



CORPORATE POLICY

Sub Topic: Asset Replacement Funds	Policy No. FIN.6.01
Topic: Financial Services Policy	Employees Covered: All employees
Section: Financial Services	Council Adoption Date: May 7, 2018
Effective Date: May 8, 2018	Revision No:N/A Date: N/A

Policy Statement & Strategic Plan Linkages

The Corporation of the Town of Newmarket strives for the best practice of fiscal management to maintain financial stability and flexibility, while adhering to statutory requirements. This policy is in line with the Town's "Well Equipped & Managed" Strategic Plan objective.

Purpose

This policy is to establish guidelines for the creation, consolidation, closure and management of asset replacement funds to achieve long-term financial flexibility and sustainability.

Definitions

Town: Refers to the Corporation of the Town of Newmarket.

Capital Asset: An asset that is over a certain threshold as determined by the Town's Tangible Capital Assets Policy and has a useful life of longer than one year and is not intended for sale during the normal course of business.

Amortization expense: The annual allocation of the cost of a capital asset based on its useful life – often referred to as "depreciation."

Annual Operating Program: Refers to yearly ongoing major repairs and maintenance work related to the Town's capital assets such as roads, facilities, parks, etc.

BMA Study: Refers to the annual municipal study conducted by the BMA Management Consulting Inc.

Procedures

Objectives of Asset Replacement Funds

The primary objectives for asset replacement funds shall be:

- a) To maintain adequate funds to replace, rehabilitate and upgrade tangible capital assets as required;
- b) To promote long-term financial flexibility and sustainability;
- c) To ensure fairness & equity to current and future taxpayers

The highest priorities are to safeguard public health and safety, and to maintain existing levels of service.

Category of Asset Replacement Funds

Asset replacement funds will be maintained in the appropriate categories as defined in the Asset Management Plan (AMP). The Treasurer may revise the categories as necessary from time to time to align with the AMP.

Management of Asset Replacement Funds

The Town will strive to use the best practices among municipalities to manage its asset replacement funds. The financial practices include:

- Establish, close or consolidate asset replacement funds
- An asset replacement fund will be established, closed or consolidated with other asset replacement funds as recommended by the Treasurer and approved by Council

Funding sources for asset replacement funds

- a) Allocation of taxation revenues specified in the tax-supported operating budget;
- b) Allocation of user fee or rate revenues specified in the rate-supported operating budgets;
- c) Specific infrastructure levy;
- d) Net proceeds from disposal of tangible capital assets;
- e) Transfers from other reserves and reserve funds as approved by Council;
- f) Other appropriate sources

Asset replacement funds target

- Stage 1/initial: annual increase in contributions should at least equal to new net requirements and indexing for Construction Price Index;
- Stage 2/optimal: contributions at a sustainable level to meet the requirements as identified in the Asset Management Plan.
- Stage 3/ideal: contributions are sufficient to maintain the asset replacements funds balance at a level equal to or greater than the accumulated amortization for the applicable capital assets.

The highest priorities are to safeguard public health and safety, and to maintain existing levels of service. These priorities can supersede achieving the ARF targets.

Use of asset replacement funds

Asset replacement funds can only be used for the following expenditures:

- Rehabilitation of tangible capital assets;
- Betterment, which extends the lifespan of the tangible capital assets beyond its original life expectancy. This is the definition used by the Public Sector Accounting Board;
- Replacement of tangible capital assets to maintain the current service level

This can include all expenditures that can be appropriately allocated to the cost of the capital asset in compliance with Public Sector Accounting Standards.

Asset replacement funds are not to be used for the following expenditures:

- Annual Operating Program expenses for yearly ongoing major repairs and maintenance work related to the Town's capital assets;
- Condition assessments or studies related to the assets,
- Debt servicing – interest and principle – unless specifically authorized by Council to finance the replacement of an asset;
- Any other operating expenses

Interest and calculation method

All asset replacement funds will earn interest or bear interest if the balance is negative. Interest will be calculated monthly based on the fund balance at the end of each month. The interest rate used will be the same rate that the Town's bank account can earn.

Investment of asset replacement funds

Asset replacement funds may be invested for a term that will not exceed its expected date of need. The related investment of income will be credited periodically to the specific asset replacement fund according to its proportionate share of the investment portfolio. Investment shall be further governed by the Corporation's Investment Policy and Procedures.

Delegation of Authority

The Treasurer of the Town will retain the overall authority for creation, closure and managing the Corporation's asset replacement funds. The Treasurer may delegate the authority to the Deputy Treasurer.

Reporting

The Treasurer shall submit to Council the following reports:

- Asset replacement funds continuity report;
- Asset replacement funds budget report;
- Other reports required by legislation or by Council or deemed necessary

The continuity and budget of the asset replacement funds reports may be included in the reserves and reserve funds continuity and budget report respectively.

Responsibilities

The Treasurer has overall responsibility for the management and administration of asset replacement funds. These include but are not limited to the following:

- Determines the need for creation, consolidation and closure of asset replacement funds;
- Sets and adjusts targets for specific asset replacement funds where appropriate;
- Recommends contributions to, and funding from, asset replacement funds;
- Prepares required reports to Council regarding asset replacement funds;
- Develops and updates this policy as necessary

Cross-References

Municipal Act, 2001

FIN. 3.01 Investment Policy

FIN.4.01 Reserves and Reserve Funds Policy