Policy AF016
Reserves and Reserve Funds
Topic: Administration & Finance
Lead Division: Finance
Next Scheduled Review: 2031

Policy Statement

1. The City recognizes reserves and reserve funds as critical financial planning tools that support long-term sustainability, asset management, financial flexibility, and risk mitigation.

Purpose

2. The purpose of this policy is to establish the objectives of reserves and reserve funds, set the standard of care, and define responsibilities for their management and administration.

Scope

3. This policy applies to all reserves and reserve funds, including those held in trust by the City of Owen Sound.

Definitions

4. For the purposes of this policy,

“Aggregate capital spending” means the total annual investment made toward capital infrastructure and asset replacement, including contributions from taxation to capital, contributions to capital reserves and reserve funds and debt financing payments;

“Asset management plan” means a strategic document that identifies the City’s infrastructure assets, their condition, expected lifecycle, replacement needs, levels of service, and long-term financial requirements in order to support sustainable infrastructure planning and decision-making;

“City” means the City of Owen Sound;

“Debt” means any obligation for the payment of money. For Ontario municipalities, debt would either normally consist of debentures as well as notes or cash from financial institutions, but may also include loans from reserves;

“Development charges” means charges imposed on land to fund, in whole or in part, the increased capital costs required to meet the additional need for municipal services arising from development in the area in which the land is located;

"Lifecycle replacement" means the planned rehabilitation, renewal, or replacement of an asset over the course of its useful life to maintain service levels, manage risk, and extend asset functionality;

"Obligatory reserve fund" means a reserve fund required by legislation, regulation, agreement, or external funding requirement and restricted to prescribed purposes;

"PSAB" means Public Sector Accounting Board, an independent board with the authority to set accounting standards for the public sector;

"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, as in the case of a reserve fund;

"Reserve fund" means funds set aside for a specific future purpose, generally related to major capital replacement, rehabilitation, or long-term liabilities. Reserve funds may be either discretionary or obligatory and are segregated from general operating funds;

"Target balance" means the desired funding level established for a reserve or reserve fund based on its intended purpose, associated risks, anticipated future obligations, and long-term financial planning objectives; and

"Working capital" means the City's available short-term financial resources used to support day-to-day operations, cash flow requirements, and operational liquidity.

Policy

Objectives

5. Reserves and Reserve Funds are key elements of the City's long-term fiscal strategy. The primary objectives for reserve funds are to:

   a. maintain financial stability and flexibility;

   b. provide for major capital expenditures and lifecycle replacement;

   c. reduce reliance on debt and taxation volatility;

   d. support long-term asset management planning;

   e. provide funding for contingencies and unforeseen events; and

   f. ensure funds generated for a specific purpose are used in alignment with Council's intent.

Council approval

6. All contributions to and withdrawals from reserves and reserve funds shall be approved by Council, normally through the annual budget process or annual year-end reporting process, unless otherwise permitted by legislation, agreement, or another approved policy.

Reserve Structure

7. The City may maintain the following reserve categories:
   a. Operating Reserves;
   b. Capital Reserves;
   c. Discretionary Reserve Funds; and
   d. Obligatory Reserve Funds.
8. Discretionary reserve funds and obligatory reserve funds will:
   a. maintain separate bank or investment accounts;
   b. be interest-bearing; and
   c. retain investment income within the applicable reserve fund.
9. Discretionary reserves will:
   a. be maintained in the City's general operating bank account; and
   b. not receive direct allocation of investment earnings, with related interest recorded in the operating fund.

Major capital expenditures

10. To support major capital expenditures and asset replacement, the City will maintain reserves and reserve funds aligned with lifecycle replacement requirements and the City's Asset Management Plan.
11. Where practical:
    a. contributions toward asset replacement shall begin in the fiscal year an asset is acquired or placed into service;
    b. replacement funding targets will consider estimated useful life, replacement cost, condition assessments, and risk;
    c. reserve and reserve fund balances will be reviewed regularly for adequacy; and
    d. funding strategies may include tax levy contributions, user fees, grants, development contributions, investment income, and proceeds from asset sales.

12. The operating budget will include annual contributions toward infrastructure and asset replacement based on Council's approved financial strategy and multi-year capital plan.

Surplus and deficit

13. Unless otherwise directed by Council:

    a. year-end tax-supported operating surplus will first be allocated to the Tax Stabilization Reserve until the established target balance is achieved;

    b. any remaining surplus may be allocated to capital reserves or reserve funds based on Council priorities;

    c. year-end water and wastewater surpluses or deficits will be allocated to the applicable rate-supported reserve fund; and

    d. annual surpluses generated by Building Inspection revenues will be transferred to the Building Inspection Obligatory Reserve fund. Likewise, any deficit incurred by the Building Inspection services will be funded by the reserve unless the balance of the fund is nil, in which case the deficit will be applied to the general operating surplus.

Standard of care

14. Reserves and reserve funds are important financial assets of the corporation and will be managed in accordance with prudent financial practices.

Delegation of Authority

15. The Director of Corporate Services will retain the overall authority for establishing and managing reserves and reserve funds.

Management Practices

16. Management Practices shall include:

    a. establishing and reviewing target balances;

    b. aligning reserve strategies with long-term financial and asset management plans;

    c. monitoring reserve adequacy and sustainability;

    d. ensuring reserve usage aligns with Council-approved purposes; and

    e. investing reserve funds in accordance with the City's investment practices and legislative requirements.

Reporting Requirements

17. The Director of Corporate Services will prepare or delegate the preparation of the following reports:

    a. annual audited financial statements;

    b. annual reserve and reserve fund continuity schedules;

    c. annual reporting to Council on reserve and reserve fund balances, transfers, and activity as part of the year-end financial reporting process; and

    d. reserve-funded asset replacement forecasts or schedules where applicable.

Policy review

18. The Director of Corporate Services will review this policy:

    a. every five (5) years to ensure effectiveness and compliance with current business processes; or

    a. sooner, if required, based on legislative changes.

19. The Director of Corporate Services is authorized to make such administrative changes to this policy as appropriate to keep the policy current. Any revision to the policy's intent must be presented to Council for consideration.

Related Information and Resources

Internal

20. Capital Budget Policy AF006

External

21. *Municipal Act, 2001*, S.O. 2001, c. 25

Appendices

22. Appendix A – Reserves, Discretionary Reserve Funds and Statutory Reserves

Revision History

Authority	Date	Approval	Description of Amendment
Council	Click or tap to enter a date.	By-law No.	New; Formerly Policy No. FS22
Choose an item.	Click or tap to enter a date.	Choose an item.	