

CORPORATE POLICY AND PROCEDURE



POLICY	Year End Operating Surplus Allocation Policy
CATEGORY	Finance
AUTHORITY	Council
RELATED POLICES	General Operating & Capital Budget Policy Compensation Reserve Policy General Reserve and Reserve Fund Policy Budget Monitoring Policy
APPROVED BY	Council
EFFECTIVE DATE	_____
REVISION DATE	As Required

1. POLICY STATEMENT

It is the policy of the City of Guelph to allocate any year-end operating surplus that may arise from the Tax Supported or Non-Tax Supported Budgets in a manner that is consistent with Council’s view of long term financial sustainability and in line with best practice financial management.

2. PURPOSE OF POLICY

To set guidelines for the allocation of any year-end operating surplus for the Tax Supported, including City Departments, Local Boards and Shared Services provided by the County of Wellington and Non-Tax Supported budgets. This policy seeks to formalize past practices with respect to the approach taken by City staff in recommending the allocation of the prior year’s surplus.

3. DEFINITIONS

Non-Tax Supported Budgets – a budget that is self-sustaining and does not require a transfer from property taxes to support its operations. The current City Non-Tax Supported budgets are Water Services, Wastewater Services, Court Services and Ontario Building Code Administration. This list is subject to change.

Tax Supported Budgets – a budget that is partially or wholly reliant on a transfer from property taxes to support its operations. The Tax Supported Budgets include the City’s Local Boards (Police and Library) and Shared Services.

Year-end Operating Surplus – occurs when there is an excess of revenues over expenditures in a particular year. Year end surpluses generally arise from two circumstances – higher than budgeted revenues, including one-time only revenues and/or lower than budgeted expenditures.

4. PRINCIPLES

4.1 The allocation of a year-end corporate operating surplus can only be done as part of Council approving that year's financial statements. Specifically, commitments to allocate some or all of any year-end corporate operating surplus cannot be made by Council in advance of approving that year's financial statements.

4.2 The allocation of the year-end operating surplus for Tax-Supported and Non-Tax Supported Budgets will be consistent with Council directions and objectives.

4.3 Unstable or unpredictable tax levies can adversely affect residents and businesses within the City of Guelph. In order to maintain stable and predictable levies, the City will set reserve and reserve fund targets that build sufficient reserves and reserve funds to manage the impact of unusual or unplanned cost increases or revenue reductions over multiple budget cycles.

4.4 The year-end operating surplus for Tax-Supported and Non-Tax Supported Budgets represents one-time funding that cannot be relied on to recur on an on-going basis. Therefore, any year-end operating surplus should only be allocated to fund one-time, non-recurring expenditures (i.e. Capital, replenishment of reserves and reserve funds or allocations to reserves and reserve funds to achieve targeted levels).

4.5 The year-end operating surplus for Non-Tax Supported departments will only be allocated within those operations and respective reserves and reserve funds.

5. GUIDELINES

Primary Allocation Considerations

5.1 It is recommended that the primary objective when allocating surplus funds is to transfer to operating reserves, primarily the tax rate stabilization reserve, to smooth future volatility in operating costs and tax increases. This general guideline may be superseded by more immediate financial needs identified by the CFO, but should follow these general criteria:

- a) Any surplus related to an identifiable operating reserve (such as insurance, legal, salary gapping, etc) should be transferred back to this reserve provided the predetermined reserve target has not been reached. For example, if there was a surplus in insurance or legal costs, and an overall surplus in the tax supported budget, an amount equal to the identified surplus should be returned to the insurance or legal reserve respectively.
- b) Any identified surplus amount related to volatile price changes should be transferred to the operating contingency reserve to fund up to the reserve target level. The objective is to provide funding in strong years to cover fluctuations in weaker years.

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- c) Any remaining surplus funds should be directed to the tax rate stabilization reserve or other operating reserves identified by staff as underfunded.

Secondary Allocation Considerations

5.2 Local Boards may request that any year-end operating surplus be allocated to their operations via a letter to the City's Chief Financial Officer. This request will be evaluated against all competing priorities.

5.3 The annual operating surplus resulting from Shared Services managed by the County of Wellington will be considered in combination with any surplus or deficit experienced by City Departments (including General Revenues and General Expenditures).

5.4 The annual operating surplus may be allocated to fund capital work where debt had previously been identified and approved as a funding source. This will reduce future debt servicing costs and/or create capacity within the City's self-imposed debt ratios to redirect to other priorities.

6. RESPONSIBILITIES

Chief Financial Officer

- Updates and administers this policy including making recommendations via the year end operating variance report regarding the allocation of any year end surplus that is consistent with the principles and guidelines included in this policy.

Chief Administrative Officer

- Monitors and ensures compliance with this policy in consultation with the City's Executive Team.