

*Bylaw # 2017 – 031*

*May 2017*

***MUNICIPALITY OF  
HASTINGS  
HIGHLANDS***

*FIN-03 Finance Policy – Reserves*

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## **Municipality of Hastings Highlands**

Policy Type: **Finance**

Policy Number: **FIN-03**

Policy Title: **Reserves**

Policy Approval Date: **May 3, 2017**

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A policy to establish consistent standards and guidelines for the management of existing reserves and the establishment of new reserves for the Municipality of Hastings Highlands.

### **1.0 Purpose**

The adoption of a reserve policy is a prudent business practice that will enhance Hastings Highland's financial strength, flexibility and cash flow management.

The implementation of this policy shall be considered as a key component of the Municipality of Hastings Highlands Corporate Strategic Plan, Asset Management Plan and Long Term Financial Plan.

### **2.0 Scope**

This document will provide guidance to Council and staff. It will also be an important financial planning tool that will be utilized in coordination with the Municipality's Corporate Strategic Plan, Asset Management Plan and Long Term Financial Plan.

A reserve policy is required to establish, maintain and manage reserves that:

- Maintain and improve Hastings Highlands working capital requirements;
- Provide for future operating and capital requirements;
- Address the overall current and future initiatives of Hastings Highlands; and
- Provide for offsetting unanticipated and unbudgeted fluctuations in operating and capital activities.

### **3.0 Definitions**

"Council" means the Council for The Corporation of the Municipality of Hastings Highlands.

"Municipality" means The Corporation of the Municipality of Hastings Highlands.

“Reserve” is an allocation of accumulated net revenue. It does not require the physical segregation of money or assets as in the case of reserve funds. Reserves are established for a predetermined purpose at the discretion of Council.

“Reserve Fund” is established to account for assets that have been segregated for a specific purpose. There are two types of reserve funds; obligatory reserve funds and discretionary reserve funds.

#### **4.0 Council Responsibilities**

- 4.1 In accordance with the *Municipal Act*, 2001, Council is responsible to develop and evaluate policies, ensure that administrative policies, controllership policies, practices and procedures are in place and maintain the financial integrity of the municipality.
- 4.2 Council is responsible for establishing new reserves and reserve funds that must be approved by resolution, by-law (reserve funds) or alternatively may be established with the approval of the operating and capital budgets.
- 4.3 Council is responsible for transfers to/from reserves and reserve funds and must be approved by resolution, by-law (reserve funds) or alternatively may be established with the approval of the operating and capital budgets.

#### **5.0 Annual Funding of Reserves (From Operating Budget)**

- 5.1 Council should fund reserves annually as part of the operating budget in an effort to manage any current and future operating and capital needs.
- 5.2 **Cumulative Total Reserve Transfer** - The cumulative total of transfers from the operating budget to fund reserves should be at a minimum target level of between **8%** and **10%** of the total municipal tax levy. This should be reviewed and reported annually as part of the Municipality’s Reserves Report.
- 5.3 **Asset Management Capital Funding Program** - The asset management capital funding program is a financing tool funded by municipal tax levy revenue. Funds should be expensed annually from the operating budget and used as capital revenue to offset priority infrastructure needs expenses. This annual operating budget expense should be at a minimum target level of **\$265,000** (2017 level) and should be indexed at a minimum

level of **2%** annually. These funds will assist with providing the annual predictable funding needed to fund priority infrastructure needs.

- 5.4 **Assessment Growth** - In a year where the municipality has calculated an increase in tax levy revenue due to positive assessment growth, Council should consider transferring the additional revenue resulting from the positive assessment growth to reserves to fund future operating and capital needs.

## **6.0 Reserve Targets Schedule**

The Reserve Targets Schedule is an important component of the reserves policy as it will lay out in detail what considerations Council should make on an annual basis, in terms of the operating budget to fund select municipal reserves so that future operating and capital priority needs can be funded.

Reserves should only be used to offset one time operating and capital expenses. If Council deems it necessary to use reserves to reduce increases associated with an overall tax levy increase, they should do so with caution and keep in mind the Municipality's short and long term operating and capital infrastructure needs.

- 6.1 **Reserve for Working Capital:** This reserve should have a minimum balance that is equal to the municipality's total tax arrears outstanding in an effort to mitigate against any cash flow problems. The reserve for working capital can be used to fund both operating and capital expenditures.
- 6.2 **Reserve for Election Expense:** This reserve should be funded annually through the operating budget so that the cost of each municipal election in the given years is completely funded by this reserve.
- 6.3 **Reserve for Administration Capital Expense:** This reserve should be funded annually through the operating budget so that the municipality has funds available to expense costs associated with Council's Corporate Strategic Plan initiatives.
- 6.4 **Reserve for Equipment Replacement:** This reserve should be funded annually through the operating budget so that the municipality has funds to accommodate the vehicle/fleet replacement program. This reserve should be funded at a minimum target level of **\$225,000** (2017 level) annually and should take into consideration present market value/price to replace identified infrastructure.

- 6.5 **Reserve for Road Construction Expense:** This reserve should be funded annually through the operating budget so that the municipality has funds available to manage its annual road construction needs per its legislated road needs study and asset management plan.
- 6.6 **Reserve for Fire Capital:** This reserve should be funded annually through the operating budget so that the municipality has funds available to manage fire service needs.
- 6.7 **Reserve for Landfill Closure Expense:** This reserve should be funded annually through the operating budget so that the municipality has the funds available to manage the liability associated with its landfill sites. More specifically, expenses associated with closure and post closure liability expenses.

## **7.0 Cash-in-lieu of Parkland Reserve**

- 7.1 Cash-in-lieu of Parkland is the payment of funds equivalent to the value of the amount of land that the municipality would otherwise have been entitled to require to be conveyed for park purposes as part of consent. The payment of cash-in-lieu is usually required as a condition of consent approval and is assessed as the value of the land the day before the municipality grants approval for the consent, as specified in the *Planning Act*.
- 7.2 Cash-in-lieu shall only be used for eligible projects permitted by the *Planning Act*
- 7.3 This reserve shall be used to fund the acquisition of lands to be used for park or other public recreational purposes, including the erection or repair of buildings or other structures thereon, or for the maintenance of lands, buildings or structures used for park or other public recreational purposes, including the acquisition of machinery and equipment required for such maintenance.
- 7.4 Council is responsible for transfers to/from this reserve and must be approved by resolution, by-law or alternatively may be established with the approval of the operating and capital budgets.

## **8.0 Allocation of Operating Surplus / Deficit**

- 8.1 **Operating Budget Surplus** - Any audited year-end general levy budget surplus be allocated to the municipality's reserve for working capital.
- 8.2 **Operating Budget Deficit** - Any audited year-end general levy budget deficit be funded by the following fiscal years general levy budget as per Section 290 (4) (c) of the *Municipal Act*, 2001.

## **9.0 Annual Reporting**

Reporting of reserves and reserve funds will occur to Council through the following processes:

1. As part of the annual budget process, Council will be provided with an updated schedule showing the previous year's budget to actual transfers to/from municipal reserves and forecasted year end reserve balances.
2. A reserves schedule will be included as part of budget to actual reports to Council.
3. Year-end audit and financial statements. Balances of both reserves, both reserves and reserve funds will be presented with note disclosure and comparative figures as required to meet Public Sector Accounting Board (PSAB) reporting standards.