

ALLOCATION OF OPERATING BUDGET SURPLUS

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Mandated by: City Council

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Cross Reference: Financial Reserves Policy
FIN-021-C

Next Review: January 1, 2020

Responsibility: Chief Financial Officer

PURPOSE

A major objective of the City is to sustain a financially viable municipality that can provide an adequate level of municipal services and support the City's long term capital plan. The City recognizes that an important component for reaching and maintaining this objective is the management of operating budget surpluses.

This Policy provides the guidelines for the allocation of operating budget surpluses.

POLICY

The City will manage the annual allocation of operating budget surpluses in a fiscally responsible manner acting as good stewards of the City's resources managing costs and investing for the future.

DEFINITIONS

Operating Budget Surplus - shall mean the excess of revenues over expenditures as compared to the annual operating budget approved by Council, net of Budget Carryover Items.

Budget Carryover Items - shall mean items that have been approved in the current year operating budget but have not been completed at year-end, and are intended to be completed in the following year.

City - shall mean the City of Fort Saskatchewan.

Committed Balance - shall mean funds approved by Council to be applied towards specific expenditures.

Council – shall mean the municipal Council of the City of Fort Saskatchewan.

Contingency Reserves - shall mean reserve categories established to provide non-designated funds to stabilize the temporary impact of unforeseen, non-recurring emergent one-time expenditures or losses of revenue and to ensure service levels.

Designated Balance - shall mean funds designated to a reserve for a specific purpose which has not yet been approved by Council to be applied towards a specific expenditure. Reserve funds remain designated for a specific purpose as outlined by reserve description in Financial Reserves Policy FIN-021-C.

Utility Operations – shall mean operations that include water distribution, wastewater collection and solid waste services with these specific services provided on a user pay basis, ensuring that users pay the full cost of utility.

GUIDING PRINCIPLES

1. The allocation of operating budget surpluses will be consistent with achieving Council's vision and areas of strategic priority to sustain a financially viable City that can provide an adequate level of municipal services and support the City's long term capital plan.
2. The City does not budget for a deficit or plan for surpluses. The City shall adopt a balanced budget whereby operating revenues are equal to operating expenditures for each year.
3. Operating budget surpluses represent one-time funding that, by its nature, cannot be relied on to recur on an ongoing basis. Therefore, operating budget surpluses shall be allocated to fund one-time, generally non-recurring expenditures (i.e. capital, reserve contributions to achieve/maintain optimal balances).
4. The City uses operating budget surpluses to fund reserves as part of a sound financial system. Reserves provide for future funding requirements, stabilize operating and capital activities, provide contingency funding for unforeseen or emergency expenses, and lessen the reliance on debt financing.
5. Operating budget surpluses shall be calculated in conjunction with the audit of the City's annual consolidated financial statements.
6. The allocation of operating budget surpluses should be balanced between the following options that contribute to the financial health and sustainability of City operations:
 - a) To reserves based on priorities derived from the Financial Reserves Policy FIN-021-C.
 - b) Funding of non-recurring expenditures within the following year's operating or capital budgets
 - c) Repayment of outstanding debt.
7. Budget carryover items are allocated to designated reserves at year-end, and are not considered part of the operating budget surplus.
8. As operating budget surpluses are non-recurring in nature, they shall not be applied to the following year's operating budget to fund ongoing expenditures, and/or to reduce the following year's tax rate.
9. Operating budget surpluses of self-sustaining operations, including utility operations, will only be allocated within these operations and respective reserves.
10. The year-end operating budget surpluses shall be reported in a regular meeting of Council prior to May 1st of the following year.

11. The operating budget surplus is not equivalent to the Operating Surplus or Deficit presented in the annual consolidated financial statements, which are presented in accordance with Public Sector Accounting Standards. Unlike the operating budget surplus, the Operating Surplus or Deficit for financial statement purposes excludes reserve transfers, principal debt payments, and proceeds from the disposal of tangible capital assets, and includes capital revenues, gains (losses) from the disposal of tangible capital assets, and amortization.

AUTHORITY / RESPONSIBILITY TO IMPLEMENT

The Chief Financial Officer is responsible for the implementation and monitoring of this Policy.