



OPERATING RESERVE FUND POLICY

Applicability: All CVRD

Effective Date: September 6, 2018

PURPOSE:

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

SCOPE:

This policy applies to all operating reserve funds held by the CVRD and is to be used by staff in the establishment and maintenance of operating reserve funds.

DEFINITIONS:

Operating Reserves

Unappropriated surplus funds for services administered by the CVRD that have been placed into a reserve fund for operating expenditures.

Unappropriated Surplus

Accumulated surplus built up in various operating funds that have not been designated for specific uses.

POLICY:

Adequate operating reserve balances are maintained to mitigate current and future risks, and facilitate stable tax rates. The following guiding principles form the basis of this policy:

1. Sufficient reserve funds are important in achieving financial health and stability for the CVRD; and
2. 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.

Purpose

The CVRD should maintain unappropriated surplus balances in its operating reserves for services administered by the CVRD. The primary purpose of these reserves is to:

1. Provide working capital for projects that are utilizing 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.

Responsibilities

The Chief Financial Officer (CFO) shall:

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 balances; and
3. Recommend any revisions or amendments to this policy, as may be required from time to time, because of changes in applicable statutes, accounting standards and economic conditions.

The Division Manager shall:

1. Regularly monitor and assess the operating reserves to ensure they are within policy limits; and
2. Work with the CFO in determining appropriate operating reserve levels and strategies for reaching recommended levels without putting undo pressure on the budget.

Minimums and Maximums

Services	Funding Source	Minimum Level	Maximum Level
Non-Utility	Any excess operating revenues over expenditures at the end of each fiscal year	Two months of regular operating expenditures, rounded to the nearest higher \$1,000	Four months of regular operating expenditures, rounded to the nearest higher \$1,000
Water/Sewer Utility	Any excess operating revenues over expenditures at the end of each fiscal year	Two months of regular operating expenditures, rounded to the nearest higher \$1,000	Greater of \$50,000 or four months of regular operating expenditures, rounded to the nearest \$1,000

Services	Funding Source	Minimum Level	Maximum Level
Function 205 – Emergency Preparedness	Any excess operating revenues over expenditures at the end of each fiscal year	Two months of regular operating expenditures, rounded to the nearest higher \$1,000	Greater of \$350,000 or four months of regular operating expenditures, rounded to the nearest \$1,000
Function 283 – Kinsol Trestle	Any excess operating revenues over expenditures at the end of each fiscal year	Two months of regular operating expenditures, rounded to the nearest higher \$1,000	Greater of \$350,000 or four months of regular operating expenditures, rounded to the nearest \$1,000
Function 530 – Cowichan Flood Management	Any excess operating revenues over expenditures at the end of each fiscal year	Two months of regular operating expenditures, rounded to the nearest higher \$1,000	Greater of \$450, 000 or four months of regular operating expenditures, rounded to the nearest \$1,000

Operations Exceeding Maximum Level

Division Managers with individual services having operating reserve funds in excess of the maximum level will review future plans for the reserve funds with the CFO 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 by either operating or capital financial plans.

Contributions and Withdrawals

Contributions to the operating reserves are to be done by the following methods:

1. Budgeting for transfers to operating reserves in the Five-Year Financial Plan in order to achieve between the minimum or maximum levels;
2. At the end of the year surplus funds from any service will be transferred by finance into operating reserves; or

Withdrawals:

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

Exemptions

Function Number	Service
101	Community Health Network
102	Vancouver Island Regional Library
105	M.I.A.
111	Grant In Aid – Area A
112	Grant In Aid – Area B
113	Grant In Aid – Area C
114	Grant In Aid – Area D
115	Grant In Aid – Area E
116	Grant In Aid – Area F
117	Grant In Aid – Area G
118	Grant In Aid – Area I
123	Regional Tourism Services
130	Electoral Feasibility Study
150	Municipalities/Library Board – MFA Debt
285	Regional Parkland Acquisition
400	Arts & Culture
429	ISC – Capital Loan – Theatre
435	Theatre – Area A
436	Theatre – Area B
437	Theatre – Area C
438	Theatre – North Cowichan
439	Theatre – Ladysmith
440	Cowichan Sportsplex – Area A
442	Cowichan Sportsplex – Area C

Function Number	Service
443	Cowichan Sportsplex – Area D
444	Cowichan Sportsplex – Area E
450	Recreation – Mill Bay
451	Recreation – Glenora
457	Victim Services – West
458	Lake Cowichan Activity Centre
459	Victim Services
460	Recreation – North Oyster
461	Cowichan Aquatic Centre Area E
463	Cowichan Wooden Boat Society
465	Cobble Hill Historical Society
466	Recreation – Cobble Hill
467	Shawnigan Lake Historical Society
469	Cowichan Station Association – Area E
470	Frank Jameson Community Centre
472	Senior Centre Grant
474	Kaatza Historical Society
475	Mill Bay/Malahat Historical Society
478	Cowichan Station Association – Area B
480	Cowichan Aquatic Centre – Area F
481	Cowichan Aquatic Centre – Area I
488	Shawnigan Basin Society
489	Nature and Habitat Area I
490	Thetis Island Warf
491	Thetis Island Boat Launch

Function Number	Service
492	Cowichan Lake Water Protection
493	Safer Futures
494	Social Planning
495	South Cowichan Community Policing
496	Cowichan Community Policing
497	Cowichan Valley Hospice
498	Cowichan Housing Association
535	Liquid Waste Plan Central Sector
540	Liquid Waste Plan South Sector
571	Asset Management
652	Central Youbou Water Debt
661	Honeymoon Bay Water Debt
681	Shawnigan Lake Weir

Approved by: CVRD Board Approval date: September 6, 2018

Amended: February 26, 2020