



## Administrative Policy # 2020-02

### Operating Reserve Fund Policy

#### 1. Purpose:

Operating reserves are a significant consideration in long-term financial planning and management. Maintaining adequate levels in the Operating Reserve Fund helps mitigate current and future risks of major, nonrecurring or unforeseen expenditures and helps ensure stable tax rates. In addition, Operating Reserve Funds will provide the Town with a budgetary option that can help mitigate the need to cut services or to rapidly increase taxes. Reasonable levels of operating reserves also allow the Town to take advantage of unexpected opportunities to leverage external funding programs.

#### 2. Definitions

***“Regular general operating fund operating revenues:”***

Total non-consolidated general operating fund revenues net of education expense.

***“Operating Reserve”***

Unless otherwise specified “Operating Reserve” refers to the unrestricted general operating reserve fund. Other restricted operating funds, if created by council, will be referred to by their specific name.

#### 3. Scope

This policy is applicable to operating reserves created by Council resolution. It does not apply to capital reserves.

#### 4. Policy Statement

- A. The Town of Digby is committed to establishing and maintaining an Operating Reserve Fund. The balance of Operating Reserve Fund will be at least twenty per cent (20%) of regular general operating fund operating revenues.
- B. All annual general operating fund operating surpluses shall be transferred to the Operating Reserve Fund.

## **CLASSIFICATION: General Government – Finance**

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- C. Additional operating reserves may be created by council by Resolution. The Resolution shall clearly outline the purpose of the reserve, the source and application of funds, the expected time line, any appropriate maximum and minimum fund balances, and projected annual contributions, withdrawals, and balances if applicable.
- D. All reserve fund transactions should be transparent to the public. Amounts to be placed in the Operating Reserve Fund should be included in the annual budget.
- E. The Operating Reserve Fund will be invested at a bank that the Town does business with.
- F. It is intended that Council can revisit this policy in the future to amend the minimum balances as required.

### **5. Uses**

- A. The operating reserve may be used to smooth significant fluctuations in operating expenditures and/or revenue loss which cannot be anticipated and are beyond the control of the organization. Council can use the fund for both operating and capital purposes.
- B. Council may apply funds from the Operating Reserve Fund in the normal course of operations, but maintain the minimum approved balance, as follows:
  - I. Applied in the Annual Draft Operating Budget
  - II. Applied during Operating Budget Deliberations
  - III. Applied to other funds as part of budget deliberations
- C. 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:
  - i. A protective services emergency, such as a flood condition, snow situation etc.
  - ii. A required property purchase under an agreement.
  - iii. A transfer of service/costs to the Town that could not be reasonably budgeted or foreseen.
  - iv. A required payment under existing legislation that could not be foreseen, such as pension funding liability.
  - v. An emergency requiring repairs to a Town asset or to an asset supported by the Town.
  - vi. A major revenue shortfall that could not be predicted.
- D. 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.
- E. In order to bring the Operating Reserve Fund back to the minimum balance, 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.

**6. Current Operating Reserve Funds**

- A. Unrestricted general operating reserve fund
- B. Snow removal reserve fund (Created by Resolution of Council October 6, 2008)

**7. Financial Reporting**

The annual budget will include a reporting of the reserve fund balances and expected future use of the reserves.

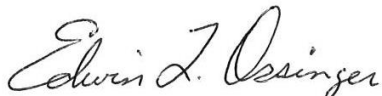
**Clerk's Annotation for Official Policy Book**

**Date of Notice: July 20, 2020**

**Date of adoption: August 4, 2020**

**Policy effective date: August 4, 2020**

**I certify that this Administrative Policy # 2020-02 Operating Reserve Fund Policy was adopted by Council as indicated above.**



**August 5, 2020**

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**Clerk**

**Date**