



## REPORT

**REPORT TO:** Mayor Bonnette and Members of Council

**REPORT FROM:** Wendy O'Donnell, CPA, CGA, Deputy Treasurer/Manager of Revenue and Taxation

**DATE:** June 1, 2018

**REPORT NO.:** CORPSERV-2018-0030

**RE:** General Reserve and Reserve Fund Policy

### RECOMMENDATION:

THAT Report No. CORPSERV-2018-0030 dated June 1, 2018, regarding Reserve and Reserve Fund Policy, be received;

AND FURTHER THAT Council adopt the Reserve and Reserve Fund Policy attached as Appendix A to this report;

AND FURTHER THAT Council approve combining and renaming reserves as presented in Appendix B to this report.

### BACKGROUND:

The development of financial policies is crucial to the health of the Town's financial position. The establishment of reserves and reserve funds by Council assists with long term financial stability and financial planning. In May 2012 after developing a Long Range Financial Plan, Council approved report CS-2012-0039 Reserve and Reserve Fund Policy. This policy was later amended by report CS-2014-0006 due to administrative changes as a result of the implementation of a new financial system.

In early 2018, the Town began undertaking a review of the Long Range Financial Plan (LRFP) and development of a financial planning tool that will allow the LRFP to be updated as assumptions change. The General Reserve and Reserve Fund Policy (the Policy) is being updated to reflect the objectives of the 2018 LRFP as well as align the Policy with Corporate financial strategies as they continue to evolve.

Staff has reviewed prior recommendations related to reserves and reserve funds and made adjustments where appropriate. The recommendations of this report will replace any prior recommendations related to reserves and reserve funds, contributions to those reserves and recommended balances.

## **COMMENTS:**

The General Reserve and Reserve Fund Policy (the Policy) has been attached as Appendix A for Council's consideration. While updating the Policy, staff reviewed the reserves and reserve funds to confirm whether the reserve was being used for the original intended purpose, how the reserve was being funded and if the reserve was still required.

Staff has made a recommendation to combine and rename a number of reserves as outlined in Appendix B. As part of this review, reserves have been classified into types of reserves to better define how the reserve should be used and to set targeted balances and performance indicators as identified in the LRFP. Obligatory and discretionary reserve funds are required by legislation or established through a bylaw and can only be used for a specific purpose. Capital reserves can be used to fund the capital program, both new and existing, and balances will be driven by needs identified by the Corporate Asset Management Program. As additional work is completed to finalize the infrastructure gap, amendments to the Policy and the LRFP will be presented to Council for approval. Stabilization reserves will offset unforeseen requirements and work to smooth the tax rate while operating reserves will be used to provide for potential future expenses.

The purpose of the Policy has not changed: the Town is establishing reserves and reserve funds to ensure financial stability and to plan for the future. Staff has made some changes to the Procedures section of the Policy in order to reflect current operations and recommended best practices presented in the LRFP.

- **Formation and dissolution:** This section has been updated to include information that must be provided when creating a new reserve or to closing an existing reserve.
- **Use of reserves:** This section was added to ensure transfers to and from reserves are done in accordance with this and other Town policies.
- **Reserve fund borrowing:** This section was updated to extend the term of a loan from 10 year to 20 years as recommended by the LRFP.
- **Development charges financing:** This is a new section that sets out the requirements for development charges (DC) funding and DC borrowing in accordance with the Development Charges Act (DCA).
- **Authorization:** This section has been updated to identify the Treasurer's designates and the authority they may exercise without Council approval.
- **Interest allocation:** This section was updated to allocate interest only to reserve funds and removed the allocation to reserves. Interest above the budgeted amount will now be allocated to the Contingency Reserve to address

unanticipated expenses and fluctuations in operations. The Treasurer has also been given the authority to assess the need for an allocation of interest annually and will make recommendations on the allocation as part of the LRFP review.

- **Contribution timing:** This section has been updated to reflect best practices and the recommendations of the LRFP.
- **Reporting:** This section was updated to reflect current reporting practices and Ministry of Municipal Affairs and Housing requirements.

Schedule 1 of the Policy lists the reserves and reserve funds and provides important details for the management of these reserves and reserve funds in the future. The purpose, target balance, funding source and utilization of funds have been reviewed and refined to provide clear direction on the intention and use of each reserve.

The actual contribution to the reserves will no longer be included in the Policy, but will be reported annually to Council as part of the budget process. This process will allow individual contributions to be identified and updated annually as priorities and pressures in the Town change.

#### **RELATIONSHIP TO STRATEGIC PLAN:**

This report supports the strategic objective:

Council's current "Top Eight" Priorities, 2014-2018

Financial Sustainability

Establish sustainable financing, asset management and master plans to acquire, operate, maintain, renew and replace infrastructure.

#### **FINANCIAL IMPACT:**

There is no direct financial impact associated with this report as it is to present the update to the General Reserve and Reserve Fund Policy. Financial implications of contributions to reserves and reserve funds and their utilization will be included in future budgets.

#### **CONSULTATION:**

Senior Management were consulted in the development of the policy.

#### **PUBLIC ENGAGEMENT:**

There is no public engagement impact.

**SUSTAINABILITY IMPLICATIONS:**

The Town is committed to implementing our Community Sustainability Strategy, Imagine Halton Hills. Doing so will lead to a higher quality of life.

The recommendation outlined in this report is not applicable to the Strategy's implementation.

**COMMUNICATIONS:**

There is no communications impact for this report.

**CONCLUSION:**

The establishment of reserves and reserve funds are an important part of a financial plan. Their proper management allows the Town to plan for major future expenditures, asset management, unknown liabilities, or changes in revenues or expenses. Staff will use the General Reserve and Reserve Funds Policy to guide the maintenance and management of the Town's reserves and reserve funds and ensure the future financial stability of the Town.

Reviewed and Approved by,

A handwritten signature in black ink that reads "Jane Diamanti". The signature is written in a cursive, flowing style.

Jane Diamanti, Acting CAO