



Administrative Report

Office of the Director, Financial Services/Treasurer

To: Warden MacDonald and Members of Essex County Council

From: Melissa Ryan, CPA
Director, Financial Services/Treasurer

Date: Wednesday, August 14, 2024

Subject: Proposed Reserve Management Policy

Report #: 2024-0814-FIN-R16-MR

Purpose

The purpose of this report is to establish a Reserve Management Policy for the County of Essex to provide clear guidelines for managing reserves, aiding informed decision making and ensuring long term financial stability.

Background

In accordance with Section 224 of the Municipal Act, 2001, Council is entrusted with assessing municipal policies and programs, while also upholding the financial integrity of the corporation, a responsibility addressed by the proposed Reserve Management Policy. Council approval is mandated by By-laws, and the management of reserves typically necessitates Council approval as stipulated in Section 417 of the Municipal Act, 2001 which allows for a municipality to provide for the establishment and maintenance of reserve funds for the purpose for which it has authority to spend money.

In the past, reserve related decisions within the County of Essex have relied on a corporate reserve strategy which is briefly outlined in the Capital Financial and Debt Policy (03-001) and typically communicated annually during budget deliberations.

However, during 2024 County Budget Deliberations, Council expressed the need for a more comprehensive and detailed Reserve policy. It was recognized that such a policy would provide essential guidance to ensure

informed, prudent and sustainable long-term financial decisions when approving budget allocations.

Discussion

The Municipal Act, 2001, Section 289 provides that in preparing the budget, an upper-tier municipality may provide for such reserves as the upper-tier municipality considers necessary. Establishing a Reserve Management Policy will enable the County to strategically plan for future financial needs and challenges.

Reserves and reserve funds shall be established for the following purposes:

- **To facilitate long-term financial planning:** A well-defined reserve policy will ensure that the County can plan and allocate funds efficiently over a multi-year horizon.
- **To plan for asset management and the impact and financing of major capital projects:** Properly managed reserves will provide a funding source for the renewal and replacement of infrastructure and other capital assets.
- **To provide for the cost of equipment or facility renewals and replacements:** This ensures that funds are available when critical equipment or facilities reach the end of their useful lives.
- **To smooth tax rate impacts and revenue fluctuations:** Reserves can be used to stabilize the tax rate, mitigating the impact of economic cycles and other external factors.
- **To smooth expenditures which would otherwise cause fluctuations in the operating budget:** This helps avoid sudden spikes in expenditures, ensuring a more predictable and stable financial environment.
- **To absorb the cost of one-time expenses not included in the annual budget:** This provides a buffer for unforeseen expenses that were not anticipated in the annual budgeting process.
- **To fund future obligations:** This includes setting aside funds for known future liabilities or commitments, ensuring that the County is financially prepared for these obligations.

A comprehensive Reserve Management Policy also includes guidelines for:

- The establishment and classification of reserves and reserve funds.
- Target levels for reserves and strategies for reaching and maintaining these levels.
- Regular reporting and monitoring of reserve balances and usage.

The proposed Reserve Policy (attached as **Appendix A**) aims to establish guidelines for managing financial reserves, promoting transparency, and enhancing long-term financial stability. It outlines clear objectives such as facilitating long-term financial planning across all County departments. The policy distinguishes between general Reserves and earmarked Reserve Funds, ensuring funds are managed according to legal requirements and intended purposes.

New Reserves or Reserve Funds must be approved by Council based on recommendations from the Director of Financial Services/Treasurer, ensuring alignment with County priorities and financial planning criteria. Comprehensive reporting requirements, including audited financial statements and adherence to regulatory standards, guarantee transparency in reserve management.

Regular monitoring of reserve levels against targets enables assessment of financial health, guiding prudent management decisions. Defined roles for Council, the Chief Administrative Officer, Director of Financial Services/Treasurer, and the Senior Leadership Team ensure effective governance and oversight. Provisions for flexibility in consolidating, closing, or repurposing reserves supports adaptation to changing fiscal needs and legislative requirements, ensuring efficient resource allocation.

The target amounts for reserve balances were established by referencing industry standards from the Municipal Finance Officers' Association of Ontario (MFOA), the Association of Municipalities of Ontario (AMO) and comparable municipalities in the southwest region. Additionally, we considered the County's unique long-term financial requirements. These minimum targets will be reviewed annually to ensure they remain aligned with industry norms and the County strategic plan.

The attached Appendix B, "Current Reserve and Reserve Fund Summary," provides detailed information on our reserves, including current balances, purposes, target minimums, current percentages, variances, and proposed changes from administration.

Several reserves either exceed or fall short of their target minimum balances. To align our finances with the newly established targets, administration has reviewed these reserves and identified those that are overfunded, underfunded, or no longer necessary.

The proposed adjustments include:

- Redirecting any excess Rate Stabilization Funds to Capital Reserves.
- Redirecting any excess Insurance Reserve Funds to Capital Reserves.
- Redirecting any excess W.S.I.B. Reserve Funds to Capital Reserves.
- Redirecting any excess Health Stabilization Reserve Funds to Capital Reserves.
- Amalgamating the Working Capital Reserve into the Rate Stabilization Reserve.
- Combining the EMS-Equipment, EMS-Vehicles, and EMS-Severance into a single reserve titled "EMS-Equipment & Vehicle Reserve."

If the recommendations in this report are approved, these reserve funds will be reallocated according to the proposed changes, as illustrated in Appendix C. An annual review of the target balances will occur, with a report presented to Council or details provided during budget deliberations should any additions, deletions or amalgamations be required.

Financial Implications

The adoption of this policy does not currently impose any immediate financial impact on the County. However, it is anticipated that there will be financial implications as a result of the policy. Depending on the status of the reserves in relation to their target levels, recommendations may be made to augment contributions to reserves within the operating and/or capital budgets, as outlined by the policy's provisions. Any adjustments to reserves must be authorized by Council, whether incorporated into the Annual Budget process or throughout the year by Council resolution.

Consultations

Heidi McLeod, Manager Accounting- Administration/Deputy Treasurer
County of Essex Senior Leadership Team (SLT)
Sandra Zwiers, Chief Administrative Officer (CAO)

Strategic Plan Alignment

Working as Team Essex County	Growing as Leaders in Public Service Excellence	Building a Regional Powerhouse
<ul style="list-style-type: none"> <input type="checkbox"/> Scaling Sustainable Services through Innovation <input checked="" type="checkbox"/> Focusing “Team Essex County” for Results <input type="checkbox"/> Advocating for Essex County’s Fair Share 	<ul style="list-style-type: none"> <input type="checkbox"/> Being an Employer with Impact <input type="checkbox"/> A Government Working for the People <input checked="" type="checkbox"/> Promoting Transparency and Awareness 	<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Providing Reliable Infrastructure for Partners <input type="checkbox"/> Supporting Dynamic and Thriving Communities Across the County <input type="checkbox"/> Harmonizing Action for Growth <input type="checkbox"/> Advancing Truth and Reconciliation

Recommendation

That Essex County Council approve report number 2024-0814-FIN-R16-MR, Proposed Reserve Management Policy for the County of Essex and the accompanying By-law to Adopt a Reserve Fund Policy; and,

That Essex County Council approve the transfers of funds between the reserves and amalgamate reserves as indicated in Appendix B to coincide with the result in Appendix C.

Approvals

Respectfully Submitted,

Melissa Ryan

Melissa Ryan, CPA, Director, Financial Services/Treasurer

Concurred With,

Sandra Zwiers

Sandra Zwiers, MAcc, CPA, CA, Chief Administrative Officer

Appendix	Title
A	Reserve and Reserve Fund Policy (Draft for Council)
A.1	Reserve and Reserve Fund Summary (for Policy)
B	Current Reserve and Reserve Fund Summary
C	Proposed Reserve and Reserve Fund Summary