

Corporate Policy

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POLICY TYPE:	Financial
SUBSECTION:	
POLICY TITLE:	Surplus/Deficit Allocation Policy
POLICY #:	TBD
POLICY APPROVED BY:	Council
EFFECTIVE DATE:	September 20, 2021
REVISED:	
APPLICABLE TO:	All Departments

1. Purpose

- 1.1 The Municipality of Clarington continues to seek responsible and prudent opportunities for distribution of savings and mitigating the effects of deficits. This policy will establish a framework for the allocation of any operating fund budget surpluses and smoothing any operating fund budget deficiencies.

2. Scope

- 2.1 The Surplus and Deficit Policy pertains to all municipal departments.

3. Objectives

- 3.1 Establish framework for allocation of surplus and funding of operating deficits in any given budget year.
- 3.2 Provide a funding source for reserve funds that are below their recommended balance as outlined by the Reserve and Reserve Fund Policy.

4. Definitions

- 4.1 **Capital Infrastructure Gap Reserve Fund** – A reserve fund created to help mitigate the infrastructure gap without impacting the tax levy. It is funded by continual contributions from any annual surplus funds.
- 4.2 **Deficit** – When, at year end, there is an excess of expenditures over revenues in the Operating Budget.

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- 4.3 **Discretionary Operating Surplus** – The Surplus after adjusting for winter control, year-end carry-overs, and restricted surplus related to grants or other agreements.
- 4.4 **Rate Stabilization Reserve Fund** – A reserve fund utilized to smooth swings in tax levy impacts from year to year.
- 4.5 **Surplus** – When, at year end, there is an excess of revenues over expenditures in the Operating Budget.

5. Policy

- 5.1 All surpluses and deficits shall be treated as one-time in nature.
- 5.2 In the event of an annual operating budget surplus the Treasurer is authorized to distribute the surplus as follows:
- Transfer any unspent winter control budget to the Winter Control Stabilization Reserve Fund.
 - Transfer carry over amounts to be utilized in the first quarter of the following fiscal year to the General Capital Reserve, this shall only be used for year-end timing purposes.
 - Transfer any restricted funds to the appropriate reserve or reserve fund, this may include grants which have not fully been utilized or development charges collected and not utilized during the year.
 - Transfer up to 30 per cent of the discretionary operating surplus to the Rate Stabilization Reserve Fund.
 - Transfer up to 30 per cent of any discretionary operating surplus to the Capital Infrastructure Gap Reserve Fund.
 - Transfer up to 40 per cent of any discretionary operating surplus to any reserve or reserve funds operating below their minimum target balances as outlined in the Reserve and Reserve Fund Policy

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- If surplus funds remain after this prescribed distribution, the remaining amount shall be added evenly to the Rate Stabilization Reserve Fund and Infrastructure Gap Reserve Fund.
- 5.3 If a reserve fund balance is in a surplus of the fund balance target, the amount shall be added to the transfer to any fund that has not met its minimum balance target
- 5.4 If surplus funds remain after the rebalancing of reserve fund balances, the remaining amount shall be added to the Capital Infrastructure Gap Reserve Fund or Rate Stabilization Reserve Fund at the Treasurer's discretion.
- 5.5 In the event of an annual budget deficit the Treasurer is authorized to use their discretion to manage the operating deficiency using the following options in combination or exclusively:
- Transfer sufficient funds from the Winter Control Stabilization Reserve Fund to mitigate any deficit caused by excess winter control costs during the year.
 - Transfer the funds required from a reserve or reserve fund which has been established to offset specific over-expenditures.
 - Transfer the funds required from the Rate Stabilization Reserve Fund which have not previously been committed.
 - Transfer the funds required from discretionary reserve funds that, at year end, have exceeded their maximum target balances. All predetermined commitments must be considered before using these funds.
 - If a deficit remains, the amount will be carried forward to the following year's budget in accordance with the *Municipal Act, 2001*. The Treasurer will review budget submissions to find savings equal to the unfunded deficit amount.

6. Reporting Requirements

- 6.1 The Treasurer shall report to Council, the surplus or deficit amount and the distribution of the funds no later than June 30th of the subsequent year.



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7. Policy Review

7.1 This policy shall be reviewed if deemed necessary by Council or the Treasurer.