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**Subject: Reserve and Reserve Fund Framework Policy**

**Department: Corporate Services**

**Division: Finance**

**Report #: CPS-2024-061**

**Meeting Date: 2024-10-07**

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### **Recommendations**

**That report CPS-2024-061, Reserve and Reserve Fund Framework Policy, be received; and**

**That Council approve the Reserve and Reserve Fund Policy.**

### **Overview**

Staff have been working on the chapters of the Long-term Integrated Financial Plan. Chapter 3 is the Reserve and Reserve Fund Framework for the Town. Staff have developed a new policy for Council's approval that will establish principles and guidelines over the governance of the Town's reserves and reserve funds including objectives, funding sources, use(s) and targets for each reserve and reserve fund.

### **Background**

As part of the Long-term Integrated Financial Plan, staff have drafted a Reserve and Reserve Fund Framework Policy for Council's review and approval.

Reserves are defined as funds set aside by Council resolution or by-law, but not allocated for an intended purpose. They are considered an allocation of accumulated municipal surplus (i.e. General Capital Reserve).

Reserve Funds are defined as funds set aside based on statutory requirement or defined liability payable in the future. They are prescriptive as to the basis of collection and use of monies in the fund. Reserve Funds are further broken down into Obligatory Reserve Funds and Discretionary Reserve Funds. Obligatory Reserve Funds are externally restricted and are created by statute or regulation that requires the segregation of funds (i.e. grant funding). Discretionary Reserve Funds are internally restricted and are established by Council when they wish to set aside revenue to finance a future expenditure or to provide for a specific contingency liability based on a financing plan (e.g. Community Improvement Plan Reserve Fund).

## **Analysis/Current Situation**

Currently, the Town of Orangeville has 65 reserves and reserve funds, many of which have not been utilized in several years. The Town does not have a policy in place that dictates how each of those funds can be spent, unless they are statutorily required. There is currently no set targets and limited long-term financial planning for the management of reserves and reserve funds.

Over the last few months, Finance staff have worked on developing a reserve and reserve fund framework policy that would establish governance parameters over the objectives, sources, use(s) and targets for each reserve and reserve fund. The process consisted of five steps.

### Step 1 – Consolidation of related Reserves and Reserve Funds

Staff reviewed the current list of 65 Town reserves and reserve funds and propose to consolidate them based on needs and intended uses, leading to a more manageable number of 42 reserves and reserve funds for the Town.

In some cases, a reserve or reserve fund that is proposed to be consolidated was created for a singular project-related purpose. For example, a Treasury Software Reserve Fund was to be utilized towards the Town's Financial Systems. These singular purpose reserves or reserve funds are proposed to be rolled into a reserve that could serve multiple project-related purposes, such as the General Capital Reserve.

Additionally, there were reserves or reserve funds that served a similar purpose. For example, Fire currently has a fleet and an equipment reserve. Staff propose to consolidate these two reserves into one that could be used towards both purposes, depending on the needs at that time.

Lastly, staff propose to reallocate unused balances of reserves and reserve funds that the Town no longer requires. An example of this is the Concessions Reserve which will be reallocated to the Parks and Recreation Reserve.

### Step 2 - Reclassification of Reserves and Reserve Funds

Some of the Town's reserves and reserve funds classifications did not follow the definition of a reserve or reserve fund. For example, the General Capital Reserve was classified as a "Reserve Fund", however, it is funded mostly through operating surpluses and serves a broader purpose to be used towards many types of capital projects. As such, it fits under the definition of a "Reserve".

As a result of this classification review, staff propose to create three sub-categories of Reserves: Stabilization, Capital, and Cash Flow. Stabilization Reserves serve to mitigate operating impacts (e.g. Tax Rate Stabilization Reserve, Water Rate Stabilization Reserve, Insurance Reserve). Capital Reserves are those that provide a source of funding for capital projects (e.g. General Capital Reserve, Water Capital

Reserve, Parks and Recreation Capital Reserve). Cash Flow Reserves are those that will provide the Town with flexibility to deal with fluctuating cash flows (e.g. Working Funds Reserve).

### Step 3 - Creation of Profiles for each Reserve and Reserve Fund

In the Policy document, Schedule “A” details the profile of each reserve and reserve fund. Staff have outlined the objective, source, eligibility criteria and funding target for each reserve. The objective will outline the purpose of the reserve or reserve fund. The source will outline how the reserve or reserve fund is to be funded (i.e. surplus, grants, contributions). The eligibility criteria will outline what is eligible to be funded by the reserve or reserve fund (e.g. water infrastructure). Lastly, the funding target will outline what the minimum contribution or target balance should be or its relation to other Town plans/studies.

### Step 4 - Determine Interest Allocations

It is a common misconception that only reserve funds can earn interest income. Upon investigation, staff have determined that reserves can also earn interest if specified by Council. Therefore, staff have included all reserves and reserve funds in the consideration of which ones will earn interest.

Interest income is a way to combat the pressure of inflationary increases. The reserves and reserve funds that were identified as those that would earned interest were based on if they met one of the following criteria:

1. Required by statute, such as Development Charge Reserve Funds
2. Used for Capital purposes - due to anticipated inflationary increases on Capital Projects
3. Intended to be used for future operating purposes

Most stabilization reserves were not identified as those that would earn interest as these Reserves would be topped up first as part of a surplus distribution policy that staff will be bringing to Council at a future date. This is a consistent approach that other municipalities take.

### Step 5 - Corporate Policy

Using the analysis undertaken in Steps 1 to 4, staff have developed a Corporate Policy for Reserves and Reserve Funds. The Policy sets out clear definitions of what is considered a reserve or reserve fund, and the governance framework for the management of the Town’s reserves and reserve funds. The Policy is attached to this report for Council’s review and approval.

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## Corporate Implications

As Finance staff work through the Long-term integrated Financial Plan, the Reserve and Reserve Fund Framework will be incorporated into other chapters of the Financial Plan.

Appendix A to this report provides a Funding Target for each reserve or reserve fund and compares this target to either the current balance of the reserve or reserve fund at December 31, 2023 or to the reserve or reserve fund contribution approved through the 2024 Budget, as appropriate. Staff have identified an annual funding gap of approximately \$6.3 million for reserves with contribution targets. For reserves with a balance target, staff estimate the balance shortfall to be in the range of \$2.9 million.

During 2025, staff will work on developing funding strategies to meet targets for Capital Reserves and Stabilization Reserves outlined in Schedule "A" of the Reserve and Reserve Fund Framework. Additionally, a number of plans and policy updates that impact reserve funds are underway, such as the Development Charge background study and the Water and Wastewater Financing Plan. Once these updates are completed, targets are anticipated to be updated accordingly and presented to Council for approval in 2025 in advance of the 2026 budget process.

## Conclusion

Council's approval of the Reserve and Reserve Fund Framework Policy is one chapter of a financial strategy completed that will ensure that the Town of Orangeville is on its way to being financially sustainable and flexible in the longer term.

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## Strategic Alignment

### Strategic Plan

Strategic Goal: Future-Readiness

Objective: SUSTAINABILITY – Secure the financial viability of the municipality

### Sustainable Neighbourhood Action Plan

Theme: Corporate and Fiscal

Strategy: Creating and integrating sustainability principles into Town policies, processes and practices

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## Notice Provisions

Not Applicable

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Respectfully submitted,

Antonietta Minichillo, MES  
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**Attachment(s):**

1. Appendix A: Targets vs. Current Levels
2. Reserve and Reserve Fund Framework Policy