

Policy: **Operating Reserve Fund Policy**

Date Originally Approved: August 30, 2012

Motion: "That Council approves the adoption of the Operating Reserve Fund Policy, as presented."  
Motion carried.

## **MUNICIPALITY OF COLCHESTER**

### **Municipal Special Operating Reserve Fund and Operating Fund Accumulated Surplus**

#### Purpose

To define minimum balances to be maintained in the Operating Reserve Fund and Operating Accumulated Surplus; to define sources of funding, and uses of funding; to define permitted uses which lowers the fund below the minimum balances.

#### Legislation

Under the Municipal Government Act for the Province of Nova Scotia (1999), the only reserve fund required is a Special Capital Reserve Fund. Previous legislation included the provision for an operating reserve section of a special reserve fund. Council can maintain other reserve funds as it wishes (MGA Section 99(6))

#### Policy

As a means of solid financial planning, Council has created a number of special reserve funds to address both future operational and especially, capital resource needs. These funds address new acquisition and replacement, but have general restrictions on use. The Operating Reserve Fund is more flexible as Council can use the fund for both operating and capital purposes.

The Association of Municipal Administrators of Nova Scotia has developed a series of accounting best practices for use by municipal units. One of the practices is on the Operating Reserve Fund and Operating Accumulated Surplus. This practice is used to develop the policy for Colchester.

#### Minimum Balance Provision

For the Operating Reserve Fund, the suggested minimum balance should reflect availability of other reserves, the predictability of revenues, volatility of expenditures, and liquidity of available financial resources. Colchester has a number of reserves, mainly for capital items. Through the budgeting process, both revenue and expenditure estimates reflect a balanced budget approach, to allow for some unpredictability. Colchester maintains reasonable cash balances and access to short term borrowing needs to meet immediate operating and capital expenditure requirements.

In development of Colchester's five year capital budget plan, the minimum balance in the Operating Reserve Fund is expected to never go below \$1,000,000. It is suggested that the minimum balance be set at \$1,000,000.

For the Operating Fund Accumulated Surplus, the suggested minimum balance is 5% to 15% of operating fund revenues. The Operating Fund surplus has two parts. Unappropriated is for general fund operations. Appropriated (restricted) is for area rated services. The revenue for general fund operations currently is \$28.2 million. The area rate revenue portion is \$6.4 million. Therefore, a minimum balance range for general operations is \$1.4M to \$4.2M..

It is suggested that a conservative approach be taken with regard to the general operations (unappropriated) surplus. A suggested balance is \$2,000,000. It is recommended that any excess amounts beginning with a balance reaching \$2,500,000 (in \$500,000 increments) be transferred to the Operating Reserve Fund. For the area rate restricted surplus, it is recommended that no minimum balance be set as Council may have a purpose to grow a balance for a specific area rate to meet an approved obligation. Council can also influence a reduction in a specific area rate balance by reducing the area rate revenue.

It is intended that Council can revisit this policy in future to amend the minimum balances.

### Sources of Funding

Council may allocate funds directly to the Operating Reserve Fund in the following ways:

1. Allocation in the Annual Draft Operating Budget
2. Allocation added during Operating Budget Deliberations
3. Allocation during the fiscal year from an expected operating surplus
4. Allocation from Operating Fund Accumulated Surplus

### Uses of Funding

Council may apply funds from the Operating Reserve Fund in the normal course of operations, but maintain the minimum approved balance, as follows:

1. Applied in the Annual Draft Operating Budget
2. Applied during Operating Budget Deliberations
3. Applied to other funds as part of budget deliberations- Capital, Area Rated, Water Utilities

Council may apply funds from the Operating Reserve Fund which lowers the fund balance below the minimum approved balance, in an emergency situation, such as the following:

1. A protective services emergency, such as a flood condition, snow situation etc.
2. A required property purchase under an agreement, such as the Kempton Agreement.
3. A transfer of service/costs to the Municipality that could not be reasonably budgeted or foreseen.
4. A required payment under existing legislation that could not be foreseen, such as pension funding liability.
5. An emergency requiring repairs to a County asset, such as a County building, or to an asset supported by the County, such as the County arenas.
6. A major revenue shortfall that could not be predicted.

(The assumption under these situations is that there is no other funding source available, or other sources are ruled out. This also assumes that a review of the existing budget to take cost cutting measures in other areas will not have sufficient impact to mitigate the costs of an emergency situation.)

In order to bring the Operating Reserve Fund back to the minimum balance of \$1,000,000, the amount of the shortfall is to be included in the draft budget for the following fiscal year. During budget deliberations, Council can approve, amend or develop a phase in approach to balance the Reserve over a number of fiscal periods.

Council may approve an expected budget overrun and use the Unappropriated Accumulated Surplus to cover an annual deficit.

Approval/Authorization Process

Council can approve transactions affecting the Operating Reserve Fund, either as part of the budget process, or individually by resolution at a Council meeting.

Clerk's Annotation For Official Policy Book	
Date of Notice to Council Members of Intent to Consider (7 days minimum): August 10, 2012	
Date of Passage of Current Policy: August 30, 2012	
I certify that this Policy was adopted by Council as indicated above.	
Bruce Purchase _____	December 11, 2012 _____
Municipal Clerk	Date