strategic Plan.

Financial Impact:

There are no financial implications for the Corporation resulting from the proposed recommendation.

Legal Impact:

There are no legal implications for the Corporation resulting from the proposed recommendation.

Staffing Impact:

There are no staffing implications for the Corporation resulting from the proposed recommendation.

Policies/Legislation:

Reserves and Reserve Funds Policy & Procedure
2018 Budget Document

Consultation:

Chief Administrative Officer

Related Documents:

Reserves/Reserve Fund Policy and Procedure
Reserve/Reserve Fund Summary – 2014-2018

Respectfully submitted,

Sandy Becker, Financial Services Manager/Treasurer