

Reserve Policy – Administration of Financial Reserves and Reserve Funds		Corporate Services Department
Policy No: XXX - X	Hamilton	
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POLICY STATEMENT	<p>The creation, use and management of reserves and reserve funds within the framework of a formalized financial reserve policy is a best practice and consistent feature of most large cities in Canada. Reserves are part of good management that allows for funds to be spent prudently over time or to ensure service levels are maintained and not immediately impacted by a potential downturn in the economy or unexpected events.</p> <p>Reserves are used to accumulate funds over time to replace capital assets, and also provide a measure of financial flexibility to react to budget shortfalls or the financial impact of significant unexpected issues in a timely manner. A properly balanced approach to the planning and use of reserves is considered good financial management and is a key component of the strong credit rating of The City of Hamilton (“The City”).</p>
PURPOSE	<p>The purpose of this policy is to establish guidelines and criteria for proper administration of financial reserves.</p>
SCOPE	<p>This Policy applies to all City employees that manage financial resources.</p>
DEFINITIONS	<p>None.</p>
<p>General Policy Statements</p> <p>Management and Administration of Reserves</p>	<p>1.1. City Administration shall manage The City’s reserves in accordance with the reserve’s purpose and any or all conditions and/or restrictions placed upon the reserve by Council and shall ensure reserves continue to be aligned with Council’s strategic goals and objectives, and financial policies and procedures. Proper management of reserves include the following:</p> <ul style="list-style-type: none"> 1.1.1. Ensure that all reserve related transactions abide by the purpose of the reserve, any condition and/or restriction and with all applicable regulations and legislations; 1.1.2. Ensure that operating and capital budgets include reserve activity where applicable; 1.1.3. Ensure that reserve transactions and balances are properly reported and disclosed in The City’s Annual Financial Statements, and any other reports; 1.1.4. Prepare an action plan to return a reserve back into compliance when a reserve is either over or under

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	<p>funded, as per conditions set out in the reserve’s authorizing documents approved by Council, and</p> <p>1.1.5. Ensure documentation of reserve activity is accurate, complete and maintained as per procedures documented from time to time.</p>	
<p>Periodic Review of Reserves</p>	<p>1.2. City Administration is responsible for administering a periodic reserve review in accordance with procedures defined from time to time.</p> <p>1.2.1. The purpose of the review process is to ensure reserves are being managed properly and to evaluate the continued relevance of individual reserves.</p>	
<p>Council approval</p>	<p>1.3. Only reserve related reports and motions approved by the General Manager of Finance and Corporate Services shall be submitted to Committee and Council.</p> <p>All requests to either create a new reserve or amend or close an existing reserve are to be initiated by the Divisional Director and submitted to the Director of Financial Planning and Policy in the Corporate Services Department.</p> <p>The creation of new reserves is to be reviewed by the General Manager of Finance & Corporate Services for compliance to the Municipal Act and for compliance to the City’s Reserve Policies.</p> <p>Council approval is required for the following reserve related activities:</p> <p>1.3.1. Request to create a new reserve;</p> <p>1.3.2. Request to amend or close an existing reserve;</p> <p>1.3.3. One-time use of funds not defined in authorizing documents; and</p> <p>1.3.4. Recommendations as a result of the periodic reserve review process.</p>	
<p>Authority of City Administration</p>	<p>1.4. City Administration can approve the following reserve related activities and/or reports:</p> <p>1.4.1. Ongoing activities of reserves as per the reserve’s purpose, conditions and/or restrictions;</p> <p>1.4.2. Annual Report on Reserves; and</p>	

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	<p>1.4.3. Action plans for overfunded or underfunded operating budget programs and services.</p>	
<p>General guidelines</p>	<p>1.5.1 All expenditures from any reserve or reserve fund shall require Council approval either through a separate report, motion, or through the annual budget process.</p> <p>1.5.2 All transactions for expenditures and revenues related to reserves excluding obligatory reserve funds are to be processed through the current fund (i.e. operating budget program deptids and accounts) and capital fund (i.e. capital budget projectids and accounts) and then transferred to or from reserves.</p> <p>1.5.3 Transactions involving deferred revenues and obligatory reserve funds, including Development Charge Reserve Funds can processed directly as per procedures documented from time to time.</p> <p>1.5.4 Actual investment earnings from the City’s investment management program are to be allocated to the Reserves, to the Reserve funds, to the Obligatory Reserves and to the Capital Fund are to be based on month end balances from these sources for a 12 month period.</p> <p>Reserves that meet specific criteria shall earn investment income in accordance with the procedures documented from time to time.</p>	
<p>Guidelines for Borrowing from Reserves</p>	<p>1.6.1 Borrowings from a reserve are to be allowed only if the analysis of the reserve’s funds indicates excess funds are available and the use of these funds will not impact the reserves current operations.</p> <p>1.6.2. All internal reserve borrowings are to be repaid with principal and interest.</p> <p>1.6.3 The internal borrowing interest rate shall be the rate equivalent to the City’s external borrowing rate at the time of borrowing.</p>	
<p>GOVERNING LEGISLATION</p>	<p>Reserves are governed by the Ontario <i>Municipal Act</i>.</p>	
<p>RESPONSIBILITY FOR THE POLICY</p>	<p>Corporate Services Department Director of Financial Planning and Policy</p>	
<p>POLICY HISTORY</p>	<p>This reserve policy replaces the general reserve policies that were approved by Council in October 2005 in Report FCS0511.</p>	