



Reserve & Reserve Fund Policy

POL.COR.26.04

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Staff Report:	CFS.26.020 Reserve Policies
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1. Policy Statement

The Town of The Blue Mountains shall maintain Reserves and Reserve Funds as an integral component of its long-term financial management strategy.

Reserves support financial sustainability by providing funding for infrastructure lifecycle replacement, managing financial risks, stabilizing municipal operations, and supporting strategic initiatives of Council.

The Town will manage Reserves in a transparent, disciplined, and strategic manner consistent with the Town's Asset Management Plan, Long-Range Financial Plan, Budget Policy, and Procurement Policy.

2. Purpose

The purpose of this policy is to establish a consistent framework for:

- a. the creation, management, and consolidation of Reserves and Reserve Funds;
- b. appropriate funding and use of Reserves;
- c. governance and approval authority for Reserve withdrawals;
- d. alignment with long-term financial planning and asset management; and
- e. reporting and oversight of Reserve balances.

3. Guiding Principles

The Town will manage Reserves according to the following principles.

- a. **Financial Sustainability**

Reserves support long-term financial planning and reduce reliance on debt or sudden increases in taxation or user rates.

b. Transparency

Reserve balances, contributions, and withdrawals will be reported annually to Council.

c. Risk Management

Reserves provide capacity to address financial uncertainty, emergencies, and capital project risks.

d. Financial Flexibility

Maintaining appropriate Reserve balances allows the Town to respond to unforeseen events, infrastructure needs, and economic changes without significant disruption to municipal services.

e. Intergenerational Considerations

Municipal infrastructure provides benefits over long periods of time. Where practical, the Town will seek to balance the costs of infrastructure between current and future users so that those who benefit from municipal services contribute appropriately to their funding.

The Town recognizes that perfect alignment between infrastructure benefits and funding sources is not always possible due to economic conditions, growth pressures, grant opportunities, or other external factors.

f. Governance and Accountability

Reserve use shall follow clearly defined approval processes and financial oversight consistent with the Town's financial governance framework.

4. Definitions

a. Reserve

An allocation of accumulated surplus set aside by Council for a specific purpose.

b. Reserve Fund

Funds that are segregated and restricted for specific purposes, often required by legislation.

c. Obligatory Reserve Fund

A Reserve Fund required under provincial legislation (e.g., Development Charges).

d. Discretionary Reserve

A Reserve established by Council for financial planning, risk management, or strategic purposes.

5. Reserve Governance Framework

5.1 Funding Sources

Reserves may be funded through:

- a. annual operating budget contributions
- b. user rate revenues
- c. operating surpluses
- d. one-time revenues
- e. grants or external contributions
- f. interest earnings
- g. transfers between Reserves approved by Council

5.2 Target Reserve Balances

The Town will aim to maintain Reserve balances at levels that support financial sustainability and effective risk management.

Target balances are intended to provide guidance for long-term financial planning and may be achieved gradually over time through the annual budget process.

Where appropriate, the following general guidelines apply:

Reserve Category	Target Balance
Operating Stabilization	10 – 15% of the prior year’s operating expenditure.
Emergency Reserve	Risk-based assessment (i.e. Sever Weather Events; Infrastructure Failure; Public Health Events; Partially Insured Losses)
Lifecycle Reserves	Based on the Asset Management Plan
Rate-Supported Reserves	Determined through Financial Planning (i.e. Water/Wastewater Rates Study, Harbour Business Plan and etc.)

Target balances may be refined through the Long-Range Financial Plan, Rate Studies/Business Plans or Asset Management updates.

5.3 Reserve Use

Reserves may be used for:

- a. budgeted capital projects
- b. lifecycle replacement of infrastructure and equipment
- c. emergency events
- d. revenue stabilization
- e. strategic initiatives approved by Council

Reserves are intended to support sound financial planning and risk management and are not intended to replace appropriate project management, contingency planning, or procurement controls.

5.4 Approval Authority and Materiality Thresholds

The use of Reserves is subject to the financial oversight and variance approval requirements established in the Town's Budget Policy.

For clarity, the following materiality thresholds apply to Reserve withdrawals where they arise from operating or capital budget variances.

Operating Budget Variances

Council approval is required where:

- an operating variance exceeds \$25,000, or
- a variance requires a transfer from Reserves not previously approved by Council.

Operating budget adjustments not exceeding \$25,000 may be managed administratively by the Treasurer where the adjustment is one-time in nature, and all delegated authority provisions under the Procurement Policy are complied with.

Capital Budget Variances

For capital projects previously approved by Council, the CAO and Treasurer may approve additional funding or reallocation within the project budget where:

- the shortfall does not exceed twenty percent (20%) of the Approved Project Budget (Total);
- the shortfall does not exceed \$100,000; and
- the funding source remains unchanged.

Where approvals between \$50,001 and \$100,000 are granted under this authority, an information report shall be provided to Council by the responsible Director or designate.

Council approval is required where the project shortfall exceeds these limits of where the funding source, scope or project authorization changes.

5.5 Interest Allocation

Interest earned on invested funds shall be allocated in a manner that reflects the nature and purpose of the Reserve or Reserve Fund.

a. Reserve Funds

Where funds are held in Reserve Funds, interest earnings shall be allocated directly to the respective Reserve Fund unless otherwise restricted by legislation or Council direction.

Examples include:

- Development Charge Reserve Funds
- Parkland Dedication Reserve Fund
- Cash-in-Lieu of Parking Reserve Fund
- Other legislated or externally restricted Reserve Funds

b. Lifecycle and Strategic Reserves

Certain Reserves that support long-term infrastructure replacement or strategic financial planning may also receive interest allocations.

These Reserves typically hold balances over extended periods and may include:

- Asset Management Reserves
- Water and Wastewater Lifecycle Reserves
- Other long-term capital Reserves identified by Council
- Working Capital Reserves

Allocating interest to these Reserves helps maintain their purchasing power over time and supports sustainable infrastructure funding.

c. General Corporate Reserves

General operating Reserves, including stabilization or contingency Reserves, do not typically receive interest allocations individually.

Investment earnings associated with these balances form part of the Town's overall investment income and may be allocated through the annual budget process.

Administration

The Treasurer shall administer the allocation of interest in accordance with this policy and may recommend adjustments where necessary to support the Town's long-term financial sustainability.

6. Reserve Categories

To improve clarity and governance, the Town will organize Reserves into the following categories.

6.1 Corporate Stabilization Reserves

These Reserves support financial stability and help manage operating volatility or unforeseen financial pressures.

Examples may include:

- a. Working Capital Reserves / Operating Stabilization
- b. Emergency and Climate Response Reserve

6.2 Asset Lifecycle Reserves

These Reserves support the long-term replacement and rehabilitation of municipal infrastructure and assets.

Examples may include:

- a. Roads and Bridges Lifecycle Reserve
- b. Fleet and Equipment Replacement Reserve
- c. Facilities and Buildings Lifecycle Reserve
- d. Parks and Recreation Infrastructure Reserve
- e. Information Technology Infrastructure Reserve
- f. Harbour Infrastructure Reserve

These Reserves support the Town's Asset Management Plan requirements under Ontario Regulation 588/17.

6.3 Strategic and Council Priority Reserves

These Reserves support strategic initiatives and priorities identified by Council.

Examples may include:

- a. Strategic Initiatives Reserve
- b. Studies
- c. Community Partnership Initiatives
- d. Community Improvement or Housing Initiatives
- e. Planning or economic development initiatives

6.4 User Rate-Supported Reserves

These Reserves are funded through user rates and support infrastructure sustainability.

Examples may include:

- a. Water/Wastewater Lifecycle Reserve
- b. Harbour Reserve
- c. Parking Reserve
- d. Solid Waste Post Closure Reserve

6.5 Legislated Reserve Funds

Certain Reserve Funds must remain segregated in accordance with provincial legislation.

Examples may include:

- a. Development Charge Reserve Funds (by service category)
- b. Parkland Dedication Reserve Fund
- c. Cash-in-lieu of Parking Reserve Fund
- d. Other statutory Reserve Funds as required

7. Creation, Consolidation and Closure of Reserves

7.1 Creation of Reserves

New Reserves may only be established through Council approval.

All new Reserves must identify:

- a. purpose of the Reserve
- b. funding source
- c. anticipated use
- d. review timeline where applicable

7.2 Consolidation of Reserves

Council may consolidate Reserves where their purpose overlaps or where improved financial management can be achieved through broader Reserve categories.

7.3 Sunset Provisions

Where Reserves are created for specific initiatives or projects, Council may establish sunset provisions to ensure the Reserve is reviewed once its intended purpose has been fulfilled.

Remaining balances may be transferred to other Reserves as directed by Council.

8. Reporting

The Treasurer shall report to Council annually on Reserve and Reserve Fund activity.

Reporting shall typically include:

- Reserve balances
- contributions and withdrawals
- forecast Reserve activity
- significant financial risks or funding gaps

This reporting will typically occur following the acceptance of the annual audited statements.

9. Relationship to Other Financial Policies

This policy operates alongside the Town's:

- Budget Policy POL.COR.26.02
- Procurement Policy POL.COR.26.03
- Asset Management Plan

10. Policy Review

This policy shall be reviewed at least once per Council term or as required to reflect legislative or financial changes.