

## County of Essex Policy and Procedures Manual

### Reserve Management Policy

<b>Policy Number:</b>	2024-020
<b>Policy Type:</b>	Corporate Policy
<b>Approval Authority:</b>	Essex County Council
<b>Office of Responsibility:</b>	Financial Services
<b>Issuance Date:</b>	2024-08-14 (Date approved/effective)
<b>Revised on Date:</b>	2024-08-14
<b>Scheduled Review Date:</b>	2028-07-17 (Review cycle is at minimum every 4 years or more frequently.)
<b>Replaces Policy:</b>	N/A

#### 1.0 Introduction

The Corporation of the County of Essex is proposing a Reserve Management Policy to ensure responsible financial management and long-term stability. This policy provides clear guidelines for managing reserves, promoting transparency and informed decision making.

#### 2.0 Scope

This policy/procedure pertains to all departments, officials, and employees of the Corporation of the County of Essex involved in the management, utilization and oversight of financial reserves. Library Services reserves are the responsibility of the Library Board and are managed by the Chief Librarian. This policy shall be applied fairly and consistently in a manner that maintains the purpose, intent and meaning of the policy.

#### 3.0 Definitions/Glossary

**“Reserve”**- An allocation of accumulated net revenue that makes no reference to any specific asset and does not require the physical segregation of money. Reserves do not earn interest on their own. Any earnings derived

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from investment of reserve monies are reported as general fund earnings. A reserve cannot have a revenue or expense of itself like a reserve fund.

**“Reserve Fund”**- Monies set aside for a specific purpose as required by provincial legislation, a municipal by-law, or agreement. The County classifies reserve funds as either Obligatory or Discretionary. Any revenue earned on the investment of such funds are reported as revenue of that reserve fund.

**“Capital Reserve”** - Reserve Funds resolved by Council to be used to fund the County’s Capital Asset Replacement Program.

**“Discretionary Reserve”** - Reserve Funds set aside for a specific purpose by Council and legislated by Municipal By-Law. If Council should decide to spend the money for purposes other than what it was originally intended for, than a new by-law must be passed (per Section 417(4) of the Municipal Act, 2001)

**“Obligatory Reserve”** - A reserve fund created when required by legislation or statute stating that revenue/(monies) received for special purposes be segregated from the general revenues of the municipality.

**“Senior Leadership Team”**- Includes the Director, Financial Services/Treasurer, Financial Services/Treasurers in each department of the County

**“Public Sector Accounting Board (PSAB)”**- Refers to the Public Sector Accounting Board, an independent board with the authority to set accounting standards for the public sector.

### 4.0 Purpose/Description

This policy establishes consistent principles, standards and guidelines for the maintenance, management and accounting of reserves and reserve funds.

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

- To facilitate long-term financial planning
- To plan for asset management and the impact of financing of major capital projects
- To provide for the planned expansion of County infrastructure
- To provide for the cost of equipment or facility replacements
- To smooth tax rate impacts and revenue fluctuations

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- To smooth expenditures which would otherwise cause fluctuations in the operating budget
- To absorb the cost of one-time expenses not included in the operating budget
- To fund future obligations

The Reserve Management Policy applies to all Reserves and Reserve Funds established by the County of Essex.

All Reserve and Reserve funds will be managed in accordance with the Municipal Act.

- Section 289 (4) (f): In preparing the budget, an upper-tier municipality may provide for such reserves as the upper-tier municipality considers necessary.
- Section 293: specifies that the Minister may make regulations requiring a municipality to establish a reserve fund designated for prescribed liabilities, defining “liabilities”, requiring a municipality to make payments into the reserve fund, prohibiting the municipality from changing the purpose for which the reserve fund is designated; and prescribing the conditions under which the municipality may change the designation of all or any part of the reserve fund, and borrow from the reserve fund.
- Section 417: allows a municipality to provide in its budget for the establishment or maintenance of a reserve fund for any purpose for which it has authority to spend money and that a municipality may, by by-law, provide that the money raised for a reserve may be spent or applied to a purpose other than for which the fund was established.

### 5.0 Policy/Procedures

In the administration of Reserves and Reserve Funds, the following principles will be followed:

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## 5.1 Establishment

Council, on recommendation of the Director, Financial Services/Treasurer, will approve the establishment of new Reserves or Reserve Funds. The following will be established:

- purpose and use
- type

interest bearing – generally for future liabilities, future development properties, emergency capital or legislated

non-interest bearing – infrastructure/equipment/building replacement, operational, and stabilization/contingency reserves

- funding sources and target funding level (if applicable)
- projected annual requirement of spending and details on replenishment

## 5.2 Consolidation/Close

If the purpose of a Reserve or Reserve Fund has been accomplished or is no longer necessary, Council, on the recommendation of the Director, Financial Services/Treasurer, will approve the closure or consolidation, and transfer of any remaining funds.

A resolution of Council will be required to close a reserve.

The by-law establishing the Reserve fund will be required to be repealed in order to close the Reserve fund.

## 5.3 Contributions, Commitments and Expenditures

Council, as a part of the annual budget approval process, approves the contributions and commitments from Reserves and Reserve Funds. If not approved through the budget, a resolution of Council is required, except for contributions such as interest, donations, or net recoveries of prior year events.

Expenditures are managed by staff within the Council-approved commitments.

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At times, change orders may be required due to uncontrollable factors; the authority to utilize Reserve or Reserve Funds beyond the council-approved commitment will be directed by the Procurement Policy.

At times, implementation does not occur as originally planned due to unexpected conditions. Solutions may vary without additional approval if they are aligned with the purpose for which the commitment was approved. Otherwise repurposing of committed funds requires the approval of Council.

Reserves or Reserve Funds cannot have a balance below zero. If this occurs the expenditure will be allocated through the applicable operating budget or contingency reserve with a report to Council identifying the implications.

### 5.4 **Lifting of Commitments**

Commitments that are not fully spent at the end of the fiscal year following the budget year of approval will be lifted (removed). If the project is not complete by the end of that year, a request will need to be brought back to Council for re-confirmation of the commitment; generally, during the annual budget process.

### 5.5 **Interest Allocation**

Interest on Reserve Fund balances will be calculated and added on an annual basis based on the interest obtained from the general operating bank account or a contractual agreement.

### 5.6 **Lending/Transferring for Other Purposes**

Inter-reserve lending (that are non legislated reserves) to cover a Reserve or Reserve Fund shortfall is permitted and encouraged to avoid external borrowing costs. Lending may only occur when an analysis of the Reserve or Reserve Fund has determined that the amount will not adversely affect the intended purpose of the Reserve or Reserve Fund. Council will approve the amount and term, and staff will apply a reasonable market rate of interest to the Reserve Fund that has provided the borrowed funds.

Applicable legislation must be followed with respect to inter-fund lending.

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Only after viable alternatives are exhausted staff may recommend repurposing of commitments. Council may, by by-law, authorize the repurposing of a Reserve or Reserve Fund be commitment to a purpose other than for which it was originally established, subject to applicable legislation.

### 5.7 Reporting

Finance staff will prepare, as a minimum, in relation to Reserve and Reserve Funds:

- Annual Audited Financial Statements and Financial Information Return (FIR) – for financial reporting purposes, reserve funds set aside by legislation, regulation, or agreement (obligatory), are reported as deferred revenue, a liability on the Consolidated Statement of Financial Position. Other reserve funds (discretionary) and reserves, are balances within the accumulated surplus.
- Annual Budget Process – includes review of current forecast of revenue and expenditures and adequacy to meet future needs.
- Other legislated reporting – as required.

### 5.8 Adequacy and Targets

Reserve and Reserve Fund levels will be monitored and reported on a regular basis, generally within the annual budget process. When inadequate balances occur, Finance staff will make recommendations to Council regarding strategies to work toward the target.

Adequacy will be assessed by reviewing actual balances versus specific targets, and reviewing various ratios.

When establishing targets, consideration will be given to the following:

- purpose of the Reserve or Reserve Fund
- predictability of revenues and volatility of expenditures
- certainty of future liability

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- economic factors (inflation, interest rates, cyclical pressures)
- industry/government/accounting standards and best-practices

### 5.9 **Operating Surplus/Deficit and Non-Recurring Revenues**

Reserves and Reserve Funds shall receive priority consideration for the distribution of surplus funds and non-recurring revenues. Unless extraordinary conditions exist or specified targets are exceeded, any annual operating surplus/deficit from an audited year-end will be transferred to/from the rate stabilization reserve.

If the transfer would result in a negative balance, an alternative will be recommended to Council, with the use of capital reserves for operational funding being least desirable.

## 6.0 **Responsibility**

### 6.1 **Council is responsible for:**

- In accordance with Municipal Act, 2001, Section 224, develop and evaluate policies, ensure that administration policies, practices and procedures and controllership policies, practices and procedures are in place and maintain the financial integrity of the municipality.
- Approve transactions to and from reserves and reserve funds through the budget process or by specific resolution (for reserves) and by-laws (for reserve funds).

### 6.2 **The Chief Administrative Officer (CAO) is responsible for:**

- Supporting the Director, Financial Services/Treasurer, in ensuring the principles and mandatory requirements contained in this policy are applied consistently across all County departments.

### 6.3 **The Director, Financial Services/Treasurer is responsible for:**

- providing recommendations for the establishment, closure, or consolidation of Reserves and Reserve Funds
- providing analysis and recommendations on the adequacy levels of Reserves and Reserve Funds

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- providing recommendations on the repurposing of commitments and transfer of funds to and from Reserve and Reserve Funds
- providing recommendations on the borrowing/lending to and from Reserve and Reserve Funds
- managing Reserves and Reserve Funds in accordance with legislation, municipal financing strategies, and approved commitments
- prudently investing Reserve and Reserve Funds per the Investment Policy, and allocate interest appropriately
- providing long range financial planning recommendations to link the capital and asset management plan with the reserve plan
- Reporting to Council the reserve balances and forecast as part of the annual budget approval process

### 6.4 **The Senior Leadership Team (SLT) is responsible for:**

- providing cost and revenue estimates to guide long-term planning and adequacy review
- consulting with the Treasurer/Finance staff regarding requests to Council to commit Reserve or Reserve Funds outside of the annual budget process
- consulting with the Treasurer/Finance staff to determine when Reserves or Reserve Funds should be created, consolidated or closed
- managing expenditures within Council-approved commitments. If change orders are required, the authority to utilize Reserve or Reserve Funds beyond the council-approved commitment, will be directed by the Procurement Policy

## 7.0 **Related Documents/Legislation**

- Capital Financing and Debt Policy (2003-001)
- Investment Policy (2003-003)



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### 8.0 Summary of Amendments

Date	Amendment(s)
2024-08-14	New Policy (update if approved by Council to include Resolution Number)

### Appendices

Appendix A- Reserve and Reserve Fund Summary