

RESERVE POLICY	
Effective Date 2024-07-15	Approved by Council 2024-07-15
Supersedes Policy No. A1.26	Approved by Council 2024-07-15

1.0 Purpose

In accordance with Section 3.2 (iii) of the FRAM, the Town of Middleton wishes to identify all reserve accounts utilized by the Town of Middleton, and to establish guidelines related to the source of reserve funds and allowable uses of those funds.

2.0 Scope

This Policy is applicable to the Director of Finance for the Town of Middleton.

3.0 References

- 3.1 [Nova Scotia Municipal Government Act \(MGA\)](#), Section 99, 451
- 3.2 [Nova Scotia Financial Reporting and Accounting Manual \(FRAM\)](#)

4.0 Definitions

For purposes of this Policy, the following definitions are provided:

- 4.1 **Capital Reserve Fund** – Monies set aside to be used in future years that can only be used as a funding source for the acquisition of capital assets, or repayment of the principal portion of capital debt.
- 4.2 **Financial Reporting and Accounting Manual (FRAM)** – Issued by the Province of Nova Scotia (Section 451 (1) of the MGA), this document outlines specific financial accounting principles to assist municipalities in adhering to generally accepted accounting principles required by current public sector accounting practices as recommended by the Canadian Institute of Chartered Accountants and to provide consistency in reporting to the Nova Scotia Department of Municipal Affairs and Housing, (DMAH).
- 4.3 **Financial Condition Indicators (FCI's)** – Various financial ratios developed by DMAH in consultation with the Association of Municipal Administrators Nova Scotia (AMANS), to identify economic strength or weakness in municipal financial condition. The indicators are used by DMAH in carrying out their supervisory responsibilities.
- 4.4 **MGA** – Municipal Government Act of Nova Scotia.
- 4.5 **Operating Reserve** – Monies set aside to be used in future years as a funding source for either an operating expenditure or capital expenditure.
- 4.6 **Reserve Fund** – Monies recorded in a separate account to be used in a future year (s) to fund expenditures/projects identified by Council.

5.0 Policy

Reserve funds are an integral part of a municipality's long term financial planning. The establishment and use of reserves provides the Town:

- a) With the ability to respond to unanticipated events which impact the Town's financial resources;
- b) With additional funds in any given year for a specific project and/or one-time event, e.g., elections.
- c) With additional flexibility in capital project funding.

In accordance with the *MGA*, and as outlined in the FRAM, the Town of Middleton has established the following reserve accounts:

5.1 Operating Reserve Funds

Unrestricted:

- a) This fund is not dedicated to any one project or initiative. Council can approve the use of funds in the Operating Reserve through the annual budget process. Council may also, by way of Council motion or resolution, direct funds to be used for an identified project/initiative not previously included in the Town's approved budget.
- b) Source of funds:
 - i) Budgeted transfers from the annual Operating Fund Budget or by transfer of year-end surplus results of the Town's Operating Fund.
 - ii) Interest earned on funds in the reserve account belongs to the reserve.

Restricted:

- a) Funds set aside for identified projects/initiatives. Council shall use the funds for the purpose identified at the time the monies were set aside in the reserve.
- b) If an identified project requires less funding than the amount set aside, the remaining balance will be transferred to the Unrestricted Operating Reserve Fund. In cases where monies were received from external donors or grants, those funds will be returned to the donors or grantors unless permission is provided to utilize the funds for a different purpose.

5.2 Capital Reserve Funds

MGA (99) sets out the rules for the funding and use of Capital Reserve Funds.

General Capital Reserve:

- a) This fund may be used for any future replacement or acquisition of capital assets for which the municipality may borrow.
- b) Council must authorize, by motion or resolution, all withdrawals from the capital reserve fund.
- c) Council will consider use of the funds based on the long-term Capital Investment Plan reviewed annually during the budget process.

d) Source of Funds:

- i. Budgeted transfers from the annual Operating Fund Budget or by transfer of yearend surplus results of the Town's Operating Fund.
- ii. Funds received from the sale of surplus capital assets, unless the proceeds were used to immediately replace a capital asset, (e.g. trade-in for a vehicle).
- iii. Proceeds of insurance claims pertaining to capital assets, unless the proceeds were used to replace or repair the asset in question.
- iv. Any capital grant not expended in the year in which it was paid.
- v. Interest earned on the funds in the reserve account(s)
- vi. Any surplus remaining from the sale of debentures that was not used for the purpose for which the debentures were issued
- vii. Interest earned on the funds in the reserve account(s) Other amounts as listed in Section 3(1)(a)(ii) of the FRAM.

Restricted:

- a) This fund is restricted by the restrictions placed by the source of the monies directed to the fund. Each source of funds with separate restrictions will be accounted for separately. In all cases, interest earned by the fund belongs to the fund. Currently the Town has the following restricted funds:
 - i. **Open Space Reserve** – maintained in compliance with the MGA Section 273(5) and as referred to in the Town's MPS and Subdivision By Laws.
 - ii. **Sewer Systems** – Funding from annual allocation of sewer user fees set aside for future sewer capital initiatives.
 - iii. **Canada Community-Building Fund (CCBF), formerly Gas Tax** – Federal capital infrastructure funding. Use of funds must be within guidelines set out in the funding agreement.
 - iv. **Fire Equipment and Apparatus** – funding from the Town's annual budget process, as well as cost sharing agreement with the County of Annapolis.
 - v. **Community Centre & Fire Hall** – funded from a combination of donations and capital grants.
 - vi. **Water Depreciation Reserve** – UARB requires that cash equal to the annual depreciation expense be placed into a separate reserve which may only be used for water-related capital expenditures.
 - vii. **Water Reservoir Replacement Reserve** – additional revenue generated since 2018 UARB Rate Approval, specifically for reservoir replacement, together with grants received to pay a share of "Eligible Expenses."

5.3 Financial Reporting

The Director of Finance shall include updates in the quarterly financial report to Council. In addition, the annual budget will include a reporting of the reserve fund balances and expected future use of the reserves.

6.0 Reserve Balances

DMAH uses Financial Condition Indicators (FCI's) to assess the financial health of the municipalities under their jurisdiction. Two of the indicators are calculated using the balances in the Capital and Operating reserve funds.

6.1 Operating Reserve

This indicator compares the balance in the Operating Reserve to the total of the operating expenses, plus principal and interest payments, and the funding of prior years' deficits.

- If the Operating Reserve is more than 20% of the total of the listed items, it is classified as "Green" meaning this is one indicator of the financial health of the municipality.
- If the Operating Reserve is between 10% and 20% of the listed items, it is classified as "Yellow" meaning action should be taken to become healthy.
- If the Operating Reserve is less than 10%, it is "Red" meaning the municipality is in serious financial condition and at high risk of failure.

6.2 Combined Capital and Operating Reserve

This indicator compares the total of the Capital and Operating Reserves to the same items listed above. However, it excludes specific reserves accounts, (Water, CCBF (gas tax), and any other reserves that are treated as "Deferred Revenue" in the financial statements, (e.g. Community Centre & Fire Hall).

- If the combined reserves are more than 40% of the listed items, the indicator is "Green."
- If the combined reserves are between 30% and 40%, the indicator is "yellow."
- If the combined reserves are below 30%, the indicator is "red."

6.3 The annual budget process shall include an evaluation of the status of these two indicators, and the projected impact of the budget and five-year capital plan on the future values.

6.4 When an indicator is yellow, Council shall consider what actions should be taken to move the indicator to a green position. The annual budget should include planned increases to Reserve fund transfers.

6.5 When an indicator is red, or forecast to become red, Council shall consider what actions must be taken urgently to move the indicator to a minimum yellow position.

6.6 Any proposed action should be considered in the context of the potential impact on other indicators. For example, borrowing money instead of using reserve funds to buy a capital asset might help the Reserve Fund indicators, but adversely impact the Debt Service Cost indicator.



7.0 Repeal Policy

A policy known as A1.26 Operating Reserve Policy, dated May 5, 2015, is hereby repealed.

I, **Ashley Crocker, CAO of the Town of Middleton**, do hereby certify that the Policy, of which the foregoing is a true copy, was duly passed at a duly called meeting of the Town Council of the Town of Middleton held on the 15th day of July 2024.

Ashley Crocker
CAO

Policy Adoption	
Date of 7-day notification to Council	July 8, 2024
Date of Approval	July 15, 2024