

## LONDON PUBLIC LIBRARY POLICY

Title of Policy: Reserve and Reserve Fund Policy

Policy Type: Board Operational Linkage

Policy No: F-AM-05

Effective Date: October 23, 2020

Review: June 2023

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### **PURPOSE:**

A Policy governing the management and administration of reserves and reserve funds.

### **POLICY STATEMENT:**

The purpose of the Policy is to establish guiding principles, primary objectives, key management and administrative responsibilities, and standards of care for reserves and reserve funds managed by the London Public Library (“LPL”).

### **SCOPE:**

This Policy applies to all reserves and reserve funds administered by LPL (see Appendix A).

All of the LPL reserves and reserve funds administered by the City of London will follow the *City of London’s Reserve and Reserve Fund Policy* (see Appendix B).

Furthermore, this Policy applies to all LPL employees who are responsible for the establishment, monitoring, administration and management of LPL’s reserves and reserve funds.

### **DEFINITIONS:**

**‘Capital Asset Renewal & Replacement’** is a category of reserve funds established to provide funding for the repair and maintenance of existing LPL assets to ensure LPL owned assets do not deteriorate over time.

**‘Contingencies/Stabilization & Risk Management’** is a category of reserves and reserve funds designed to fund future obligations which are based on calculated estimates and to mitigate unforeseen events or one-time unanticipated revenue losses and expenses.

**‘Discretionary Reserves and Reserve Funds’** are a reserve or reserve fund created by the Board to set aside revenue to finance a future expenditure for which the Board has the authority to spend money.

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**'PSAB'** refers to the Public Sector Accounting Board, an independent board with the authority to set accounting standards for the public sector.

**'Reserves'** are an appropriation from net revenue and/or cost savings at the discretion of the Board, after the provision for all known expenditures. It has no reference to any specific asset and does not require the physical segregation of money or assets as in the case of a reserve fund.

**'Reserve Fund'** are funds that have been set aside either by a Board motion or by a requirement of senior government statute or agreement to meet a future event.

### **POLICY REQUIREMENTS:**

#### Principles & Objectives

The guiding principles for reserves and reserve funds shall be:

- a) *Budget and Strategic Financial Plan* – reserves and reserve funds shall form an integral component of LPL's budget and strategic financial plan.
- b) *Liquidity* – reserves and reserve funds shall be kept at an adequate level to ensure LPL has sufficient cash flow to meet its financial obligations.
- c) *Adherence to Statutory Requirements* – it shall be LPL's practice to establish and maintain segregated reserve funds that meet all statutory requirements.
- d) *Promotion of Financial Stability and Flexibility* – LPL shall strive to maintain reserves and reserve fund levels in line with public service associations' recommended best practices, PSAB, other public libraries and municipalities.

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### Reserve and Reserve Fund Management

#### *Establishment and Modification of Reserves and Reserve Funds:*

- a) Reserves and reserve funds shall only be established or modified if they are supported by a financial plan identifying the funding needs, targets, contribution sources, projected drawdowns and investment of funds.
- b) Target funding levels shall be established for every reserve and reserve fund. Methods for calculating reserve and reserve fund targets shall be determined on a case-by-case basis considering the following:
  - Purpose of fund,
  - Certainty of end needs,
  - Best practices/standards regarding the identification of need and target balance levels, and
  - Economic factors.
- c) Reserve and reserve fund balances and associated targets shall be reviewed periodically to ensure adequate reserve and reserve fund levels are maintained for a ten year period.

#### *Investment of Reserves and Reserve Funds:*

- a) Reserves and reserve funds shall be invested in accordance with the Board approved *Investment Policy*;
- b) Interest earned on reserves shall be recognized as revenue in the operating budget;
- c) Interest earned on reserve funds shall be recognized as revenue in each specific reserve fund according to its proportionate share of the investment portfolio.

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### *Contributions To/Drawdowns From Reserves and Reserve Funds:*

- a) Contributions to/drawdowns from reserves and reserve funds shall be made in accordance with applicable Board Motion and this Policy.
- b) Contributions to/drawdowns from reserves and reserve funds shall be approved by the Board as part of the annual budget process, or specifically by a Board Motion
- c) Board approved contributions to/drawdowns from reserves and reserve funds not realized shall be reported to the Board as part of the budget monitoring reports, or budgetary process.

### *Termination of Reserves and Reserve Funds:*

- a) A discretionary reserve or reserve fund shall be terminated (wound down and closed) when the program or project it supports meets any of the following criteria:
  - No longer in the scope of the LPL's strategic plans;
  - Program commitments have been completed and no future commitments are expected; and
  - The CEO & Chief Librarian and Director, Financial Services are confident that balances in other areas can mitigate the need to hold any remaining reserve or reserve fund balance.
- b) Reserves or reserve funds identified for termination shall be reported to the Board for review and approval. Board Reports shall include recommendations regarding the timing of wind down, closure and the allocation of fund balances.

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### Standard of Care

#### *Delegation of Authority:*

- a) Once the Board approves reserves by a Board Motion, the Director, Financial Services shall have overall authority for the reserves managed by LPL.
- b) The Director, Financial Services may delegate management authority over the reserves managed by LPL to a designate.
- c) The Director, Financial Services, or designate has the responsibility for setting reserve targets, it being noted targets will be periodically reported to the Board through reserve and reserve fund reports (see Reporting Requirements below).
- d) The Director, Financial Services, or designate shall have overall responsibility for this Policy, and the authority to implement a program for reserves and reserve funds and establish procedures consistent with the content of this Policy. Administrative responsibilities shall include, but are not limited to the following:
  - Determines need for reserves and reserve funds for operating and capital budgets.
  - Sets targets for reserves and reserve funds in line with directives contained in this Policy and other pertinent policies.
  - As part of reporting to the Board, reviews and reports on the adequacy and continuing need for reserves and reserve funds managed by LPL.
  - Preparation and presentation of reports and/or Board Motions associated with the establishment, monitoring, or termination of reserves and reserve funds.
  - Develops appropriate practices, procedures and processes for the investment of reserves and reserve funds in line with legislative

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requirements, the *LPL's Investment Policy* and other pertinent policies.

- Prepares the LPL's long-term strategic financial plan with consideration of appropriate reserves and reserve funds to effectively meet the LPL's operating and capital budget financing needs.
- Ensures reserves and reserve funds managed by the LPL are in line with senior government statutes and agreements and other pertinent policies.

### *Reporting Requirements:*

- a) The Director, Financial Services, or designate shall prepare the following reports regarding reserves and reserve funds managed by LPL:
  - Annual Audited Financial Statements - the annual audited financial statements shall include a statement of financial position, financial activities, and changes in fund balances for reserves and reserve funds.
  - Reserve and Reserve Fund Report - a financial plan forecasting reserve and reserve fund balances and a comparison to target objectives shall be prepared periodically based on the most current information available; this report may include the establishment of new, modification of existing and termination of existing reserves and reserve funds.
  - Other reports in line with this Policy shall be brought forward to the Board, as needed.

### **INQUIRIES:**

CEO & Chief Librarian  
Director, Financial Services

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### **KEYWORDS:**

Reserve

Reserve Funds

### **RELATED DOCUMENTS:**

City of London's Reserve and Reserve Fund Policy

LPL's Investment Policy

### **DOCUMENT CONTROL:**

Approved:

Reviewed:

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### APPENDIX A

#### Reserves Held by LPL

Reserve	Objective of Fund	Rules of Usage	Source of Financing	Funding Target
<b>Stabilization</b>	To mitigate the impacts of unforeseen events, extraordinary expenditures or reductions in revenue.	Source of funding for operating deficit resulting from unforeseen events or reductions in revenue.	Funded from the annual operating budget surplus.	2%-5% of annual operating budget
<b>Collections</b>	To mitigate the impact of timing for orders made towards the end of the year and/or to finance new initiatives within Collections.	Source of funding for prior year orders and new initiatives in Collections.	Funded from the annual Collections operating budget surplus.	N/A

*These reserves represent a non-sustainable source of annual funding and are not recommended for use on a routine basis.*



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### APPENDIX B

#### LPL Reserve Funds Held by the City of London

Reserve	Category	Purpose
<b>Library Facilities, Vehicle and Equipment Reserve Fund</b>	Capital Asset Renewal & Replacement	This reserve fund was established to provide funding towards the cost of new library facilities, major repairs and maintenance of such facilities and for the replacement and acquisition of LPL vehicles and equipment.
<b>London Public Library Sick Leave Reserve Fund</b>	Contingencies/ Stabilization & Risk Management	This reserve fund was established to provide funds for the payment of vested sick leave benefits to eligible employees of LPL.

*These reserve funds adhere to the City of London's Reserve and Reserve Fund Policy.*