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| **Policy Title:** Reserve Fund Policy | **Number:** 0000-00 |
| **Approval Date:** | **Revision Date:** |
| Related Legislation: *Municipal Government Act* R.S.P.E.I. 1988, Cap. M-12.1., Sec. 155.(1)  **Related Bylaw:** (Insert the name of number of your reserve fund bylaw here) | |

**Note:** A schedule to this policy should be developed to correspond with each distinct reserve fund established by Council. Alternately, Council may opt to put the details contained in this policy in the Reserve Fund Bylaw or adopt a separate policy for each reserve fund.

This policy statement may be used, with modifications, for most reserve fund policies. If Council desires, the intent of the policy can be made more specific.

Part I – Interpretation and application

1. Authority
   1. Section 155 of the *Municipal Government Act*, Chapter S.P.E.I. 2016, Cap. 44 authorizes municipal Councils to establish, by bylaw, one or more Reserve Funds in the name of the municipality for any municipal purpose.
   2. The Reserve Fund Bylaw, Bylaw XXXXXX of the City/Town/Rural Municipality of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ has established the reserve funds for the Municipality. Any change to the name, purpose, or criteria and conditions, or the closure of any reserve fund identified by Council requires an amendment to the Reserve Fund Bylaw.
2. Purpose And Use Of Policy:
   1. This policy establishes the objectives for the reserve funds for the municipality, governs the use of the reserve funds, and delineates responsibilities for their management and administration.
   2. This policy may only be amended by resolution of Council.
3. Application:
   1. This policy applies to all council members and employees of the City/Town/Rural Municipality of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_who are responsible for the creation, control, administration and management of reserve funds established by the municipal council.
4. Definitions:
   1. **Reserve Fund:** means 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, they are placed in a separate bank account with all/any interest earned added to the reserve fund.

**Note:** A single joint account for all reserve funds is acceptable, provided that the municipality is able to track the amounts allocated to each fund.

**Note:** additional definitions may be included if appropriate for the specific nature of the established reserve funds.

1. Principles:
   1. The guiding principles that inform this Reserve Fund Policy are as follows:
      1. Reserve funds support sound fiscal stewardship and management as they promote stability as well as provide flexibility with respect to municipal financial planning;
      2. Reserve funds provide resources for balancing the use of long-term debt to provide for recurring or anticipated expenditures, such as capital projects, elections, insurance payments, legal expenses or operating contingencies;
      3. Reserve funds provide resources to replace and rehabilitate major capital infrastructure assets as required;
      4. Reserve funds provide a buffer for significant unanticipated expenditures beyond the control of the municipality, protecting against the need to reduce service levels or raise taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures; and
      5. Reserve funds are a source of funding for new major capital assets identified by Council as part of the strategic financial planning process.

PART II - criteria and conditions

1. Fund Objective
   1. The primary objective of the reserve funds 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 the purposes identified in Schedule A to this policy.
   2. The reserve funds established by Council are made and administered in accordance with the *Municipal Government Act* as well as the financial plan for the municipality and pursuant to the Reserve Fund Bylaw.

**Note:** 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**: Schedule A of the policy should describe the following for each reserve fund established by council:

* The specific purpose of the reserve fund
* The application of the reserve fund (eligible expenditures)
* Funding source for each reserve fund (donations, budget, etc.)
* The rate of contribution to the reserve funds
* The duration of the reserve fund (if a defined timeframe is applicable)

1. Approval
   1. All contributions, transfers, transactions, and revisions to the reserve funds must be approved by Council:
      1. As part of the annual budgeting process; or
      2. By specific resolution at a duly constituted meeting of Council
2. Contributions
   1. Contribution sources for each reserve fund established under the Reserve Fund Bylaw shall be identified in Schedule A of this policy.

**Reserve Fund Funding Sources**

The anticipated funding sources should be identified in Schedule A. Reserve funds can be funded from one or more internal or external sources such as the following:

* Approved contributions identified in the 5-year capital plan
* Approved contributions identified in the annual operating or capital budget
* Carryover of current year's budgeted 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]
  1. Contribution rates for each reserve fund established in the Reserve Fund Bylaw will be identified in Schedule A to this policy and will be based on an assessment and analysis of the predictability of revenues and expenses, current and future financial obligations and objectives, financial capacity and availability of financial resources.

**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, one or more of 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

1. Timeframe:
   1. The timeframe for each reserve fund and the contribution period will be identified in Schedule A to this policy.
2. Calculation of target levels:
   1. The target funding level for each reserve fund will be identified in Schedule A to this policy and will be calculated based on the following principles:
      1. The purpose of the fund (i.e., capital or operating)
      2. Certainty of need (i.e., for long term asset replacement or for contingent liability)
      3. Economic factors (i.e., inflation, interest rates, cyclical pressures)
      4. Government/Industry accounting standards (i.e., PSAB, GFOA, etc.)
      5. Multi-year forecast (i.e., Capital Asset Plan or other anticipated financial commitments for the future).

**Note:** The calculation of target levels is specific to each reserve fund and would define the ideal final value of the reserve or percentage of the anticipated cost of the identified expenditure.

**EXAMPLE: ELECTIONS RESERVE FUND**

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| **Name** | Election Expenditures Reserve |
| **Purpose** | To provide for the costs associated with conducting municipal elections |
| **Application** | Funds will be used to defray municipal election expenditures |
| **Approval** | Contributions will be funded from the annual operating budget |
| **Contribution Rate** | 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. |
| **Duration** | Ongoing |

Part III – fund Expenditures, Withdrawals and Closures

1. Authorized expenditures
   1. Money in each reserve 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 bylaw in accordance with section 155 of the *Municipal Government Act*.
   2. Money allocated to each reserve fund must remain in the reserve fund until such time as Council determines that
      1. The money set aside may be expended on the established purpose;
      2. a particular reserve fund is no longer required or
      3. The transfer of the money set aside in the reserve fund to an alternate purpose is appropriate and has been authorized by bylaw.
   3. Any withdrawal from a reserve fund must be approved by Council either generally as part of the annual financial plan budgeting approval process or specifically, by resolution, at a duly constituted meeting of Council.
   4. A withdrawal from a reserve fund must approved by council in accordance with the Reserve Fund Bylaw and in keeping with the conditions and criteria of this policy.
   5. All expenditures from a reserve fund must be administered, monitored, and reported on by the Chief Administrative Officer (CAO) in accordance with Section 14 of this policy.

**Note:** refer to Part 7 of the *Municipal Government Act* for the rules regarding transferring between reserve funds or using for purposes other than that originally identified.

1. Closure of the reserve fund
   1. If the purpose for which a reserve fund was created has been accomplished and Council determines that the reserve fund is no longer necessary, Council shall:
      1. by resolution, close the reserve fund; and
      2. by bylaw, amend Schedule “A” of the Reserve Fund Bylaw to reflect the date on which the fund was closed.
2. Reporting:
   1. The CAO must prepare and present a report to Council on or before \_\_\_\_\_\_\_\_\_\_ [insert date] each year that contains the following information:
      1. The uncommitted balance of each reserve fund;
      2. A summary of activity on each reserve fund;
      3. All commitments made against the balance of each reserve fund for the period covered by the statement.
   2. Reserve fund projected contributions and planned expenditure or withdrawals must be presented in the annual financial plan. Reserve fund balances, actual contributions, expenditures or withdrawals must be presented in the year-end financial statements.

**Note:** 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.

Schedule A

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| **Fund Name**  [note – this should match the bylaw] | **Description of Purpose**  [note – this should match the bylaw] | **Eligible Expenditures and Withdrawals** | **Funding Source** | **Rate of Contribution**  [Identify annual or period amounts to be contributed] | **Target Level**  [Identify what the long term funding goal is, both in terms of how much should be maintained in the fund, as well as when contributions might cease.] | **Timeframe**  [define timeframe if applicable, as the duration of a reserve fund can be either for a finite period of time (ie until the identified project is completed) or on an ongoing basis (ie elections)]. |
| ***Election Reserve*** | *Cover cost of by-elections and general municipal elections* | *Election-related expenditures, including administrative procedures, voters lists, supplies, notice, and promotion of candidate and voter participation.* | *Annual transfer from tax revenues* | *¼ of the anticipated expenditures of a general municipal election to be contributed annually, ($XXX) as well as additional funds to cover the costs of a by-election ($)* | *$20/eligible voter* | *On-going* |
| ***Outdoor Rink*** | *Contribute to the costs associated with future outdoor rink for municipality* | *Capital costs, labour to construct* | *Annual transfer from tax revenues*  *Donations* | *$1000 / year* | *$200,000* | *Until project is completed* |
| ***Capital Expenditures*** |  |  |  |  |  |  |
| ***Etc.*** |  |  |  |  |  |  |
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