



Report to County Council

From: Jennifer Ford, Director of Finance/Treasurer

Date: July 23, 2024

Subject: County of Elgin – Reserves and Reserve Fund Policy

Recommendation(s):

THAT the report titled “County of Elgin – Reserve and Reserve Fund Policy” from the Director of Finance/Treasurer dated July 23, 2024 be received and filed, and;

THAT the Finance Policy 05-04 presented as Reserve and Reserve Fund Policy in Appendix A of the report be approved to provide guidance on the general use of the County of Elgin Reserves and Reserve Funds.

Introduction:

The County of Elgin holds many Reserve Funds for various purposes and provides explanation in detail relative to the accumulated surplus within the Balance Sheet each fiscal year. This policy is presented to outline the purpose for these reserves and the appropriate use of each reserve to clarify for the Public, Council, and Administration.

Background and Discussion:

This policy is provided to establish guiding principles, primary objectives, key criteria for administrative responsibility, and standards related to the care and management of financial Reserves and Reserve Funds held by the Corporation of the County of Elgin (County of Elgin) as it relates to:

- Establishing reserves and reserve funds for planned future capital expenditures, unexpected events or extraordinary expenditures which would otherwise cause fluctuations in the operating or capital budgets;
- Managing reserves and reserve funds in a responsible manner; and
- Utilizing reserves and reserve funds solely for their intended purpose e.g. donations.
- Outlining responsibilities of employees and Council who govern and administer public funds

Financial Implications:

A financial reserve is a provision for an amount that is designated for a future purpose that extends beyond the current fiscal year. Reserves are established for a variety of purposes:

- to ensure the ongoing financial stability of the organization;
- to protect against known risks and unforeseen events;
- to provide for life cycle replacement of County-owned capital assets;
- to meet specific obligatory liabilities;
- to smooth expenditures which would otherwise cause fluctuations in operating or capital budgets due to known increases in need;
- to provide for planned future expenditures and
- to provide a source of internal financing

Appendix I of this report includes a draft of the Reserves and Reserve Fund Policy including a list of all Reserves and Reserve Funds currently active at the County.

Summary of Appendix I

Policy Section	Overview of Section	Further Information
1.0 Purpose	Outlines primary objectives of policy formation related to financial Reserves and Reserve Funds	Formalizes Background info above into Policy
2.0 Scope		
1. Practice	Establish and maintain	segregated reserves to meet statutory obligations
2.	Managed in accordance with Municipal Act	Section 11, 290, 291, 417 (4), 418 (3 & 4)
3. Management	Reserves and Reserve Funds	
a) Establishment and modification	Needs to establish including Target balances	Best practices/Standards with reference to official Accounting bodies
b) Investment of Reserves	In accordance with Investment policy and when available	Discretionary Reserve funds may be reallocated interest when surplus is available
c) Contributions to/From Reserves	Drawdowns occur during normal budget process and contributions to at year end where surplus is available	As approved throughout the year by special report, when/if one time Prov or Fed funding becomes available and requires a County matching portion

d) Intra-fund Borrowing (principle of Self financing)	Outlines ability to borrow from Reserves to support cash flow deficiencies to avoid external borrowing costs at the opportunity loss of investment revenue	Use of Reserves to self-finance - significant capital projects can be in progress without incurring debt for short period of time
e) Termination of Reserves	Reserves and Reserve Funds change needs -	Report to Council at year end including any existing
f) Adequacy of funding	Consideration of the purpose and magnitude of future commitments	Sources of need may reference studies, Strategic and Master Planning information
g) Reserve funding Philosophy and targets	Outline of Use of Surplus/Deficit funds at year end by type of reserve	Details of philosophy to fund based on Reserve type.
h) Responsibilities	Management parameters to maintain Reserves	Council and Treasurer or designate
i) Policy Review and amendments	Once per Term of council	Treasurer amendments that are authorized and considered administrative
4.0 Definitions	Defines some references in Policy	Clarification of Terms
Appendix A: Schedule of Reserve and Reserve Fund Policy Schedule	Operating and Capital Reserve and Reserve Funds with outline of purpose, expected target balance, Source of Funding, Use of Funds and authority to use with timing	Outlined as (O) Obligatory, Cash and non-Cash for clarification.

Appendix II of this report includes a summary of the balances available in Reserves and Reserve Funds at the end of Dec 31, 2022 for information purposes related to the Accumulated Surplus. Reserves and Reserve Fund balances are identified separately as cash and non-cash/committed. Updated amounts will be provided within 2023 year-end reporting.

The amount of funds planned to be borrowed at year end, for the Terrace Lodge rebuild, show that the reserves for this facility are in a negative position and is the result of temporary self-financing. While the overall reserves are showing at a balance that is low, they are still manageable as we are able to utilize the unspent committed Capital Fund - Work In Progress to be completed dollars to fund operations. Within the next year, the County plans to finalize their commitment to borrow \$25M from Infrastructure Ontario to replenish our reserves and begin repayment of this debt over the next 25 years. The intentional strategic move to wait until interest rates decrease further in 2024 before taking out the debt will save the County interest costs over the next 25-years. Unlike a mortgage, once the debt is taken out, it cannot be refinanced at a lower rate at any time in the future.

Alignment with Strategic Priorities:

Serving Elgin	Growing Elgin	Investing in Elgin
<input checked="" type="checkbox"/> Ensuring alignment of current programs and services with community need. <input checked="" type="checkbox"/> Exploring different ways of addressing community need. <input checked="" type="checkbox"/> Engaging with our community and other stakeholders.	<input checked="" type="checkbox"/> Planning for and facilitating commercial, industrial, residential, and agricultural growth. <input checked="" type="checkbox"/> Fostering a healthy environment. <input checked="" type="checkbox"/> Enhancing quality of place.	<input checked="" type="checkbox"/> Ensuring we have the necessary tools, resources, and infrastructure to deliver programs and services now and in the future. <input checked="" type="checkbox"/> Delivering mandated programs and services efficiently and effectively.

Local Municipal Partner Impact:

None

Communication Requirements:

None

Conclusion:

The Reserve and Reserve Fund Policy has been created to provide document the explanation of and guidance for the use of Reserves that are held by the County of Elgin. Staff recommend that Council provide their approval of the policy presented to formalize long-standing financial practices into a policy that clarify the purpose and use of Reserves and Reserve Funds for the Public, Council and Administration.

All of which is Respectfully Submitted

Approved for Submission

Jennifer Ford
Director of Finance/Treasurer

Blaine Parkin
Chief Administrative Officer/Clerk