



## Staff Report

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**Report To:** General Government Committee

**Date of Meeting:** September 27, 2021

**Report Number:** FSD-043-21

**Submitted By:** Trevor Pinn, Director of Financial Services/Treasurer

**Reviewed By:** Andrew C. Allison, CAO

**Resolution#:**

**File Number:**

**By-law Number:**

**Report Subject:** Surplus/Deficit Policy

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### Recommendations:

1. That Report FSD-043-21 be received; and
2. That the Surplus/Deficit Policy attached to Report FSD-043-21, as attachment 1, be approved.

## Report Overview

A specific surplus/deficit policy is key to ongoing financial planning and sustainability modernization work being undertaken by Financial Services. This policy formalizes processes that are already undertaken and provides guidance and authority to the Treasurer to fund reserves and reserve funds or withdrawal as necessary.

## 1. Background

### Legislation on Municipal Finances/Budgeting

- 1.1 The *Municipal Act, 2001* requires a local municipality in the year or the immediately preceding year, prepare and adopt a budget including the estimates of all sums required during the year for the purposes of the municipality. As the budget is an estimate, the actual results will vary each year.
- 1.2 Section 290 of the *Municipal Act, 2001* outlines the requirements of local municipalities in preparing and adopting a budget including estimates of all sums required during the year for the purposes of the municipality.
- 1.3 Subsection 290(4) of the Act establishes allowances within the budget that must be considered during the creation of the budget. In preparing the budget for a year, the local municipality
  - a. Shall not include in the estimated revenues described in paragraph 1 of subsection (2) the estimated proceeds of any borrowing during the year;
  - b. Shall treat as estimated revenues any surplus of any previous year that resulted because
    - i. Revenues for that year were greater than the amount described in paragraph 1 of subsection (2) for that year, or
    - ii. Expenses for that year were less than the amount described in paragraph 3 of subsection (2) for that year;
  - c. Shall provide for any deficit of any previous year that resulted because
    - i. Revenues for that year were less than the amount calculated by deducting for that year the amount described in paragraph 2 of subsection (2) from the amount described in paragraph 1 of subsection (2), or

- ii. Expenses were incurred by the municipality that were not in the budget for that year and were not paid for that year from a reserve, sinking or retirement fund;
- d. Shall provide for the cost of the collection of taxes and any abatement or discount of taxes;
- e. Shall provide for taxes and other revenues that in the opinion of the treasurer are uncollectible and for which provision has not been previously made;
- f. May provide for taxes and other revenues that it is estimated will not be collected during the year; and
- g. May provide for such reserve funds as the municipality considers necessary.

### **Industry Best Practices**

- 1.4 Surplus/Deficit policies are common in Ontario municipalities to allow for the adoption of the budget prior to the completion of the prior year's audited financial statements.
- 1.5 As noted in paragraph 1.3, the legislation requires that the budget for a year consider the prior year's surplus and deficit. This creates an issue as municipalities are moving to approve budgets earlier in the year to approve operational and capital priorities which is often well before final figures are available for the prior year.
- 1.6 Municipalities, including the Municipality of Clarington, use reserve and reserve funds to flow the surplus or fund a deficit at year end. Municipalities adopt policies which provide guidance on the priority use of reserves as well as providing delegated authority to the Treasurer dispense of a surplus or fund a deficit.
- 1.7 It should be noted that the funds above don't disappear, the surplus goes into reserve funds for future years use. This ensures that the taxpayer benefits from this surplus. The first advantage of this process is that it allows for budgets to be passed early in the year (or late in the prior year) which provides the authorization for spending and investment in the community. The second advantage is that in future years' budgets, the reserves and reserve funds can utilize a known balance in the reserve which provides for financial sustainability.

## **2. Surplus/Deficit Policy**

- 2.1 The policy proposes to define certain terms including "Discretionary Operating Surplus" which takes into account winter control, year-end carry-overs and restricted funds from grants or other agreements.

- 2.2 The Municipality currently applies surplus funds to reserve and reserve funds using the principles that are included in the draft policy. The policy formalizes and codifies the current process to ensure consistency from year to year and as staff transition.
- 2.3 The policy recommends that unspent winter control be transferred to a reserve for years where winter control is overspent. This will allow for more stable budgeting and level taxation rates. Winter control is an area of municipal operations that is outside of the control of staff as it is legislated level of service and is dependent on the weather.
- 2.4 The policy also recommends that funds used in the first quarter of the following year for year-end timing issues, order made in one year but recognized/delivered in the following year would be allowed.
- 2.5 Funds which are restricted, such as grants, development charges, other agreements, could be transferred into a reserve fund if not spent. This again is a common process, but recognizes that these funds are not part of the budget surplus for the year.
- 2.6 The policy that all proposes to transfer up to 30 per cent of the discretionary surplus (the amount that is not already dealt with based on the above paragraphs) to the Rate Stabilization Reserve Fund up to the target maximum. Up to 30 per cent could be transferred to a Capital Infrastructure Gap Reserve Fund to be used for future capital needs, and up to 40 per cent would be allocated to existing reserves and reserve funds to meet the target balances as established by policy.
- 2.7 Any remaining balance would be split evenly between the Rate Stabilization and the Capital Infrastructure Gap Reserve Fund. This could result in the balances in these reserve fund being above the target balance.
- 2.8 If there is a deficit, the funds are then used in the following order:
  - a. Winter Control Stabilization Reserve would be used to fund any winter control deficit;
  - b. Reserves and reserve funds established for specific purposes may be used to fund a related deficit;
  - c. Tax Rate Stabilization Reserve Fund will be used if funds are available;
  - d. Other reserve and reserve funds may be used that have exceeded their maximum target balances, after consideration for commitments; and
  - e. If a deficit remains, the amount will be carried forward in accordance with the *Municipal Act, 2001*.

- 2.9 The policy requires an annual report to Council on the distribution of funds, this will occur prior to June 30 of each year.

### **3. Concurrence**

Not Applicable.

### **4. Conclusion**

It is respectfully recommended that Council approve the proposed Surplus/Deficit Policy.

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Attachments:

Attachment 1 – Draft Operating Surplus/Deficit Policy

Interested Parties:

There are no interested parties to be notified of Council's decision.