



Staff Report

Corporate & Financial Services

Report To: COW- Admin, Corp and Finance, SI, Comm. Services
Meeting Date: March 16, 2026
Report Number: CFS.26.020
Title: Reserve Policies
Prepared by: Monica Quinlan, Director of Corporate & Financial Services

A. Recommendations

THAT Council receive Staff Report CFS.26.020, entitled "Reserve Policies";

AND THAT Council approve the Reserve & Reserve Fund Policy (POL.COR.26.XXX) attached as Attachment 1.

B. Overview

The purpose of this report is to present a proposed Reserve and Reserve Fund Policy for Council's consideration.

The policy establishes a consistent framework governing the creation, management, and use of reserves and reserve funds and clarifies the relationship between reserve use and the financial oversight provisions contained in the Town's Budget Policy.

The proposed policy forms part of a broader effort to strengthen the Town's financial governance framework. Together with the recently developed Budget Policy and the Procurement Policy update, the Reserve Policy provides clear guidance regarding financial oversight, reserve management, and long-term financial planning.

These policies represent important building blocks in the development of a comprehensive financial management framework for the Town. Future steps will include the development of a Debt Management Policy and a Long-Term Financial Plan to further support sustainable infrastructure investment, responsible financial stewardship, and informed decision-making by Council.

C. Background

Further to Council direction in December 2025, staff have undertaken a review of the Town's financial governance policies, including the Budget Policy, Procurement Policy, and Reserve and Reserve Fund Policy.

Reserves and reserve funds play an important role in municipal financial planning by providing financial capacity to address infrastructure needs, manage financial risks, and support strategic priorities identified by Council.

Over time, municipalities often establish reserves for specific programs, initiatives, or infrastructure investments. While each reserve may have been appropriate when created, the cumulative effect can result in a reserve structure that becomes increasingly complex as municipal programs evolve.

The proposed Reserve and Reserve Fund Policy provides a modern framework for the management of reserves while maintaining those reserves required for legislative compliance or long-term financial planning.

D. Analysis

1. Modernizing the Town's Reserve Framework

The Town currently maintains a number of reserves and reserve funds that have been created over time to support specific operational, infrastructure, or strategic needs.

This incremental evolution of reserve structures is common across municipalities. Reserves are often created to support new initiatives, infrastructure investments, legislative requirements, or strategic priorities of Council.

While these reserves may have served appropriate purposes when established, the cumulative effect over time can result in a reserve structure that becomes fragmented and more difficult to manage strategically.

The proposed policy introduces a clearer framework that groups reserves into broader categories aligned with financial stability, infrastructure lifecycle funding, and strategic initiatives while preserving those reserves that must remain separate due to legislative requirements or operational considerations.

The intent of this review is therefore not to correct past practices, but to ensure the Town's reserve framework continues to evolve alongside modern municipal financial planning practices.

2. Alignment with the Town's Financial Governance Framework

The proposed Reserve Policy is designed to operate alongside the Town's broader financial governance framework, including:

- Budget Policy
- Procurement Policy
- Asset Management Plan
- Long-Range Financial Planning

These policies collectively establish the framework through which the Town manages financial planning, capital investment, and financial oversight.

The Budget Policy establishes the variance reporting and approval requirements governing when financial changes must be brought forward to Council. In particular, Council approval is required where an operating variance exceeds **\$25,000** or where a variance requires a transfer from reserves that was not previously approved as part of the adopted budget.

The Reserve Policy complements this framework by clarifying how reserves are structured, funded, and used within the Town's financial planning processes.

3. Clarifying Reserve Transfers

During policy development it was recognized that the requirement for Council approval where a variance requires the use of reserves could benefit from practical clarification.

In general terms:

- Where Council has already approved the use of a reserve within the annual budget, staff may proceed within that approved funding framework.
- Where a variance occurs during the year and staff propose using a reserve that was not identified as a funding source in the approved budget, Council approval is required.

For example:

Scenario A – Reserve Use Previously Approved

Council approves a capital project funded in part by the Fleet Replacement Reserve. If the project proceeds as planned, the reserve withdrawal may occur without additional Council approval because the funding source was already approved as part of the adopted budget.

Scenario B – Reserve Use Not Previously Approved

If an unexpected operating cost arises and staff propose funding the variance from the Operating Stabilization Reserve, Council approval would be required where the reserve use was not identified in the approved budget.

These provisions ensure that reserve balances remain under Council oversight while still allowing administrative flexibility for minor adjustments.

4. Interest Allocation

The policy also clarifies how interest earned on invested funds is allocated between reserves and reserve funds.

Reserve funds that are established under legislation or that hold externally restricted funds retain the interest earned on those balances. This approach reflects the restricted nature of those funds and is consistent with common municipal practice.

At the same time, certain reserves that support long-term infrastructure replacement—particularly asset lifecycle reserves, may also receive interest allocations. These reserves often accumulate funds over extended periods in order to finance the replacement of municipal infrastructure. Allowing these balances to earn interest helps maintain their purchasing power over time and supports the Town’s asset management funding strategy.

General operating reserves, such as stabilization reserves, typically do not 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 where appropriate.

5. Target Reserve Balances

The policy establishes general guidance for target reserve balances while recognizing that these balances may be achieved gradually through the annual budget process.

Rather than establishing rigid funding requirements, the policy provides guidance ranges that support long-term financial planning while allowing flexibility as financial conditions evolve.

For example:

- the Operating Stabilization Reserve provides financial flexibility to manage operating volatility;
- lifecycle reserves are aligned with the Town’s Asset Management Plan and long-term capital planning; and
- emergency reserves are based on a risk-informed assessment of potential municipal exposure to emergency events.

6. Supporting Long-Term Infrastructure Planning

A key objective of the proposed policy is to align reserve planning more closely with the Town’s Asset Management Plan.

Municipal infrastructure assets provide services to the community over extended periods of time and require ongoing investment to maintain service levels. Lifecycle reserves allow the Town to plan for future infrastructure renewal in a structured and financially sustainable manner.

By organizing reserves around major asset categories, the Town will be better positioned to support long-term infrastructure investment while maintaining transparency in financial reporting.

7. Next Steps

The proposed Reserve and Reserve Fund Policy represents one component of a broader financial governance framework currently being developed for the Town.

Following the adoption of the Budget Policy and the proposed Reserve Policy, staff intend to continue strengthening the Town's long-term financial planning framework through the development of additional financial policies and planning tools.

Key next steps include the following.

a. Debt Management Policy

Staff will develop a Debt Management Policy to establish guidelines for the use of municipal debt, including:

- principles governing when debt financing is appropriate;
- limits on debt servicing relative to municipal revenues;
- alignment with infrastructure lifecycle planning; and
- consideration of intergenerational fairness when financing long-lived infrastructure assets.

A Debt Management Policy will help ensure that borrowing decisions are made within a consistent and transparent financial framework.

b. Long-Term Financial Plan

Staff will also develop a Long-Term Financial Plan to support sustainable financial planning over a multi-year horizon.

The Long-Term Financial Plan will:

- integrate reserve planning, debt management, and capital investment decisions;
- align with the Town's Asset Management Plan and infrastructure lifecycle need
- evaluate long-term operating and capital funding requirements; and
- assist Council in understanding future financial pressures and funding strategies.

Developing a Long-Term Financial Plan will provide Council with a comprehensive view of the Town's long-term financial sustainability and support informed decision-making regarding infrastructure investment and service levels.

c. Continued Integration of Financial Governance Policies

Together, the Budget Policy, Reserve and Reserve Fund Policy, upcoming Debt Management Policy, and the Long-Term Financial Plan will form the foundation of the Town's financial governance framework.

These tools will help ensure that:

- financial decisions remain transparent and well governed;
- infrastructure investments are aligned with long-term planning; and

- the Town maintains financial flexibility to respond to changing conditions.

E. Strategic Priorities

1. Communication and Engagement

We will enhance communications and engagement between Town Staff, Town residents and stakeholders

2. Organizational Excellence

We will continually seek out ways to improve the internal organization of Town Staff and the management of Town assets.

F. Environmental Impacts

N/A

G. Financial Impacts

The proposed policy does not in itself change the Town's current reserve balances.

Rather, it establishes a framework for the management of reserves and reserve funds and provides guidance for future financial planning and reserve contributions through the annual budget process.

Over time, the policy will support improved financial planning by aligning reserve balances with infrastructure lifecycle needs and financial risk management.

H. In Consultation With

N/A

I. Public Engagement

The topic of this Staff Report has not been the subject of a Public Meeting and/or a Public Information Centre as neither a Public Meeting nor a Public Information Centre are required. However, any comments regarding this report should be submitted to Monica Quinlan, Director of Corporate & Financial Services directorcfs@thebluemountains.ca.

J. Attached

1. Draft Reserve & Reserve Fund Policy – POL.COR.26.XXX

Respectfully submitted,

Monica Quinlan,
Director of Corporate & Financial Services

For more information, please contact:
Monica Quinlan, Director of Corporate & Financial Services
directorcfs@thebluemountains.ca
519-599-3131 extension 231

Report Approval Details

Document Title:	CFS.26.020 Reserve Policies.docx
Attachments:	- Att 1 -POL.COR.26.XXX Reserve_ReserveFundPolicy.pdf
Final Approval Date:	Mar 12, 2026

This report and all of its attachments were approved and signed as outlined below:

Monica Quinlan - Mar 12, 2026 - 12:24 PM



Reserve & Reserve Fund Policy

POL.COR.26.XXX

Policy Title

Policy Type: Corporate Policy (Approved by Council)

Date Approved: TBD

Department: Corporate and Financial Services

Staff Report: CFS.26.020 Reserve Policies

By-Law No.: 2026-XXX-XX

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 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

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. Can-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
- Procurement Policy
- 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.