

Substantive revisions are underlined, including added or revised wording. Wording that was removed is struck through.

Reserve Management Policy

Approved By: City Council

Category: Finance

Approval Date: March 28, 2018

Effective Date: March 28, 2018

Revision Approved By: City Council

Revision/ Review Date: March 2025

Policy Statement

The City of Ottawa will effectively administer its reserves to ensure the sustainability of capital assets, and mitigate volatility in taxes and utility rates.

Purpose

The purpose of this Policy is to establish financial controls related to the management of reserves by providing guidelines that will assist in the management of reserves.

Application

This Policy applies to all City employees and elected officials involved in the creation and administration of reserves.

In terms of instruments, this Policy applies to all reserves and sub-reserves administered by the City of Ottawa.

Policy Requirements

Types of Reserves

The City's portfolio of reserves consists of two major types: restricted reserves and discretionary reserves.

While all reserves are limited to a particular purpose, Council establishes **restricted reserves** to set aside funds for specific purposes by legislation, regulation or agreement. **Discretionary reserves** have more latitude in how funds are received and applied.

Discretionary reserves may be further divided into **sub-reserves**, for tracking and reporting the source and use of funds for a specific purpose or financial requirement as determined by the Treasurer.

Establishment of a Reserve

Prior to the establishment of a reserve, a financial plan will be prepared which identifies need, target funding level (if applicable), contribution sources and projected disbursements (when practicable).

Council will authorize the creation of a reserve by means of a bylaw which shall identify the purpose of the reserve, including source and use of funds.

Management of Reserves

Portfolio Approach

The City uses a portfolio approach to manage City reserves. Under this approach, individual reserves are pooled together and managed as larger groups.

Reserves with similar purposes and/or funding sources are grouped together to promote consistency. Pooling reserves helps to mitigate financial volatility and risk that a specific program reserve might otherwise experience. Unanticipated expenditures or revenues, changing legislation, an evolving economy and other significant factors drive financial volatility and risk. A portfolio approach to reserve management provides the City with additional financial flexibility to address priority needs.

The following portfolios are established for the management of pooled reserves:

- Restricted
- Operating
- Capital
- Combined Operating & Capital (for rate supported services or separate operating entities)

Acceptable Use

Use of the reserves is restricted to the specific purpose for which they were created and cannot be used for any other purpose, unless otherwise approved by Council subject to any other relevant legislation.

Investment

With the exception of the operating stabilization reserves, all reserves will be interest bearing. Applicable funds must be invested in accordance with the City's [Investment Policy](#).

Level of Reserves

The adequacy of each of the reserve groups is determined using a risk-based approach.

Unless otherwise specified within this Policy or any other relevant policy, by-law or legislation, the level of the reserve will be set at an amount, percentage or range to achieve the long-term sustainability of the City's services.

Target Balances

1. The balance of the Tax Stabilization Reserve shall be maintained within a range of a minimum of the ten-year budget performance trend line average deficit and a maximum augmented by one and a half times the ten-year trend line average, and that; a. The reserve minimum and maximum target balances include the funds contributed each year for the

Municipal Election, and b. minimum and maximum target balances consider trends in key operating budget risk factors, such as winter operations, self-insurance, tax rebates/remissions, and extreme weather events.

2. The balance of the Transit Operating Reserve shall be maintained within a range of a minimum of the ten year budget performance trend line average deficit and a maximum of the ten year budget performance trend line peak deficit.
3. The balance of the Employee Benefit Reserve shall be maintained within a range of a minimum equal to 9% of the total projected employee future benefit liability and a maximum equal to 12% of the total projected employee future benefit liability.
4. The balance of the ~~Tax Supported City Wide~~ Capital Reserve shall be maintained within a range of a minimum of the rolling three year total of capital projects closed in a net deficit position augmented by the revenue risk for capital contributions from the Endowment Fund and Land Sales and a maximum aligned with the Long Range Financial Plan (LRFP) for tax-supported capital ~~augmented by two times the rolling three year total of capital projects closed in a net deficit position.~~

Reporting Requirements

The City Treasurer shall present to Council a report on the Adequacy of Forecasted Reserves and a Status Report of reserve balances as part of the Year-end Disposition Report and recommend reallocations to rebalance and consider remaining reserve balances below or above targets as part of the Budget Directions Report to inform the annual budget process and/or as part of the updated LRFPs during each renewal cycle.

Responsibilities

The Planning and Budgeting Unit shall:

- Provide advice to departmental managers for preparation of financial plans to justify new reserves
- Provide advice on reclassification of reserves where appropriate

The Accounting Branch shall:

- Create and administer reserves as directed by the City Treasurer and Council
- Write by-laws for Council approval to establish reserves

Departmental Managers shall:

- Ensure their departmental Asset Management Plans incorporate contributions from reserves for asset maintenance and replacement, where appropriate
- Prepare a financial plan to establish any new reserves

The Treasury Branch shall:

- Invest proceeds from reserves in accordance with the Investment Policy

Monitoring/Contraventions

The Planning and Budgeting Unit and the Accounting Branch will ensure that all required documentation and approvals have been completed before making any changes to reserves.

References

[Budget Development, Monitoring and Reporting Procedures](#)
[Comprehensive Asset Management Program](#)
[Investment Policy](#)
[Long Range Financial Plan](#)
[Public Engagement Strategy](#)

Legislative and Administrative Authorities

[Delegation of Authority By-law, as amended](#)
[Municipal Act \(2001\), as amended](#)
[Planning Act \(1990\), as amended](#)

Definitions

Capital Budget - the annual Council approved plan for expenditures and financing sources to acquire, improve, maintain or construct capital assets or to conduct studies.

Capital Forecast - the projection of expenditures and financing sources of capital projects for years beyond the capital budget approval year in which the forecast is made.

Capital Plan - the combined capital budget and capital forecast.

Capital Project - an undertaking for which expenditures of a capital nature are made or are to be made including expenditures to acquire, improve or maintain land, buildings, structures, machinery and equipment, to install computer software and to conduct studies relating to City assets.

Operating Budget - the annual Council approved plan of the City for expenditures, revenues, staffing levels and service levels for operations taking place from January 1st to December 31st each year.

Reserve - an accumulation, at the direction of Council, of appropriations from net revenues to set aside funds for a specific purpose grouped by portfolio.

Restricted Reserves - the accumulation of appropriations from net revenues for purposes that are restricted by the direction of the City Treasurer or Council for a specific initiative or project by legislation, regulation or agreement.

Sub Reserve - the result of the splitting of a reserve into smaller amounts.

Status Report - a report summarizing the situation of the reserves as of a stated time or financial period.

Total Budget - total expenditures (i.e. gross expenditures less internal recoveries) as approved by Council through the annual budget process.

Document 5

Keywords

Budget

Capital

Development Charges

Funds

Enquiries

For more information on this Policy, please contact:

Program Manager, Planning and Budgeting

~~Corporate Finance Services~~

Finance and Corporate Services Department

613-580-2400