

<b>Policy Title:</b> _____ <b>Reserve Fund Policy</b> [Insert policy title here]	<b>Number: 0000-00</b>
<b>Approval Date:</b>	<b>Revision Date:</b>
<b>Related Legislation:</b> <i>Municipalities Act</i> , RSPEI 1988, c M-13, Sec. 45 <b>Related Bylaw:</b> [Insert name of reserve fund bylaw here]	

**Note:** a separate policy document should be developed to correspond with each distinct reserve fund established by Council. This policy is an example only. However, the sections from “Policy Statement” to “Reporting”, inclusive, may remain the same for most reserve fund policies. Other sections of this policy will require modifications to make the intent of the policy more specific with respect to the management and administration of a particular reserve fund.

## PART I – INTERPRETATION AND APPLICATION

### 1.0 POLICY STATEMENT:

- 1.1 This policy is intended to govern the use and management of the \_\_\_\_\_ Reserve Fund [insert name of fund] for the City/Town/Community of \_\_\_\_\_. Council approval is required for any transactions outside of the approved budget that impact this fund.
- 1.2 The \_\_\_\_\_ Reserve Fund [insert name of fund] is established by Council, by bylaw. Any change to the name, purpose, criteria and conditions or the closure of this reserve fund requires an amendment to the Reserve Fund Bylaw. In addition, any changes to this established policy require the approval of Council.

### 2.0 AUTHORITY

- 2.1 Section 45.(1) of the *Municipalities Act*, RSPEI 1988, c M-13, enables Municipal Councils to establish, by bylaw, one or more reserve funds in the name of the municipality for any municipal purpose.

### 3.0 APPLICATION:

- 3.1 This policy applies to all council members and employees of the City/Town/Community of \_\_\_\_\_ who are responsible for the creation, control, administration and management of reserve funds established by a municipal council.

#### **4.0 DEFINITIONS:**

Reserve Fund: A “Reserve Fund” is a fund established by bylaw that is restricted to meet a specific purpose. A reserve fund is segregated from the general assets of the municipality and, as such, is placed in a separate bank account with all/any interest earned added to the reserve fund.

#### **5.0 PRINCIPLES:**

5.1 This policy is informed by the following guiding principles:

- Reserve Funds are important long term financial planning tools;
- Reserve Funds must be used to promote sound fiscal stewardship and management;
- Reserve funds provide resources for balancing the use of long-term debt to provide for reoccurring or anticipated expenditures, such as capital projects, elections, insurance payments, legal expenses or operating contingencies;
- Reserve Funds are intended to maintain a prudent level of financial resources to protect against the need to reduce service levels or raise taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures.

#### **6.0 PURPOSE:**

6.1 This policy establishes the objectives for the \_\_\_\_\_ Reserve Fund [insert name of fund] and delineates responsibilities for its management and administration.

#### **7.0 OBJECTIVE:**

7.1 The primary objective of this Reserve Fund Policy is to ensure that funds are set aside to support the long term goals of the municipality and will be available, when needed, to fund \_\_\_\_\_ [identify expenditure for which the reserve fund is being established].

#### **8.0 RESPONSIBILITIES:**

8.1 Money set aside in the \_\_\_\_\_ Reserve Fund [insert name of fund] must only be authorized by Council for the purposes identified in the Reserve Fund Bylaw and as authorized by this policy.

8.2 Council approval is required for any transactions outside of the approved budget as well as any changes to either Reserve Fund Bylaw established by Council or this policy.

8.3 The Chief Administrative Officer (CAO) will administer and monitor all transactions involving reserve funds.

## 9.0 REPORTING:

9.1 The CAO must prepare and present a report to Council on or before \_\_\_\_\_ 20\_\_ [insert date] each year that contains the following information:

- The uncommitted balance of the reserve fund;
- A summary of activity on the reserve fund;
- All commitments made against the balance of the reserve fund for the period covered by the statement.

9.2 Any balances, projected contributions, planned expenditure, withdrawals, and closures related to the \_\_\_\_\_ [insert name of fund here] must be presented with the annual budget and in the year-end financial statements.

A council may desire or require that reserve fund activity be reported on more frequently than once a year and may establish an alternate fund reporting schedule.

## PART II - CRITERIA AND CONDITIONS

### 10.0 ESTABLISHMENT OF FUND:

10.1 The \_\_\_\_\_ Reserve Fund [insert name of fund] is established to support long-term financial stability and flexibility for the municipality.

10.2 The \_\_\_\_\_ Reserve Fund established by Council is made in accordance with Section 45 of the *Municipalities Act* as well as the financial plan for the municipality and pursuant to the Reserve Fund Bylaw.

A reserve fund can be established by council for situations such as the following applies:

- A mandatory obligation exists, either pursuant to legislation or contract
- The funds are intended for purchasing or maintaining capital assets
- The funds are donated for a specific purpose
- The funds are intended to fund a future liability
- The funds are intended to offset a repeating cyclical expenditure such as an election

**Note:** Each reserve fund policy established by council must describe the following:

- The specific purpose of the reserve fund
- The application of the reserve fund
- The approval process for the reserve fund
- The rate of contribution to the reserve funds
- The duration of the reserve fund (if a defined timeframe is applicable)

### **11.0 PURPOSE AND APPLICATION:**

11.1 The purpose of the \_\_\_\_\_ Reserve Fund [insert fund name here] is to \_\_\_\_\_ [describe the purpose of the reserve fund].

11.2 The \_\_\_\_\_ Reserve Fund [insert fund name here] is established to \_\_\_\_\_ (insert details regarding how the fund will be used).

### **12.0 APPROVAL**

12.1 All transactions, redesignations, and revisions to the \_\_\_\_\_ Reserve Fund [insert name of fund] must be approved by Council:

- As part of the annual budget approval; or
- By specific resolution at a duly constituted meeting of Council

### **13.0 CONTRIBUTIONS:**

13.1 The \_\_\_\_\_ Reserve Fund [insert name here] is funded by \_\_\_\_\_ [insert internal/external funding source].

#### **Reserve Fund Funding Sources**

Reserve funds can be funded from internal or external sources such as the following:

- Approved contributions identified in the 5-year capital plan
- Approved contributions identified in the annual budget
- Carryover of current year's budget funds which were approved for a specific purpose but were not expended during the year
- Annual surplus contributions
- Unrestricted government grants
- Donations
- Other approved sources of internal/external revenue [funding sources should be identified in the policy]

13.2 The \_\_\_\_\_ Reserve Fund [insert name here] will be funded at the following rate:  
\_\_\_\_\_ [insert rate of contribution here].

#### **Rate of Contribution**

The rate of contribution for a reserve fund must be determined by council as a result of assessment and analysis of the predictability of revenues and expenses, current and future financial obligations and objectives, financial capacity and availability of financial resources. Contributions to a reserve fund may be made at varying rates including, but not limited to, the following:

- \$XXX from approved contributions identified in the annual budget (capital and operating)
- \$XXX from annual budget surpluses
- \$XXX from through unbudgeted revenues
- \$XXX when budgets permits
- \$XXX per year until desired fund target is achieved

#### **14.0 DURATION:**

14.1 Contributions will be made to the \_\_\_\_\_ Reserve Fund [insert name of fund] until \_\_\_\_\_ [define timeframe if applicable, as the duration of a reserve fund can be either for a finite period of time or ongoing]

#### **15.0 CALCULATION OF TARGET LEVELS:**

15.1 The \_\_\_\_\_ Reserve Fund [insert name of fund] target level is calculated to be \_\_\_\_\_ [identify a target level if one has been determined by council].

#### **Calculation of Target Levels**

The calculation of target levels is specific to each reserve fund. However, in calculating the target level for a specific reserve fund, consideration should be given to the following:

- The purpose of the fund (i.e., capital or operating)
- Certainty of need (i.e., for long term asset replacement or for contingent liability)
- Economic factors (i.e., inflation, interest rates, cyclical pressures)
- Government/Industry accounting standards (i.e., PSAB, GFOA, etc.)
- Multi-year forecast (i.e., Capital Asset Plan or other anticipated financial commitments for the future)

**EXAMPLE: ELECTIONS RESERVE FUND**

<b>Name</b>	Election Expenditures Reserve
<b>Purpose</b>	To provide for the costs associated with conducting municipal elections
<b>Application</b>	Funds will be used to defray municipal election expenditures
<b>Approval</b>	Contributions will be funded from the annual operating budget
<b>Contribution Rate</b>	Annual rate of contribution will be \$XXX/per year equal to 1/4 of election costs  There will also be annual contribution of \$XXX per/year for by-elections.
<b>Duration</b>	Ongoing

**16.0 FUND EXPENDITURES, WITHDRAWALS AND CLOSURES:**

- 16.1 Money in the \_\_\_\_\_ Reserve Fund [insert name of fund], and interest earned on it, must be used for the purpose for which the fund was established except where the transfer of money from one reserve fund to another is authorized by Council.
- 16.2 Money deposited into the \_\_\_\_\_ Reserve Fund [insert name of fund] must remain in the reserve fund until such time as Council determines that a particular reserve fund is no longer required or deems it appropriate that money set aside in the reserve fund ought to be used for an alternate purpose.
- 16.3 All expenditures from the \_\_\_\_\_ Reserve Fund [insert name of fund] up to the limit approved by Council must be administered, monitored, and reported on by the Chief Administrative Officer (CAO) in accordance with Section 9 of this policy.
- 16.4 Any withdrawal from the \_\_\_\_\_ Reserve Fund [insert name of fund] must be approved by Council either generally as part of the annual budget approval process or specifically, by resolution, at a duly constituted meeting of Council.
- 16.5 A withdrawal from the \_\_\_\_\_ Reserve Fund [insert name of fund] must be approved by council in accordance with the Reserve Fund Bylaw and keeping with the conditions and criteria of this policy. Specifically, \_\_\_\_\_ [insert specific condition that allows for withdrawal from the fund (i.e, withdrawal is in keeping with the 5-yr capital plan, an official plan and land use planning bylaws, the need to access funds to respond to an unplanned expense or emergency, etc.)
- 16.6 Funds may be transferred to, and from, the \_\_\_\_\_ Reserve Fund [insert name of fund] if monies in the fund are not needed for some immediate purpose. Any transfer

to, or from, each reserve fund must not adversely affect the intended purpose of the reserve.

- 16.7 Any transfer to, or from, the \_\_\_\_\_ Reserve Fund [insert name of fund] must be made in accordance with the Reserve Fund Bylaw.

#### **Transfers between Reserve Funds**

Transfers to and from reserve funds are permitted under the following conditions:

- A council may direct that surplus money be placed in a reserve fund if the actual operating revenue exceeded actual operating expenditures in the preceding year
- An operating budget or capital budget may allow for the transfer of money from a reserve fund for the purpose for which it was established
- Council may, by resolution, transfer money from a reserve fund for a purpose other than that for which it was established pursuant to the Reserve Fund Bylaw

- 16.8 A plan to repay the \_\_\_\_\_ Reserve Fund [insert name of fund] must be established and documented within a reasonable timeframe.

- 16.9 If the purpose for which the \_\_\_\_\_ Reserve Fund [insert name of fund] fund was created has been accomplished and Council determines that the reserve fund is no longer necessary, Council must, by resolution, close the reserve fund and amend Schedule "A" of the Reserve Fund Bylaw to reflect the date on which the fund was closed.

- 16.10 Council will document the closure of the \_\_\_\_\_ Reserve Fund [insert name of fund] in column 2 of Schedule "A" of the Reserve Fund Bylaw.

Schedule "A" of the Reserve Fund Bylaw is considered to be part of the bylaw and may only be altered by amendment of the bylaw.