

Municipality of South Huron POLICY and PROCEDURE			
Section:	FINANCIAL SERVICES	Prepared:	October 2011
Subject:	Municipality of South Huron Reserves and Reserve Funds	Updated/ Reviewed:	Feb 2015
Copied To and Reviewed By: Adopted by Council October 17, 2011		Dated:	Oct 2011

1. PURPOSE

The purpose of this policy is to provide for the levels of reserves and reserve funds as well as provide for transfer from reserves to/from reserve funds.

2. LEGISLATIVE AUTHORITY

Section 417 (1) 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 authority to spend money. Further, section 417 (4) states that a municipality may by by-law provide that the money raised for a reserve fund established under subsection (1) may be spent, pledged or applied to a purpose other than that for which the fund was established.

Section 289 (4) (f) states that in preparing the budget for a year the municipality may provide for such reserve funds as the municipality considers necessary.

3. DEFINITIONS

"Capital Project" means any undertaking in respect of which an expenditure is incurred to acquire, improve and maintain land, buildings, engineering structures, machinery and equipment, and is the level at which Council approves funding and funds control in the capital budget.

"Discretionary Reserve Funds" means reserve funds created at the discretion of Council pursuant to section 417 of the *Act* whenever revenues are earmarked to finance future expenditures for which it has the authority to spend money, and physically set aside a certain portion of any year's revenues so that the funds are available as required.

"Obligatory Reserve Funds" means reserve funds created whenever a statute requires revenue received for a special purpose to be segregated from the general revenues of the municipality.

"Reserve" means an appropriation from net revenue 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.

"Reserve Funds" means a fund that is segregated and restricted to meet a specified purpose.

4. ESTABLISHMENT OF RESERVES AND RESERVE FUNDS

Council, on the recommendation of the Chief Administrative Officer (C.A.O.) and the Treasurer, may establish a Reserve or Reserve Fund. A report which recommends the establishment of a Reserve or Reserve Fund must include the following;

- i. statement of purpose;
- ii. designation of the beneficiary program or department area;
- iii. rationale for the appropriate level to be maintained in the Reserve or Reserve Fund, as appropriate;
- iv. initial contribution, if any;
- v. contribution policy;
- vi. withdrawal policy; and
- vii. the review cycle which would provide the necessary periodic review to ensure a suitable level of funds, the appropriateness of the Reserve or Reserve Fund, and the conditions, if any, on which the Reserve or Reserve Fund may be closed.

5. USE AND ADMINISTRATION OF RESERVES AND RESERVE FUNDS

The Treasurer shall, as part of the annual budget process report to Council on inflows and outflows from each Reserve and Reserve Fund. In conjunction with the Chief Administrative Officer and subject to compliance with any legislative restrictions, the Treasurer shall determine:

- i. if the use of a Reserve or Reserve Fund is an appropriate funding source for a program in the operating budget or a Capital project in the capital budget; or
- ii. if funds should be contributed to a Reserve or Reserve Fund and, if so, the source of those funds.

If funds are withdrawn from a Reserve or Reserve Fund for the purposes of a specific program or capital project and it is subsequently determined that the funds are not necessary, in whole or in part, any unused funds shall be returned to the Reserve or Reserve Fund from which they were withdrawn.

Proceeds from the sale of capital vehicles and equipment shall be deposited to the credit of the applicable replacement reserve.

6. RESERVES

The Reserves listed in Column I of Schedule "A" are the Reserves into which monies shall be allocated by Council and shall be used for the purpose(s) set out in Column II of Schedule "A". Council may, by a duly adopted resolution, allocate funds from one Reserve to another Reserve or Reserve Fund.

7. RESERVE FUNDS

The Reserve Funds listed in Column I of Schedule "B" are the Reserve Funds into which monies shall be allocated by Council and shall be used for the purpose(s) set out in Column II of Schedule "B". Council may, by a duly adopted resolution, allocate funds from one Reserve Fund to another Reserve Fund or Reserve.

8. INTEREST EARNED ON RESERVES AND RESERVE FUNDS

The interest earned by a Reserve shall be reported as operating fund revenues. The interest earned by a Reserve Fund shall be credited to the balance of that Reserve Fund.

9. CLOSING RESERVES AND RESERVE FUNDS

If the purpose for which the Reserve or Reserve Fund was created have been accomplished and the Reserve or Reserve Fund is determined to be no longer necessary, the Treasurer, in consultation with the Chief Administrative Officer, shall report to Council with recommendations on;

- i. the closure of the Reserve or Reserve Fund account; and
- ii. the disposition of any remaining funds.

10. RESERVE AND RESERVE FUND LEVELS

As part of this policy, recommended Reserve and Reserve Fund balances are detailed. These levels may be subject to change based on a duly adopted resolution by Council. These minimum levels are included in column III of Schedule "A" and Schedule "B".

The date that this policy is approved by Council may see some reserve levels not meeting the minimum levels. A budgetary plan or forecast will need to be developed to bring the Reserve and/or Reserve Fund balances to the minimum levels stated in the schedules attached to this policy.

**“SCHEDULE “A”
RESERVES**

COLUMN I	COLUMN II	COLUMN III
Working Fund Reserve	Provides funding to offset extraordinary and unforeseen expenditure requirements, one-time expenditures, and shortfalls, to minimize fluctuations on the general tax levy and to manage cash flows.	Recommended minimum level of funding at 75% of the amount of current year's taxes receivable. Reviewed annually as part of budget process.
Benefits Contingency Reserve (WSIB)	Established as a result of transferring to Schedule 2 (self funded) employer, to protect against large claims and/or premium fluctuations.	Maintain at existing level.
Insurance Claims Reserve	Established for small insurance claims under deductible amount.	Recommended minimum level of funding at 1 times our deductible amount.
OPP Contract Stabilization Reserve	Provides funding to minimize the impact of contract renewal costs. Established from previous year credit.	Recommended minimum level of funding at 1% of the general levy.
Winter Control Stabilization Reserve	Provides funding for excess winter maintenance in any given year. Established from positive year end variances in the winter control budget, if any.	Recommended minimum level of funding at 20% of the five (5) year average actual expenditures for Winter Control.
Capital Replacement Reserves	Provides funding for the future replacement of municipal capital assets.	Recommended phase-in funding approach based on amortization levels, working towards lifecycle replacement sustainability. Annual contribution dependent on budget pressures, with a minimum contribution equal to previous year.
Department specific reserves	Provides for assistance with future projects and/or budget pressures. Established as a result of prior year surpluses and/or deferred projects from a previous year.	No recommended minimum balance. Based on Council's discretion.
Rodeo Reserve	Provides for future rodeo event shortfalls. Established as a result of prior year surpluses from event.	No recommended minimum balance.
SH Early Childhood Learning Centre	To provide for books, computer software and other equipment for the London Bridge Childcare services. Established from donations.	No recommended minimum balance.

Green Initiatives	To support green initiatives. Established per Res #CW51-2014. Adopted by Council July 7/14.	No recommended minimum balance
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SCHEDULE "B"
RESERVE FUNDS

COLUMN I	COLUMN II	COLUMN III
Dashwood Community Development Fund (DCDF)	Established from proceeds from sale of hydro. Expenditures determined by DCDF committee	No recommended minimum balance.
Exeter Community Development Fund (ECDF)	Established from proceeds from Exeter PUC. By-law established for management of proceeds.	No recommended minimum balance.
Webber Pit Reserves	Established for the rehabilitation of the Webber Pit.	No recommended minimum balance.
Exeter Cemetery Expansion	Established by by-law 40-1981 for cemetery expansion. Bylaws 14-1997 and 39-1999 set parameters.	No recommended minimum balance.
Kirkton Woodham Pool	Joint with Perth South. Use of funds requires agreement of both municipalities.	No recommended minimum balance.
Landfill Perpetual Care Fund	Established for the perpetual care of South Huron Landfills.	Annual contribution based on engineer's cost recommendation. Contribution level reviewed annually based on previous year's tonnage.
Federal Gas Tax	Established with unused funds. To be used as per agreement.	No recommended minimum balance.
Development Charges	Regulated by legislation. Usage determined by development charges by-law.	No recommended minimum balance.
Parkland Reserves	Established from revenues received in lieu of parkland. Usage is regulated by Planning Act.	No recommended minimum balance.
Building Stabilization Reserve Funds <ul style="list-style-type: none"> - Revenue Stabilization - Legal/Insurance - Capital 	To ensure the sustainability for enforcement of the building code. Established from building department's equity (surplus) Established from year to date surplus by Res#063-2015.	Revenue stabilization recommend balance to support 100% of all direct & indirect costs for enforcement and administration of the Building Code and Act for 2 years. Revenue cap = \$500,000 Legal/Insurance cap = \$500,000 Capital cap = \$300,000

