

POLICY
RESERVE FUNDS

F-34

PURPOSE AND INTENT

To provide guidance on the development, maintenance and use of financial reserve funds in support of sustainable budgeting practices.

SCOPE

This policy applies to all reserve funds held by the Columbia Shuswap Regional District (CSRD).

DEFINITIONS

“Operating Reserve” means unappropriated surplus funds for services administered by the CSRD that have been placed into a reserve fund for operating expenditures.

“Annual Surplus” means excess of revenues over expenditures for the current year.

“Unappropriated Surplus” means accumulated surplus funds building in the CSRD’s various operating funds that have not been designated for specific purposes.

“Capital Reserve” means funds set aside in a statutory capital reserve fund to be utilized only for capital projects and are set aside for a specific purpose. The funds are established by bylaw and must be utilized as outlined in the bylaw.

POLICY

Reserves are funds that are appropriated as a means of providing financial security against an unforeseen financial loss, such as a revenue shortfall and unexpected expenditures, or for meeting future financial obligations. They are a key element of the CSRD’s long-term financial sustainability and provide a mechanism to ensure a strong financial position. The CSRD reserves are categorized as either Operating Reserves or Capital Reserves.

The CSRD should maintain adequate levels of reserve balances to mitigate current and future risks, and facilitate stable tax rates. The following guiding principles form the basis of this policy:

- Sufficient reserve funds are important in achieving financial health and stability for the CSRD; and,
- Reserve goals need to be consistent with, and supportive of, established long-term financial plans.

Reserve fund management will conform to the statutory and legal requirements of the *Local Government Act* and the *Community Charter*, Generally Accepted Accounting Principles (GAAP) and Public Sector Accounting Board (PSAB) recommendations.

OPERATING RESERVE FUNDS

The CSRD should maintain unappropriated surplus balances in its Operating Reserves for services administered by the CSRD. The primary purpose of an Operating Reserve is to:

1. Provide working capital for projects that utilize operating budget revenues which will eliminate or reduce the need to borrow funds;
2. Maintain a pool of funds that can be used to manage unexpected expenses as a result of events or emergencies that, if the funds were not available, would create a budget deficit position;
3. Maintain a pool of funds for those services that rely on user fees as a revenue source and where, if user fee revenue forecasts are not realized, could result in a budget deficit position;
4. Fund one-time operating costs which would otherwise require an increase in taxation, such as studies or assessments, or a sudden and unexpected decrease in external revenue funding; and
5. Maintain a pool of funds for those services where there can be significant external pressures that affect forecasting.

Minimums and Maximums

Operating Reserve fund balances must be maintained at the established minimum amounts in order to ensure security against unforeseen financial impacts as this financial security is paramount to financial sustainability. Should the Operating Reserve balance fall below the established minimum, the Operating Reserve must be replenished to the minimum level within two budget years.

The minimum level of operating reserves will be two months of regular operating expenditures rounded to the nearest higher \$1,000.

The maximum level of operating reserves will be five months of regular operating expenditures, rounded to the nearest higher \$1,000.

Responsibilities

The Manager, Financial Services will:

1. Determine the need for service Operating Reserves and may waive or increase the requirement depending on the type of service and planned use of the funds;
2. Conduct an annual review of all Operating Reserve fund balances; and
3. Recommend any revisions or amendment to this policy, as may be required from time to time, resulting from changes in applicable statutes, accounting standards and economic conditions.

The Department heads (Team Leaders or Senior Managers) will:

1. Regularly monitor and assess the Operating Reserves to ensure they are within policy limits; and
2. Work with the Manager, Financial Services to determine appropriate Operating Reserve fund levels and strategies to reach recommended levels without causing undue pressure on the budget.

Operating Reserves Exceeding Maximum Level

Department Heads with individual services having Operating Reserve funds in excess of the maximum level should review future plans for the funds with the Manager, Financial Services to determine if the following should be done:

1. Leave funds in the reserve based on the next Five-Year Financial Plan for operating;
2. Transfer excess funds not required by operating in the next financial plan into a Capital Reserve fund, or;
3. Consider a reduction in requisition if the funds are not required either by operating or capital financial plans.

Contributions and Withdrawals

Contributions to the Operating Reserves will be completed by the following methods:

1. Budgeting for transfers to Operating Reserves in the Five-Year Financial Plan in order to achieve minimum to maximum levels; or
2. At the end of the year, surplus funds from any service will be transferred by the Manager, Financial Services into the Operating Reserves.

Withdrawals

1. Operating Reserves may only be accessed when included in the Five-Year Financial Plan or an amended financial plan. The transfer from operating funds will be shown as a revenue transfer from the Operating Reserve line item.

Exemptions

The Manager, Financial Services has identified a number of services to be exempted from the Operating Reserve minimum fund balance. See Schedule A.

CAPITAL RESERVE FUNDS

The CSRD will ensure that Capital Reserve funds are established and maintained to meet the current and future capital needs of the CSRD as identified in capital plans and asset management plans.

Minimums and Maximums

The minimum level of Capital Reserves will be adequate to fund capital projects identified as capital funded over the next five years of the financial plan.

The maximum level of Capital Reserves will be to fund all capital projects identified as capital in the long-term financial plan of the service area in accordance with the asset management plans.

Responsibilities

The Manager, Financial Services will:

1. Conduct an annual review of all Capital Reserve fund balances; and

2. Recommend any revisions or amendments to this Policy, as may be required from time to time, resulting from changes in applicable statutes, accounting standards and economic conditions.

The Department Heads (Team Leaders or Senior Managers) will:

1. Regularly monitor and assess the Capital Reserves to ensure they are within policy limits;
2. Work with the Manager, Financial Services in determining appropriate Capital Reserve fund levels and strategies for reaching recommended levels without putting undue pressure on the budget; and
3. Advise and work with the Manager, Financial Services, in respect of adjustments to capital plans and asset management plans that may require adjustments to reserve targets.

Management of Reserve Funds

Although reserve funds are only to be used for their intended purpose, there may be instances when short-term borrowing is permitted to temporarily finance funding requirements to avoid external temporary borrowing or to fund emergencies as required, in accordance with the applicable legislation. If money from one reserve is used for temporary financing purposes, there must be repayment of the amount used from the reserve, plus interest within five years of borrowing.

Internal borrowing and transferring of funds from reserves must be approved by the Board through the Five Year Financial Plan or amended financial plan.

This policy will be reviewed on a regular basis to ensure awareness and understanding of the reserve fund balances by the CSRD Board members, CSRD staff, and member municipal administrative staff.

September 19, 2019