

To: Finance Committee

From: Jag Sharma, City Manager,
Office of the City Manager

Report Number: FIN-18-42

Date of Report: June 15, 2018

Date of Meeting: June 21, 2018

Subject: Reserves Policy Audit

File: C-3100

1.0 Purpose

The purpose of this report is to present the KPMG Reserves Policy audit report (Attachment 1).

2.0 Recommendation

That the Finance Committee recommend to City Council:

That Report FIN-18-42 dated June 15, 2018 and Attachment 1, being the KPMG Reserves Policy audit be received for information and that the recommendations and management responses in the KPMG audit be endorsed as the general basis for implementing improvements to reserves.

3.0 Executive Summary

Not applicable

4.0 Input From Other Sources

The Reserves Policy audit by KPMG was conducted with the involvement of the appropriate City employees.

5.0 Analysis

The Council-endorsed 2018 Audit Plan is comprised of eight audits, as follows:

- Fleet management follow-up
- Absence management
- Workforce productivity data and information

- Real estate follow-up
- Enforcement processes
- Health and safety follow-up
- Reserves policy (added January 16, 2018)
- Council remuneration by-law (added April 9, 2018)

At the time of writing of this report, the Health and Safety Follow-up, Fleet Management follow-up and Council remuneration by-law audits are being finalized. This report delivers the Reserves Policy audit. It is noted that due to the municipal election this fall there will be fewer opportunities to bring audits forward to Council later in the year. It is expected the Real Estate follow-up audit will be reported on in September and the three remaining audits will be reported on in the first half of 2019.

The Reserves Policy audit includes two recommendations (one medium and one low risk). The recommendations relate to the following aspects:

1. Reserve fund policy guidance (medium risk)
2. Reserve performance reporting requirements (low risk)

The KPMG recommendations and the City's management response will be the basis for implementing on-going improvements to the City's reserves.

6.0 Financial Implications

There are no financial implications at this time.

7.0 Relationship to the Oshawa Strategic Plan

This report responds to the goal of Economic Prosperity and Financial Stewardship and the specific theme of Financial Strategy, which includes an area dedicated to reserve funds.



Helen Break, Director, Strategic Initiatives,
Office of the City Manager



Stephanie Sinnott, Commissioner, Finance Services
Office of the City Manager



Jag Sharma, City Manager,
Office of the City Manager



City of Oshawa

Reserves Policy Review

Report rating for Reserves Policy Review:

Yellow – Green: Significant assurance with minor improvement opportunities

KPMG LLP

June 2018

This report contains 31 pages

Appendices comprise 20 pages



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Appendices

- A. Reserve Fund Policy – Sample Testing
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- C. Staff Involvement and Documents Reviewed

Distribution

To (for action):

- Stephanie Sinnott – Commissioner, Finance Services / Treasurer

CC (for information):

- Corporate Leadership Team
- Audit Team

Sponsor:

- Stephanie Sinnott – Commissioner, Finance Services / Treasurer

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Section One

Executive Summary

Conclusion

As part of the City of Oshawa's ("City" or "Corporation") 2016 – 2019 Financial Strategy, a recommendation to "develop a formal comprehensive reserve fund policy document that consolidates the City's existing reserve fund policy statements and reflects the additional strategies approved as part of the Financial Strategy" was noted. In response to this recommendation, the Finance Services Branch completed an internal review of the current framework around reserve funds. It was identified that the current reserve fund policies were not sufficient to meet the infrastructure funding requirements forecasted as part of the Corporation's nine year capital forecast.

As a result of the internal review that was completed, a reserve fund policy, *Overview of Reserve and Reserve Funds*, was issued (report number *FIN-17-90*). A copy of the policy is available to the public. The policy included seven recommendations that were made so as to allow the Corporation's reserve balances to move towards a sustainable position. It is vital that Management, Councillors and the Public understand the necessity for maintaining and enhancing reserve fund balances (where necessary), in order to fund development and maintain or replace assets. In addition, existing reserve funds maintained by the Corporation were consolidated to simplify those that exist for different types of expenditures. Our testing of the recommendations included as part of the *FIN-17-90* report confirmed that those included in the report had been implemented.

Recommendations relating to reserve funds that were originally included in the Corporation's 2016 - 2019 Financial Strategy were also found to have been implemented as part of the *FIN-17-90* report.

We reviewed the current reserve fund policy and benchmarked this to other municipalities. We identified a need for additional documentation to be incorporated into the Corporation's reserve fund process to ensure clarity and guidance is present in the use and management of the reserve funds. While we acknowledge that the purpose for individual reserves has been defined within the policy, we noted that it does not cover the current process around identifying the basis for determining funding contributions and target reserve balances. In addition, we noted a number of key guidance sections were not documented in the policy, such as; establishing and closing reserves, establishing funding target levels (as applicable based on the nature of the reserve), approval for withdrawals, operation surplus policy, investment of reserve funds, temporary reserve borrowing, reporting requirements, and transferring of reserves and reserve funds for other purposes than originally intended. Though we discussed with management that internal policies and procedures exist within the City for the above, we recommend that coverage of these guidance sections be included in the publically available reserve fund policy for transparency.



Overall, we noted that the Corporation’s reserve fund policy has identified the purpose of the reserve funds maintained by the City. The areas for improvement we identified focus on how the Corporation can enhance the communication of how reserve funds are managed by documenting its current processes relating to treatment of reserves in the central (publically available) reserve fund policy, with the aim of maintaining financial sustainability and meeting the infrastructure needs of the future.

Background

This review forms part of the Internal Audit Plan for 2018 for the Corporation. The Corporation faces significant demands on its resources given budget constraints and high growth across the City leading to higher demand for services. Alongside this, it is important for the Corporation to maintain and build reserves and enable the achievement of its strategic objectives. It is important for the Corporation to maintain and utilize its reserves in an appropriate manner to ensure that the limited resources available are utilized in the most effective manner.

Reserve funds are a critical component of a municipality’s long-term strategy as they provide a municipality with financing for unexpected expenditures not included in the operating budget, a source of internal financing for major capital projects over time, the flexibility to manage debt levels and smooth tax rate impacts, and stability in the face of variable and uncontrollable factors (interest rates, etc.). For these reasons, it is important that consistent guidelines and standards have been documented so as to assist with the responsible administration and monitoring of reserve funds. This is emphasized by the fact that as per the Corporation 2016-2019 Financial Strategy, in terms of tax discretionary reserves (discretionary reserves funded from property taxes) as a percent of taxation, Oshawa showed an increase from 31% in 2009 to 38% in 2013, but still lagged behind other municipalities. Similar to the first indicator, in the Corporation 2016-2019 Financial Strategy, the City’s 2013 discretionary reserves as a percent of own source revenue was 29% compared to other municipalities that averaged of 50% (see Appendix B: Analysis of Reserve Funds).

As part of this review, we have assessed the current reserves policy in place at the City by comparing it to leading practices in other municipalities; benchmarking. We have identified opportunities for improvement where the City may not have fully documented elements as found in reserve fund policies of other municipalities. Our benchmarking exercise included municipalities of various sizes and composition to obtain various perspectives for the assessment of industry better practices for the reserve fund policy.

Objectives

Objective	Description of work undertaken
Objective one	We reviewed the current reserve policy in place in order to identify:



Objective	Description of work undertaken
Review of Reserves Policy	<ul style="list-style-type: none"> ● How reserves are set aside to fund future investments in assets and services; ● The process for utilizing the reserves for the intended purposes; ● The process for utilizing the reserves for a purpose other than originally intended; and ● The reporting requirements followed to support decision making in relation to the use of reserves.

* Per discussion with management, our focus of this engagement was to review the Reserve fund policy and benchmark to other municipalities. It was agreed with management that the Usage of reserves (as noted in Objective two of the original agreed Terms of Reference) will be covered as part of a second review at a later date.

Areas of good practice

- ✓ **Implementation of recommendations** – For each recommendation that was included as part of the Corporation’s 2016 – 2019 Financial Strategy, we were provided evidence that the recommendation had been implemented. In addition, changes to the previously existing Corporation reserve fund policy that were included as part of the recommendations documented in the FIN-17-90 report were also supported by evidence.
- ✓ **Reserve Fund Purpose** – Reserves identified within the Corporation’s Reserve Fund policy have a clear purpose associated with them that justify the separate allocation of funds.

Areas for development

- **Reserve Fund Policy Guidance** – Our benchmarking of the City’s Reserve Fund Policy (report number FIN-17-90) to the reserve fund policy maintained by other municipalities identified a gap in documentation related to the City’s current processes that govern the management of reserves. **(See Recommendation One)**
- **Reserve Performance Reporting Requirements** – We identified an opportunity for reporting to City Council on a periodic basis on the status of reserve fund spending throughout the fiscal year. **(See Recommendation Two)**

Recommendations raised – Reserves Policy

Following our review of the reserves policy and usage of reserves, we have raised the following recommendations:



	High	Medium	Low	Total
Raised	0	1	1	2
Accepted	0	1	1	2

Please see section two of this report for further information.

Acknowledgement

We thank the staff involved for their help in completing this review.

Contact Information

The contacts at KPMG in connection with this report are:

Tony Malfara, Partner
Tel: (416) 777-3461
tmalfara@kpmg.ca

Nick Rolfe, Partner
Tel: (416) 777-3543
nicholasrolfe@kpmg.ca

Luca DeFazio, Manager
Tel: (416) 228-7245
ldefazio@kpmg.ca

Dominic Pymonto, Consultant
Tel: (416) 476-2520
dpymonto@kpmg.ca



Section Two

Recommendations

This section summarizes the recommendations that we have identified from our work. We have given each of our observations a risk rating as follows:

Priority rating for recommendations raised		
<p>High – (Priority One): Issues arising referring to important matters that are fundamental and material to the system of internal control. The matters observed might cause a system objective not to be met or leave a risk unmitigated and need to be addressed as a matter of urgency.</p>	<p>Medium – (Priority Two): Issues arising referring mainly to issues that have an important effect on the controls but do not require immediate action. A system objective may still be met in full or in part or a risk adequately mitigated, the weakness represents a deficiency in the system.</p>	<p>Low – (Priority Three): Issues arising that would, if corrected, improve internal control in general but are not vital to the overall system of internal control. These recommendations are of leading practice as opposed to weaknesses that prevent systems objectives being met.</p>

#	Risk	Recommendation	Management response, owner and deadline
1	Med	<p>Reserve Fund Policy Guidance</p> <p><u>Issue:</u> It was noted that elements of the Corporation’s current reserve fund management process were not documented within the Corporation’s Reserve Fund Policy in the level of detail as benchmarked against other municipalities reviewed.</p> <p>Our review of reserve fund policy maintained by other municipalities found that guidance relating to the following had been outlined for each individual reserve defined, but had not been included in the City’s reserve policy (the purpose of the reserve</p>	<p>Management agrees with the recommendation.</p> <p>Management will review the policy elements as performed in the benchmarking to other municipalities and will update its reserve fund policy as it deems appropriate and applicable to the City. For elements that currently exist in other Corporation documents and/ or policies, reference to those documents will be incorporated into the updated reserve policy.</p> <p>We agree that current processes for the overall management of reserves exist and will formalize the</p>



#	Risk	Recommendation	Management response, owner and deadline
		<p>fund is included in the Corporation's policy):</p> <ul style="list-style-type: none"> • How reserve fund contributions are determined; • The target reserve fund balance to be maintained; and, • Minimum and maximum reserve fund balance restrictions (as appropriate and practical based on the nature of the reserve) <p>It was discussed with management that the Corporation has a process in place for determining reserve fund contributions through its forecasting process. In addition, in some instances, the inclusion of a minimum or maximum reserve fund balance may not be applicable to specify as a result of the nature of the reserve and its associated expenditures. We recommend that these elements be explicitly stated in the current publically available reserve policy.</p> <p>It was also noted that the current level of detail included in the Corporation's Reserve Fund policy in relation to the management of reserve funds is also not as detailed as other municipalities subject to the benchmarking. The Corporation currently has processes governing the management of reserve funds. Sections that were identified in the reserve fund policy of other municipalities but for which guidance has not been documented in the Corporation Reserve Fund policy (but may exist in other documents</p>	<p>documentation of these processes in the updated reserve policy.</p> <p>An updated policy document will be completed in advance of the 2020 budget process.</p> <p>Owner: Stephanie Sinnott, Commissioner, Finance Services / Treasurer</p> <p>Deadline: Q2 2019</p>



#	Risk	Recommendation	Management response, owner and deadline
		<p>maintained by the Corporation) include the following:</p> <ul style="list-style-type: none"> • Definitions relating to different types of reserve funds; • Responsibilities for parties involved in the reserve fund process, including the relationship between the Finance Services Branch and Council as it relates to the repurposing of reserve funds; • Guidelines relating to the approval of reserve fund withdrawals, Council direction required and approvals outside of budget approval; • The requirements needed to be met in order to establish, repurpose and close a reserve and links to the City's Interfund Note Policy; • Reserve fund investment and temporary reserve borrowing guidelines; and, • Reporting requirements (see recommendation 2) <p><u>Risk:</u> A risk exists that undocumented processes relating to the management of reserves may result in confusion as to the appropriate treatment of reserve funds and inconsistent application of processes that the Corporation is currently executing.</p> <p><u>Recommendation:</u></p> <p>We recommend management undertake the following:</p>	



#	Risk	Recommendation	Management response, owner and deadline
		<ul style="list-style-type: none"> Review the policy elements included by other municipalities in Appendix A (Figures 1 - 9) and consider updating the Corporation's Reserve Fund policy for relevant guidance applicable to the Corporation; and, Assess the level of detail included for individual reserves maintained by the Corporation as compared to other municipalities (Figures 3-6). 	
2	Low	<p>Reserve Performance Reporting Requirements</p> <p><u>Issue:</u> While the Corporation does report information relating to reserve funds in a similar manner to the other municipalities (i.e. long-term forecast report/continuity schedule that summarizes the reserve forecasted balances based on the long-term capital plans of the municipality, year-end audited financial statements that include a note disclosure related to the balance of reserves, and financial statements related to development charge reserve funds which is forwarded to the Minister of Municipal Affairs and Housing), the preparation of periodic year-to-date reserve usage reports is not being prepared.</p> <p>In addition, the reserve fund reporting requirements have not been documented in the Corporation Reserve Fund Policy.</p> <p><u>Risk:</u> By not providing City Council with timely updates as it relates to the</p>	<p>Management agrees with the recommendation.</p> <p>Management will provide year-to-date withdrawals made from operating reserves, accomplished via the Quarterly Financial Report to Council.</p> <p>Management will accommodate updating of the Reserve Fund policy for current reporting requirements.</p> <p>Owner: Stephanie Sinnott, Commissioner, Finance Services / Treasurer</p> <p>Deadline: Q1 2019</p>



#	Risk	Recommendation	Management response, owner and deadline
		<p>spending of reserves that occur throughout a fiscal year, it becomes more difficult for City Council to identify the impact of unplanned transactions on the performance of the operating reserves.</p> <p><u>Recommendation:</u></p> <p>We recommend management undertake the following:</p> <ul style="list-style-type: none"> • Consider providing a report to Council on a quarterly basis that shows the year-to-date withdrawals made from operating reserves. See Figures 10 – 12 for benchmarking against other municipalities; and, • The Reserve Fund policy be updated to reflect the current reporting requirements being met. 	



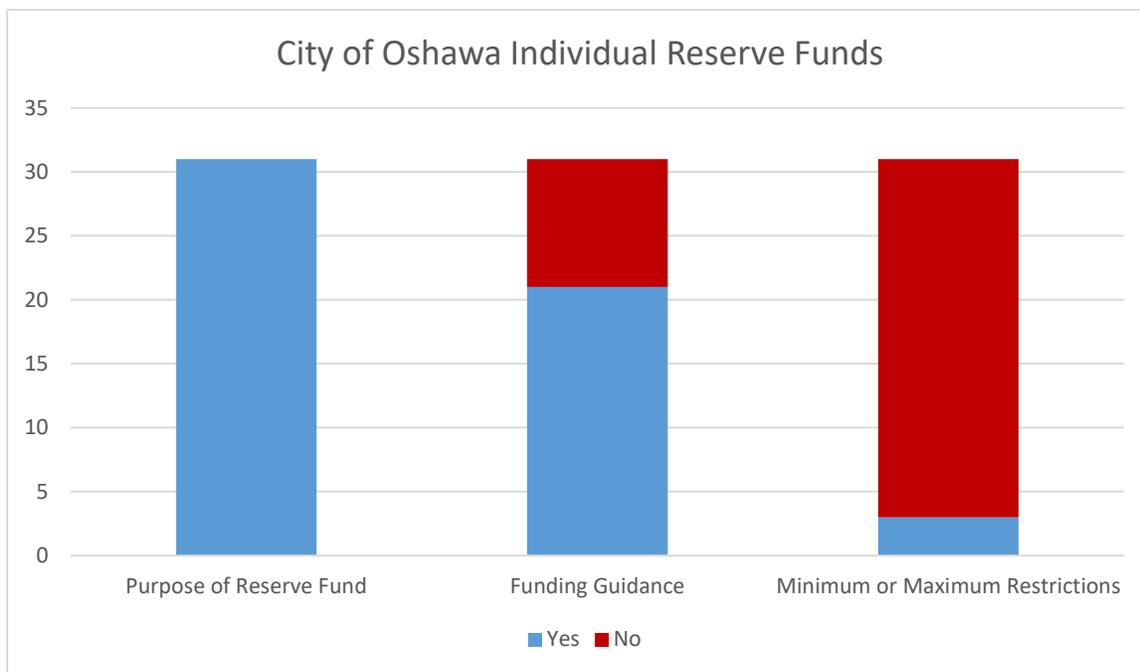
Appendices

Appendix A: Reserve Fund Policy – Sample Testing

We have undertaken testing using a sample of four (4) reserve fund policy’s maintained by other municipalities which were publicly available. Details of our findings are below:

Figure 1 - The Corporations Individual Reserve Funds

The graph shows that of the 31 Corporation reserves, the number of reserves that include the purpose of the reserve, funding guidance and minimum and/or maximum restrictions for the individual reserve funds



Observations

As part of our testing, a review of the guidance associated with each individual reserve fund outlined in Appendix A of the FIN-17-90 report was completed. We specifically focused on determining whether the Corporation’s Reserve Fund policy sufficiently outlined the purpose of each reserve fund, funding guidelines associated with a reserve (i.e. how the reserve fund is funded and how contribution amounts would be determined), and any minimum or maximum restrictions placed on individual reserve funds.

- ✓ In all instances, the purpose of the reserve fund was clearly defined.



Observations

- In ten (10) out of 31 reserve funds, guidance as to how the reserve fund would be funded was not included as part of the reserve policy (report FIN-17-90) but is considered within the budgeting process. In addition, in 28 out of 31 reserve funds, no reserve management guidelines such as a minimum or maximum balance had been specified – see Figure 1. **(Recommendation One)**
- The City of Waterloo, York Region, Town of Parry Sound, and City of Vaughan reserve fund policies were used to assess the level of detail included in the Corporation’s individual reserve funds. These municipalities were selected as they are of various sizes and composition to obtain differing perspectives as to the reserve fund policies used by other municipalities and for comparison purposes for the assessment to industry better practices. It was noted that the other municipalities included a summary of the individual reserve fund headings from other municipalities is included in Figure 3 below. In addition, excerpts showing the level of detail included for individual reserves from the four sample municipalities reviewed have been provided (Figures 3-6). **(Recommendation One)**
- In two out of four municipality reserve fund policies that were used to assess the Corporation’s Reserve Fund Policy, a section outlining the process for transferring reserve funds had been defined **(Recommendation One)**. The extracts below (Figure 7 – 8) outline the guidance included in the York Region and the City of Vaughan reserve policy that relate to the transfer of reserve funds between reserve fund accounts.
- A review of the level of detail included in the Corporation’s Reserve Fund policy as it relates to the overall management of reserve funds was completed using the reserve fund policies maintained by other municipalities. Below a table outlines common elements identified within the policies reviewed, the importance of the policy element, and a recommendation as to how the Corporation can formulate a section in their policy that corresponds to the undocumented policy element (Figure 9). **Recommendation One)**

Figure 2: Individual Reserve Funding Headings per Municipality

The purpose of this image is to show the details of the individual reserves that are presented by the four (4) municipalities used for benchmarking purposes

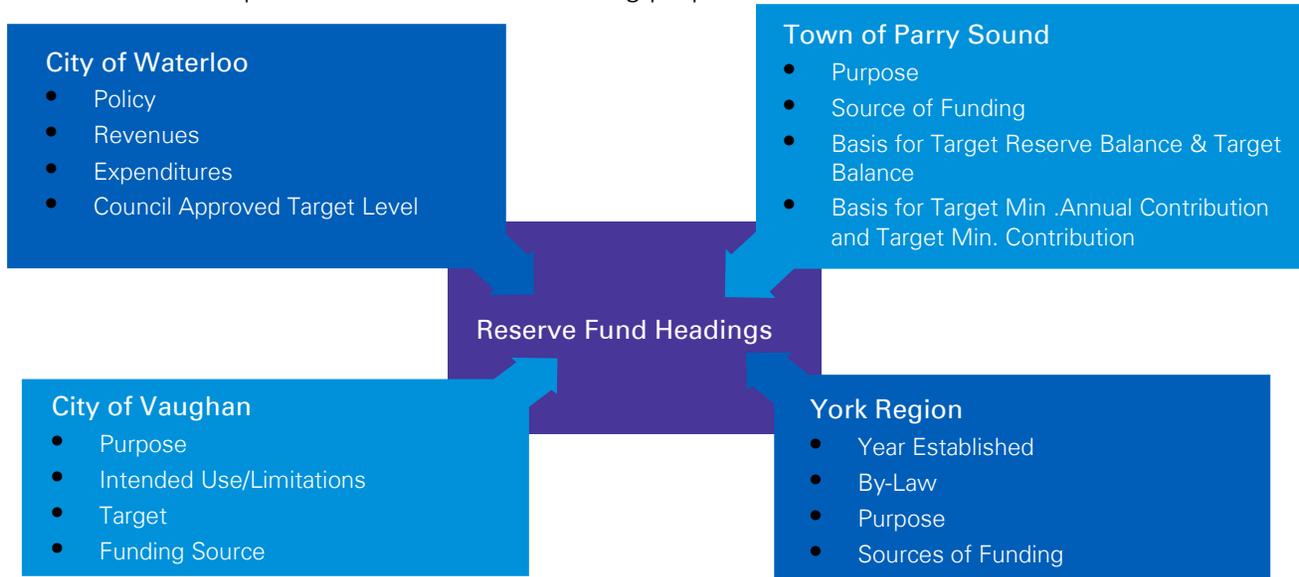


Figure 3 - Town of Parry Sound Reserve Policy - Individual Reserve Description

This figure shows the individual reserve description as included in the Town of Parry Sound reserve policy for example purposes of information which the Corporation may consider including as part of its reserve policy

Reserve Name	Capital or Operating	Purpose	Source of Funding	Establishing By-Law	Basis for Target Reserve Balance	Target Balance	Basis for Target Minimum Annual Contribution	Target Minimum Annual Contribution
Bobby Orr Golf Classic Reserve Fund	Both	To provide support for Bobby Orr Hall of Fame at Mr.Orr's discretion and Council approval	Funded through Samsung donation		N/A	N/A	N/A	N/A



Figure 4 - City of Waterloo Reserve Fund Policy - Individual Reserve Description

This figure shows the individual reserve description as included in the City of Waterloo reserve policy for example purposes of information which the Corporation may consider including as part of its reserve policy

RESERVE FUNDS:

BUILDING PERMIT RESERVE FUND (BLD)
(Obligatory)
860030

POLICY:

The Building Standards division must report their surpluses and deficits to the industry as a separate entity as the Building Code Act states that the fees collected are to be used to administer the Act; surpluses cannot be used to fund general City expenditures, and deficits should be funded from a Reserve Fund and not from the City funds. For this reason, the Building Permit Reserve Fund was established to provide for capital expenditures and revenue stabilization, as building permit activity is highly cyclical.

Revenues

Revenues to the Building Permit Reserve Fund are an annual budgeted allocation from Building Permit revenues, as well as additional revenues added from Building Permit surplus as it occurs. Contributions and balances associated with building permits should be reviewed every 5 years.

Expenditures

Expenditures from the Building Permit Reserve Fund are to stabilize the building permit revenue line in the Operating Budget and to fund Building Standards division capital expenditures.

Council Approved Target Level

The Building Reserve Fund balance is to maintain a minimum equal to 12 months of projected operating expenses, to mitigate the sharp cyclical drops experienced, or when the economy faces a recessionary period, and to protect against building activity down turns.

Figure 5 - York Region Reserve Fund Policy - Individual Reserve Description

This figure shows the individual reserve description as included in the York Region reserve policy for example purposes of information which the Corporation may consider including as part of its reserve policy

Name	Year Established	Bylaw	Purpose	Sources of Funding
Debt Reduction	2013	2013-97	To reduce or eliminate the need to issue tax levy funded debentures.	Appropriations made from time to time from the operating budget. The earnings derived from investment of monies held in the reserve fund.



Figure 6 - City of Vaughan Reserve Fund Policy - Individual Reserve Description

This figure shows the individual reserve description as included in the City of Vaughan reserve policy for example purposes of information which the Corporation may consider including as part of its reserve policy

i. Election Reserve

Effective Date: January 27th, 1997

Modified: June 18th, 2012

Purpose: To fund elections, recounts and by-elections

Intended Use/Limitations: At the discretion of the City Clerk, to be used to fund those expenditures related to elections, recounts and by-elections (i.e. technology, tabulator leases, voter list services, election personnel labour costs, etc.)

Target: Forecasted direct election expenditures

Funding Source: Dedicated \$350k operating budget transfer, plus any election campaign surpluses pursuant to the Municipal Elections Act, 1996.

Ref: By-Law 18-97, January 16th, 2012 F&A Report 1 Item 6 (Adopted at Council January 31, 2012)



Figure 7 - York Region Reserve Policy - Reserve Fund Transfer Process Extract

This figure shows the contributions requirements section as included in the York Region reserve policy for example purposes of information which the Corporation may consider including as part of its reserve policy as it relates to the repurposing of reserve funds.

iv) Contributions to/withdrawals from Reserves and Reserve Funds

All contributions to and/or withdrawals from reserves and reserve funds shall be approved by Council, normally as part of the annual budget approval process or specifically by resolution with the following exceptions:

- Direct contribution to reserve and reserve fund such as development charge contributions or settlement in account of prior year events
- Transfers that are the direct result of the Surplus Management Policy
- Transfers of funds between reserve cost centres for reserve restructure which in the opinion of the Commissioner of Finance have not changed the purpose for which the funds were intended
- Transfer of funds between asset replacement reserves based upon reserve adequacy analyses or other related information, at the discretion of the Commissioner of Finance
- Use of “revolving” reserves for the purpose approved by Council



v) **Lending/Transferring of Reserves and Reserve Funds for Other Purposes**

Use for Other Purposes

If required, Council may by bylaw provide that the money raised from a reserve fund be spent, pledged or applied to a purpose other than that for which it was established.

Internal Loans/Transfers

Intra-fund lending from reserves and reserve funds is permitted to temporarily finance capital fund expenditures or operating cash flow deficiencies to avoid external temporary borrowing cost provided that all loans/transfers bear market rates of return and that interest income is credited to the original reserves.

External Loans

External loans may be made at the discretion of Council under Section 107 of the Municipal Act to any person, group or body for any purpose considered to be in the best interests of the municipality. However, prior to recommending such a loan to Council, staff will consider the following:

- Purpose of loan/benefit to be derived must be a public agency or group
- Term of loan not to exceed five years
- Appropriate security is provided to protect the interests of the Corporation
- A financial profile of borrower
- If adequate reserves are available for term of loan

All loans will be provided from non-restricted reserves such as the Working Capital Reserve or the General Capital Reserve as direct loan investment of reserve funds is prohibited under provincial legislation. External loans must bear market rates of return, commensurate with the term of loan and be credited to the appropriate reserve source.



Figure 8 - City of Vaughan Reserve Policy - Reserve Fund Transfer Process Extract

This figure shows the withdrawal/transfer requirements section as included in the City of Vaughan reserve policy for example purposes of information which the Corporation may consider including as part of its reserve policy as it relates to the repurposing of reserve funds.

Withdrawal/Transfers

- All withdrawals/transfers shall be authorized through budget, policy or specific Council approval
- Transfers from reserves to other budgets will occur per policy or by Council approval through items or the budget process. Transfers will occur quarterly, as needed, unless specific direction is otherwise provided.
- Under no circumstances should a withdrawal /transfer place a reserve or reserve fund in a negative position
- To maximize interest earning efforts, payments and external transfers will occur no earlier than 5 days before the payment due date, unless favourable payment discount options are available or authorized by the Commissioner of Finance/City Treasurer
- Exceptions to the above are permitted if authorized by Council and/or related legislation.



Figure 9 - Overall Reserve Fund Policy – Comparison to other Municipalities

The purpose of this table is to identify sections in the reserve fund policy of four municipalities (City of Waterloo, York Region, Town of Parry Sound, and City of Vaughan) that were not present in the Corporation’s Policy:

Policy Element	Importance of Policy Element	Municipalities that had a section dedicated to this element:	KPMG comments on policy element specific to the City of Oshawa
Definition Section	<ul style="list-style-type: none"> A section that defines terms used in the reserve fund process and/or reserve fund policy reduces the likelihood that the concepts within the policy are applied incorrectly. This is done by providing users of the policy with a common understanding of the differences between the types of reserves managed by the municipality. 	<ul style="list-style-type: none"> City of Waterloo York Region Town of Parry Sound City of Vaughan 	<p>It is recommended that the Corporation’s Reserve Fund Policy consider including a definition section with terms relevant to the city, and may include (but not limited to):</p> <ul style="list-style-type: none"> Discretionary Reserve Non-Discretionary Reserve Operating Reserve Capital Reserve Development Charge Reserve Reserve Reserve Fund
Responsibilities Section	<ul style="list-style-type: none"> Having defined responsibilities ensures that accountability for the management of reserves has been communicated. In addition, having defined responsibilities allows users of the policy to quickly identify the parties to which they can address their questions. For the parties involved in the reserve fund process, having defined responsibilities ensures that accountability exists. 	<ul style="list-style-type: none"> York Region Town of Parry Sound 	<p>It is recommended that the Corporation’s Reserve Fund Policy consider including a responsibilities section with defined responsibilities for the following parties:</p> <ul style="list-style-type: none"> Finance Services Branch Executive Director, Finance Services/Treasurer Capital Budgeting Team City Council



Policy Element	Importance of Policy Element	Municipalities that had a section dedicated to this element:	KPMG comments on policy element specific to the City of Oshawa
			<ul style="list-style-type: none"> • Department Directors
Management of Reserve Funds - Establishing & Closing a Reserve or Reserve Fund	<ul style="list-style-type: none"> • By defining the requirements that need to be met as it relates to opening and closing a reserve, there is an increased likelihood that the decision making process for segregating funds for specific purposes will be made on a consistent basis. Failing to meet one of the requirements needed to setup a new reserve fund outlined in a reserve fund policy may indicate that more analysis is needed before funds are designated as being set aside for a specific purpose. 	<ul style="list-style-type: none"> • York Region • Town of Parry Sound 	It is recommended that the Corporation's Reserve Fund Policy consider including the following requirements be documented in a plan presented to City Council as it relates to introducing a new reserve: <ul style="list-style-type: none"> • A business case establishing the need for the reserve and expenditures to be funded from the reserve • Contribution sources for future funding of the reserve • Projected disbursements from the reserve • Target funding level to be maintained In terms of the requirements to be met related to the closing of an existing reserve, it is recommended that the Corporation's Reserve Fund Policy outline the following be documented during the closing process: <ul style="list-style-type: none"> • The reason for the closure of the reserve or reserve fund • The disposition of remaining funds
Management of Reserve Funds - Establishing a Reserve Funding Target Level	<ul style="list-style-type: none"> • By requiring that reserve target balances are established, a municipality is ensuring that it minimizes the need for borrowing 	<ul style="list-style-type: none"> • York Region • Town of Parry Sound • City of Vaughan 	It is recommended that the Corporation's Reserve Fund Policy consider outlining that a reserve funding level be established for each reserve and reviewed on an annual basis. The



Policy Element	Importance of Policy Element	Municipalities that had a section dedicated to this element:	KPMG comments on policy element specific to the City of Oshawa
	funds to meet future infrastructure financing requirements.	<ul style="list-style-type: none"> City of Waterloo 	basis for establishing a reserve target level can reference the following metrics: <ul style="list-style-type: none"> Projected disbursements from the reserve Planned capital projects included in the nine year capital forecast Economic Factors (Inflation, Interest Rates) Historical use of funds from the reserve
Management of Reserve Funds - Transferring of Reserves and Reserve Funds for Other Purposes	<ul style="list-style-type: none"> By clearly outlining when transfers between reserves are permitted, a municipality is ensuring that the likelihood of reserve funds being used for purposes that are not aligned with the initial purpose for segregating the funds is minimized. 	<ul style="list-style-type: none"> York Region City of Vaughan 	It is recommended that the Corporation's Reserve Fund Policy consider outlining its policy in relation to the transferring of reserves and the use of reserve funds for other purposes.
Management of Reserve Funds – Approval for Withdrawals	<ul style="list-style-type: none"> Having a clear delegation of authority as it relates to authority over reserve fund withdrawals, ensures that a certain level of review is completed before funds are used. 	<ul style="list-style-type: none"> York Region Town of Parry Sound City of Vaughan 	It is recommended that the Corporation's Reserve Fund Policy consider outlining that approvals for withdrawals are completed during the budgeting process. Any withdrawals from operating reserves that are a result of an unplanned expenditure must be approved by the Corporation Finance Services Branch.
Management of Reserve Funds – Operations Surplus Policy	<ul style="list-style-type: none"> A surplus management policy helps to ensure that a proactive approach is taken to managing operating surpluses and that long-term priorities relating to the use of reserve funds receive additional funding when available. 	<ul style="list-style-type: none"> York Region Town of Parry Sound City of Vaughan 	It is recommended that the Corporation's Reserve Fund Policy consider outlining the priority of reserve funds to be funded in the event of an operating surplus. The priority of reserves that will be receiving operating surpluses should reflect a ranking that is consistent with the risk that the reserve funds were created to mitigate.



Policy Element	Importance of Policy Element	Municipalities that had a section dedicated to this element:	KPMG comments on policy element specific to the City of Oshawa
Management of Reserve Funds – Investment of Reserve Funds	<ul style="list-style-type: none"> By specifying the nature in which reserve funds can be invested, a more accurate planning approach can be undertaken as it relates to forecasting projected contributions to a reserve fund (i.e. interest). 	<ul style="list-style-type: none"> York Region Town of Parry Sound City of Vaughan 	It is recommended that the Corporation’s Reserve Fund Policy consider outlining the current practice that the investment of reserve funds be made according to the Corporation Investment Policy.
Management of Reserve Funds – Temporary Reserve Borrowing	<ul style="list-style-type: none"> By specifying the certain circumstances in which funding should be borrowed to make reserve fund contributions, the likelihood that unfavourable borrowing terms are used is reduced. 	<ul style="list-style-type: none"> Town of Parry Sound City of Vaughan 	It is recommended that the Corporation’s Reserve Fund Policy consider outlining its policy around temporary reserve borrowing.
Reporting Requirements	<ul style="list-style-type: none"> Having defined reporting requirements ensures that reserves are actively monitored and issues are identified in a timely manner. 	<ul style="list-style-type: none"> York Region Town of Parry Sound City of Vaughan 	<p>It is recommended that the Corporation’s Reserve Fund Policy consider including guidance around it’s reporting requirements, and may include (but not limited too):</p> <ul style="list-style-type: none"> Annual Audited Financial Statements Long-Term Reserve Fund Forecast Reports Periodic Year to Date Reserve Spending Reports Development Charge Reserve Fund Financial Statements



Observations

- In three out of four reserve fund policy's that were used to assess the Corporation's Reserve Fund Policy, a section outlining the reporting of reserves had been defined. However, in the Corporation Policy, no section outlining reserve reporting requirements has been included. **(Recommendation Two)**
- The extracts below (Figures 10 – 12) outline the reporting requirements for reserve funds as noted in the reserve fund policies maintained by York Region, the Town of Parry Sound, and the City of Vaughan.
- The other municipality policies that were reviewed had the following common reporting requirements:
 - A long-term forecast report/continuity schedule that summarizes the forecasted reserve balances based on the long-term capital plans of the municipality.
 - Year-end audited financial statements that include a note disclosure related to the balance of reserves
 - Periodic reviews/year to date reports that highlight reserve spending
 - Financial Statements related to development charge reserve funds which is then subsequently forwarded to the Minister of Municipal Affairs and Housing.
- It was observed that the Corporation is currently not performing Periodic reviews/year to date reports that highlight reserve spending. **(Recommendation Two)**



Figure 10 - York Region Reserve Policy - Reporting Requirements Extract

This figure shows the reporting requirements section as included in the York Region reserve policy for example purposes of information which the Corporation may consider including as part of its reserve policy

c) Reporting Requirements

The Commissioner of Finance will prepare the following reports:

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Reserve and Reserve Fund Policy December 14, 2017

Annual Audited Financial Statements

Shall include a statement of financial position, financial activities and changes in fund balances for all reserves and reserve funds and as well, separately for outstanding sinking funds.

Long-Term Forecast Report

A report will be prepared annually identifying a reserve forecast of all reserves and reserve funds based on the Long-Term Capital Plan approved by Council and any other relevant information.

Periodic Adequacy Review of Report

Periodically a comprehensive review of the reserves and reserve funds will be made to determine if balances are adequate or the need for particular reserve or reserve funds shall exist or if new reserves or reserve funds are required.

Annual Budget and Business Plan

Contributions to and budget appropriations from reserves and reserve funds will normally be approved by Council as part of the annual Business Plan and Budget or specifically by resolution with the exception of those instances noted above.



Figure 11- Town of Parry Sound Reserve Policy – Reporting Requirements Extract

This figure shows the reporting requirements section as included in the Town of Parry Sound policy for example purposes of information which the Corporation may consider including as part of its reserve policy

Annual Reporting

Reporting of Reserves and Reserve Funds will occur through the following processes:

1. A year to date continuity schedule will be included in quarterly variance reports to Council.
2. As required under development charge legislation, if and when a Development Charges By-law is enacted by Council, the Director of Finance will provide Council with a financial statement related to the Development Charge By-law and include information regarding development charge reserve funds. This statement will then be forwarded to the Minister of Municipal Affairs and Housing within 60 days after Council receipt.
3. Year-end audit and financial statements - balances of reserves, both obligatory and discretionary reserves and reserve funds will be presented with note disclosure and comparative figures as required to meet PSAB reporting standards.
4. Where required, reporting to Council or other agencies may exist for reserved residual balances related to grants or other contributed funds (eg. Federal and Provincial Grants).



Figure 12 - City of Vaughan Reserve Policy - Reporting Requirements Extract

This figure shows the reporting requirements section as included in the City of Vaughan policy for example purposes of information which the Corporation may consider including as part of its reserve policy

Monitoring and Reporting

Reporting of reserves will occur through the following actions:

1. A four year Reserve Fund continuity schedule based on commitments, approved and recognized projects, policy requirements, and projected contributions will be presented as part of each budget process.
2. A year to date budget vs. actual continuity schedule will be included in quarterly variance reports to

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**CITY OF VAUGHAN
POLICY MANUAL**

SECTION: Finance and Corporate Services	POLICY NO.: XXXX
DEPARTMENT: Budgeting & Financial Planning	SUBJECT: Consolidated Reserve Policy

Council.

3. As required under development charge legislation, the Commissioner of Finance/City Treasurer will provide Council with a financial statement related to the Development Charge By-law and include information regarding development charge reserve funds. This statement will then be forwarded to the Minister of Municipal Affairs and Housing within sixty days after Council receipt.
4. Year-end audit and financial statements - Balances of reserves, both obligatory and discretionary reserve funds, will be presented with note disclosure and comparative figures.
5. Where required, reporting to Council or other agencies may exist for reserved residual balances related to grants or other contributed funds i.e. (Federal and Provincial Grants).

Reserve fund reporting and monitoring will be centrally administered through the Budgeting and Financial Planning Department with direct input from related City department staff. As required, the Budgeting and Financial Planning Department will make recommendations regarding balance adequacy, target levels, contributions, reserve allocations, etc.



Appendix B: Analysis of Reserve Funds

As part of the Corporation's 2016-2019 Financial Strategy, two financial indicators from an annual municipal study conducted by Bruzzese Minshull & Associates Inc. Management Consulting (BMA) which includes statistics related to population growth, tax rates, and development charges were used to assess the Corporation's reserve fund practices in comparison to other municipalities. Municipalities participating in the BMA study represent approximately 85% of Ontario's population. The two key reserve fund indicators selected from the BMA study were Tax Discretionary Reserves as a Percent of Taxation and Discretionary Reserves as a Percent of Own Source Revenues. The first indicator (Tax Discretionary Reserves as a Percent of Taxation) provides the total tax discretionary reserve and reserve funds held by a municipality in relation to total taxation. The second indicator (Discretionary Reserves as a Percent of Own Source Revenue) shows the total value of funds held in reserves and reserve funds compared to a single year's own source revenue. Both indicators can signal the strength of a municipality's financial stability, specifically since reserves offer liquidity which enhances the municipality's ability to address operating requirements and to temporarily fund capital projects internally.

It was noted in the Corporation 2016-2019 Financial Strategy that in terms of tax discretionary reserves (discretionary reserves funded from property taxes) as a percent of taxation, Oshawa showed an increase from 31% in 2009 to 38% in 2013, but still lagged behind other municipalities. Similar to the first indicator, in the Corporation 2016-2019 Financial Strategy, the City's 2013 discretionary reserves as a percent of own source revenue was 29% compared to the survey average of 50%.

An update to the analysis included in the 2016-2019 Financial Strategy was completed using the 2017 BMA Study. Continued growth in terms of the financial indicators selected would demonstrate the City's commitment to long term fiscal sustainability by having adequate and appropriately funded reserves. Per our analysis, it was noted that the tax discretionary reserves as a percentage of taxation financial indicator has grown since 2013. The Corporation is still behind its peers (Burlington and Cambridge) with regards to this indicator but has increased its tax discretionary reserves as a percentage of total taxation by 14% since 2013 to 52% in 2016. Similarly to the first indicator, the second indicator has grown by 8% since 2013 to 37% in 2016. The analysis suggests that Oshawa is on a positive trajectory to increasing its reserve balances.

Graphs outlining the historical calculations of each indicator and the year over change in the indicator have been included below.



Figure 13 – Tax Discretionary Reserves as a % of Taxation

This figure provides a comparison between the Corporation, Burlington and Cambridge Tax Discretionary Reserves as a % of Taxation

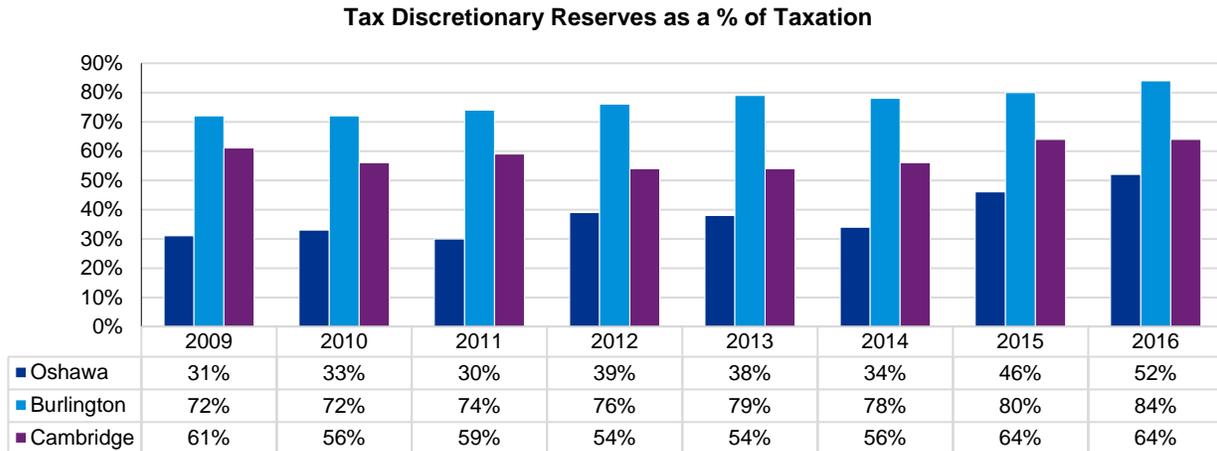


Figure 14 – Tax Discretionary Reserves as a % of Taxation – Yearly Change

This figure provides a comparison between the Corporation, Burlington and Cambridge Tax Discretionary Reserves as a % of Taxation – Yearly change as an indicator of the progress being made of the respective municipalities

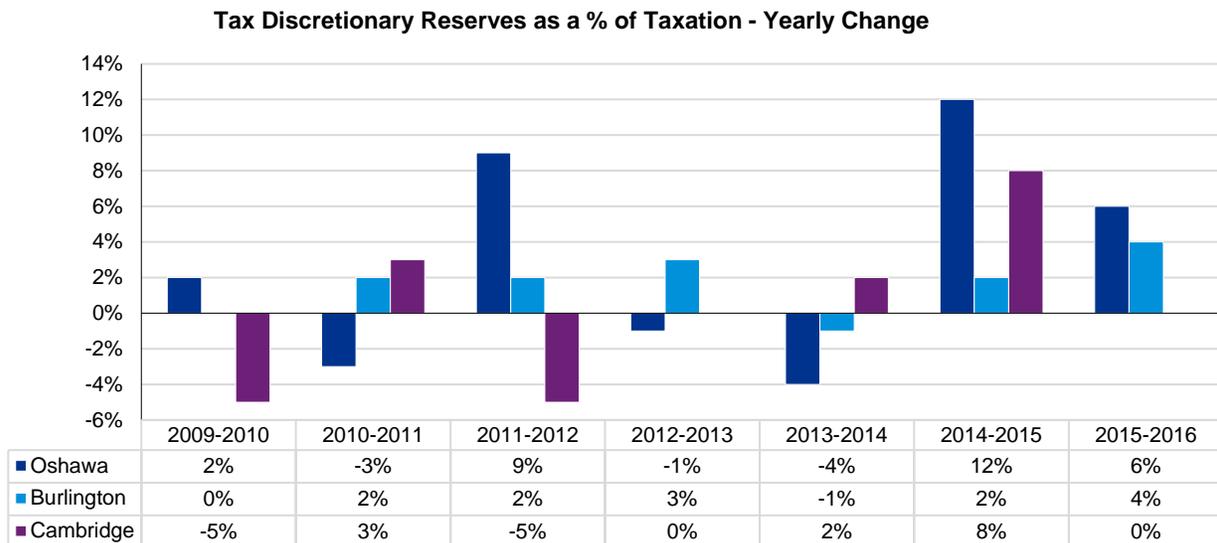




Figure 15 – Tax Discretionary Reserves as a % Own Source Revenue

This figure provides a comparison between the Corporation, Burlington and Cambridge Tax Discretionary Reserves as a % Own Source Revenue

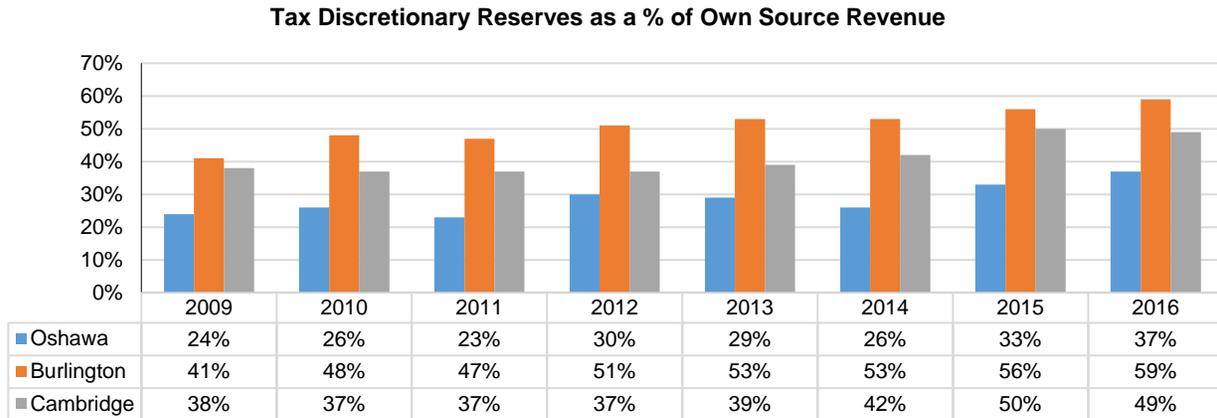
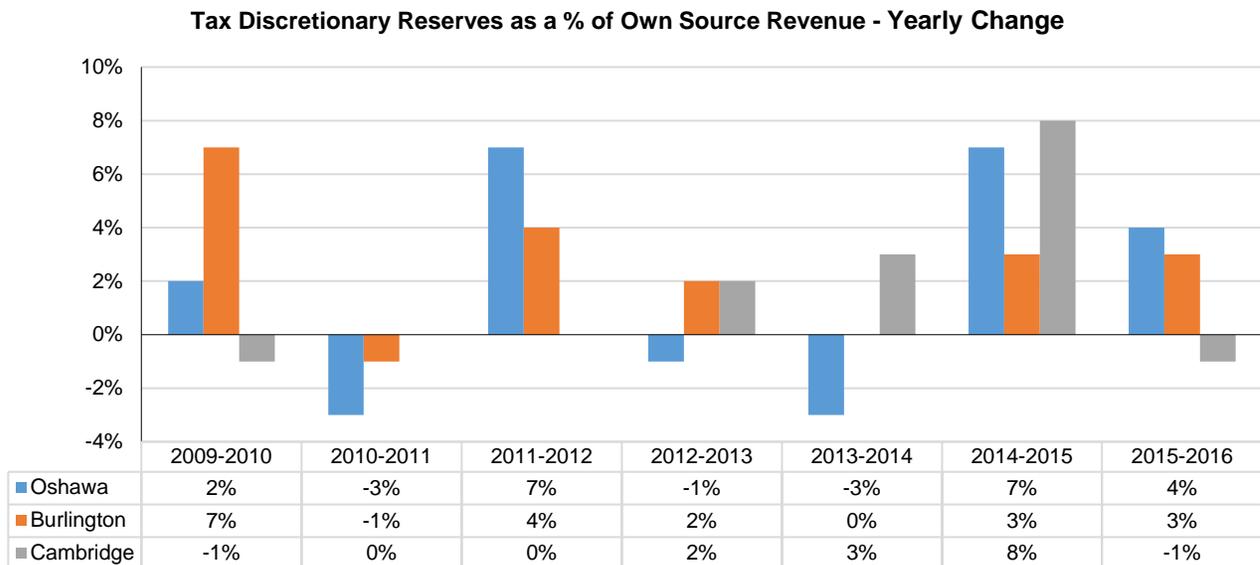


Figure 16 – Tax Discretionary Reserves as a % Own Source Revenue – Yearly Change

This figure provides a comparison between the Corporation, Burlington and Cambridge Tax Discretionary Reserves as a % Own Source Revenue – Yearly Change as an indicator of the progress being made of the respective municipalities





Appendix C: Staff Involvement and Documents Reviewed

We undertook interviews during April and May 2018 with key stakeholders to inform this work, including:

Stephanie Sinnott	Commissioner, Finance Services / Treasurer
Michelle Bretherick	Manager, Financial Reporting and Planning

We received the following documentation over the course of fieldwork:

- 2016-2019 Financial Strategy (Report FIN-15-102)
- Reserve and Reserve Fund Policy (Report FIN-17-90)
- Annual Reports on Development Charges (FIN-16-68 and FIN-17-64)
- Reserve and Reserve Fund Balance Reports sent to the Finance Committee (FIN-16-38 and FIN-16-73)
- 2017 Approved Capital Budget and accompanying capital project detail sheets
- 2019-2026 Capital Budget Submission
- Operating Reserve Continuity Schedule
- Capital Reserve Continuity Schedule
- FIN-16-17 City of Oshawa Corporate Investment Policy