



# Corporate Report

2004

NO: R282

COUNCIL DATE: November 29,

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## REGULAR

TO: Mayor & Council                      DATE: November 15,  
2004

FROM: General Manager, Finance,      FILE: 1840-00  
Technology & HR

SUBJECT: Reserve and Surplus Policy Update

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## RECOMMENDATION

That Council:

- a) Approve the amendments to the “Reserve and Surplus Policy”, No. Q-25, and
- b) Delete the “Operating Funds Interest Revenue Policy”, No. Q-24.

## INTENT

To amend the “Reserve and Surplus Policy” to reflect the changes approved by Finance Committee for the 2005 – 2009 Financial Plan.

## BACKGROUND

In 1998, a Reserve Review Task Force developed a “Reserve and Surplus Policy” for the establishment, use and maintenance of City Reserves and Appropriations of Surplus. This was adopted by Council on December 7, 1998 as “Reserve and Surplus Policy” No. Q-25. The re-allocation of the reserve and surplus balances was completed at the end of 1999.

## DISCUSSION

It is a requirement that the “Reserve and Surplus” be reviewed annually and that any recommended revisions or amendments be forwarded to Council for approval. Such a review was conducted as part of the 2005 – 2009 Financial Planning process. Recommendations to the Finance Committee included the transferring and closing of several reserve and surplus accounts that are included in this Policy.

The recommendations were approved and the “Reserve and Surplus Policy” has now been amended to reflect those recommendations. Staff has also taken the opportunity to make other housekeeping amendments to the Policy.

These amendments are outlined below:

### 1. Replenishment Process and Procedures (Section 6)

This section previously outlined the replenishment process and procedures for each Operating Fund (General,

Water and Sewer/Drainage). The procedures and requirements are similar for all Funds; therefore this section has been streamlined to include the needs for all Operating Funds. The exception to this is Priority #5 – Infrastructure Replacement, since it only applies to the Water and Sewer/Drainage Operating Funds.

## 2. Minimum and Maximum Balances (Section 8)

Although this Section was referred to in the body of the Policy, there were no actual details. Section 8 has now been included. The minimum and maximum balances are stated in terms of percentages rather than constant dollar figures. This will allow for a natural 'growth' of the balances as the City's annual expenditures increase.

## 3. Other Minor Changes

There are also other minor revisions to the Policy, such as the expansion of the descriptions to the different accounts to encompass all of their combined uses.

A draft copy of the proposed amended "Reserve and Surplus Policy" is included as **Appendix A** of this report. This Policy will be further reviewed each year as part of the Financial Planning process. As part of this review it was also concluded that the "Operating Funds Interest Revenue Policy" is now redundant. It is therefore recommended that Policy No. Q-24 be deleted.

## CONCLUSION

A review of the "Reserve and Surplus Policy" was conducted as part of the 2005 – 2009 Financial Planning process. Recommendations to the Finance Committee included the transferring and closing of several reserve and surplus accounts that are included in this Policy. The recommendations were approved and "Reserve and Surplus Policy" No. Q-25 has now been amended to reflect those recommendations. Staff has also taken the opportunity to make other housekeeping amendments. It is recommended that Council approve the amended Policy as attached in **Appendix A**. The review also concluded that the "Operating Funds Interest Revenue Policy" No. Q-24 is now redundant. It is therefore also recommended that this Policy be deleted.

Vivienne Wilke, CGA  
General Manager, Finance,

Technology & HR

## APPENDIX A



# CITY POLICY

No. Q-25

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### REFERENCE:

REGULAR COUNCIL MINUTES  
7 DECEMBER 1998

### APPROVED BY:

DATE: 7 DEC. 1998 (RES.R98-3400)

### CITY COUNCIL

### HISTORY:

NEW

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## **TITLE: RESERVE & SURPLUS POLICY**

### **Section 1 Definitions**

### **Section 2 Purpose & Guiding Principles**

- 2.1 Purpose
- 2.2 Guiding Principles

### **Section 3 Primary Objectives**

- 3.1 Ensure Stable & Predictable Levies
- 3.2 Provide for Operating Emergencies
- 3.3 Finance New Capital Assets
- 3.4 Safeguard and Maximize Existing Assets

### **Section 4 General Criteria**

- 4.1 Least Cost to Taxpayers
- 4.2 Fairness & Equity to Taxpayers
- 4.3 Meets Statutory and Legal Requirements
- 4.4 Meets Accounting Standards

### **Section 5 Administrative Criteria**

- 5.1 Unique Corporate Purpose
- 5.2 Interest
- 5.3 Calculation Method(s)
- 5.4 Minimum and Maximum Balances
- 5.5 Basis for Use of Reserves and Appropriations of Surplus
- 5.6 Business Case Requirements

### **Section 6 Replenishment**

- 6.1 Unappropriated Surplus & Appropriations of Surplus
- 6.2 Reserve(s) Fund

### **Section 7 Policy Administration**

### **Section 8 Minimum and Maximum Balances**

## **SECTION 1: DEFINITIONS**

The following terms are used in this Policy and are defined as follows:

- (1) **"Appropriations of Surplus"** means funds set aside by Council ('appropriated') for a specific purpose from Unappropriated Surplus.
- (2) **"Business Case"** means a document specifying the purpose, benefits, repayments and other implications of an initiative proposing the use of Reserves and Appropriations of Surplus.

- (3) **"Fund"** means a set of accounts used to record City transactions of a distinct nature that are common to local governments in the Province of B.C. and identified in the annual audited financial statements of the City of Surrey.
- (4) **"Levies,"** means any rates and taxes charged by the City of Surrey.
- (5) **"Reserve(s)"** means Reserve Funds set aside for specific purposes required by Provincial Statutes or City By-laws. Expenditures of these funds require approval by By-law.
- (6) **"Statute (and Statutory)"** means any law or legislative requirement of a regional, provincial or federal government having legal force and effect on the operations and governance of the City of Surrey.
- (7) **"Surplus"**, as used in this Policy, means the total of all Appropriations of Surplus and Unappropriated Surplus.
- (8) **"Unappropriated Surplus"** means the accumulated excess of revenues over expenditures from prior years, which have not yet been appropriated by Council for specific purposes.

## SECTION 2: PURPOSE AND GUIDING PRINCIPLES

### 2.1 Purpose

The City of Surrey has developed this Reserve and Surplus Policy to guide & direct:

- The establishment and maintenance of Reserves, Unappropriated Surplus and Appropriations of Surplus, and
- The use of Reserves and Appropriations of Surplus in meeting the short-term and long-term financial goals of the City.

### 2.2 Guiding Principles

This Reserve and Surplus Policy is guided by the following principles:

- All Reserves and Appropriations of Surplus shall have a corporate focus such that they serve the highest priority needs of the City and its citizens, and
- All Reserves and Appropriations of Surplus must be established, maintained and used for a specified purpose mandated by statute, City by-law or Council policy.

## SECTION 3: PRIMARY OBJECTIVES

Reserves and Appropriations of Surplus shall be established and expended to:

### 3.1 Ensure Stable & Predictable Levies

The City recognizes that unstable and unpredictable tax levies can adversely affect residents and businesses in Surrey. In order to maintain stable and predictable levies, the City will maintain sufficient Appropriations of Surplus to buffer the impact of unusual or unplanned cost increases and revenue reductions over multiple budget cycles.

### 3.2 Provide for Operating Emergencies

The City is exposed to unusual operating emergencies resulting from inclement weather, catastrophic events, law enforcement issues, environmental hazards and so on. It may not be feasible or cost-effective to absorb the costs of such emergencies during one budget cycle. The City will maintain adequate Appropriations of Surplus to respond to such emergencies avoid extensive service interruptions and prevent risks to infrastructure and public safety.

### 3.3 Finance New Capital Assets

Use of Reserves and Appropriations of Surplus for financing new and unique capital assets is an effective means of matching one-time funds to one-time capital projects. In addition, the City requires financial resources to quickly respond to opportunities to provide capital infrastructure through private sector partnerships and other alternative service delivery methods.

### **3.4 Safeguard and Maximize Existing Assets**

The City has an inventory of specialized machinery, equipment and technology systems necessary for the efficient delivery of services to the public, which needs to be replaced on well-defined lifecycle standards. The City also has a need to provide insurance against unforeseen losses of these and other assets and claims against its assets where it is found legally liable.

## **SECTION 4: GENERAL CRITERIA**

Reserves, Unappropriated Surplus and Appropriations of Surplus shall be established, maintained and used in accordance with the following General Criteria.

### **4.1 Least Cost to Taxpayers**

Reserves, Unappropriated Surplus and Appropriations of Surplus should support the least cost alternative in the long-term for delivering standards of service adopted by Council. This means they will be used to:

- Buffer the effects of large cost increases and revenue reductions and allow time to adjust City service costs or revenue generation to avoid unnecessary tax increases, and
- Provide internal capital financing which is more cost-effective than external borrowing or leasing.

### **4.2 Fairness & Equity to Taxpayers**

Reserves, Unappropriated Surplus and Appropriations of Surplus should serve to balance the impact of operating and capital costs on both current and future taxpayers by:

- Applying Appropriations of Surplus derived from one-time revenue sources to one-time capital or operating projects, and
- Applying Reserves and Appropriations of Surplus and current revenues in a ratio, which recognizes the appropriate sharing of savings from current taxpayers with contributions from future taxpayers (this will likely require repayment of all or a portion of Reserves and Appropriations of Surplus from future rates or user fees).

### **4.3 Meets Statutory and Legal Requirements**

Reserves, Unappropriated Surplus and Appropriations of Surplus must meet the requirements of the Municipal Act, Federal statutes, City By-Laws or any other contract or judgment enforceable by law.

### **4.4 Meets Accounting Standards**

Reserves, Unappropriated Surplus and Appropriations of Surplus must meet generally accepted accounting principles (GAAP) and accounting standards applicable to local governments (PSAAB).

## **SECTION 5: ADMINISTRATIVE CRITERIA**

### **5.1 Unique Corporate Purpose**

Reserves and Appropriations of Surplus must have a unique and specific corporate purpose. Every effort must be made to:

- Reduce complexity by combining amounts with similar purposes;
- Eliminating those with redundant or outdated purposes, and
- Re-focusing departmental reserves to corporate purposes and strategic plans.

### **5.2 Interest**

Reserves, Unappropriated Surplus and Appropriations of Surplus shall not be allocated interest unless required by statute, accounting standards or as specifically directed by this Policy.

### **5.3 Calculation Method**

The method for calculating the balance of or providing contributions to Reserves and Appropriations of Surplus shall be specific to each one and approved by Council through the annual budget process.

#### **5.4 Minimum and Maximum Balances**

A minimum and maximum balance shall be established for each Reserve, Unappropriated Surplus and Appropriation of Surplus. A minimum balance will ensure that a Reserve, Unappropriated Surplus or Appropriation of Surplus is not depleted to the degree that it is no longer able to serve its intended purpose. A maximum balance ensures that it does not grow beyond its intended purpose.

#### **5.5 Repayment Period**

A period shall be specified for the repayment or replenishment of each Reserve, Unappropriated Surplus and Appropriation of Surplus to its specified minimum or maximum balance.

#### **5.6 Business Case Requirements**

Except as provided by statute, City by-law or Council policy, a business case shall be provided specifying the purpose, benefits and method of repayment for each proposed Departmental use of a City Reserve, Unappropriated Surplus or Appropriated Surplus. A business case may take the form of, or be attached to, a budget issue paper and be subject to the applicable budget, ranking or other prioritization process and Council approval.

## **SECTION 6: REPLENISHMENT PROCESS & PROCEDURES**

Unless otherwise specified by statute, City by-law or other Council policy, this Policy provides minimum and maximum balances for Reserves, Unappropriated Surplus and Appropriations of Surplus. Maintaining minimum levels is considered essential to the financial well being of the City. The following sets out the methods and priorities for replenishing funds to re-establish and maintain minimum balances. Minimum and maximum balances are established by Council in accordance with Section 8 of this Policy, as amended from time to time by Council.

### **6.1 Unappropriated Surplus and Appropriations of Surplus**

The use and replenishment of Unappropriated Surplus and Appropriations of Surplus are linked in both their application and replenishment sources. The new and existing Appropriations of Surplus serve specific objectives and have criteria for both their use and replenishment. The Unappropriated Surplus serves to support or augment these appropriations where the magnitude or impact of the issue(s) cannot be adequately managed or the issue represents a unique financial challenge or opportunity for the City. It is intended that each of the operating funds, i.e. General Operating, Water Operating and Sewer/Drainage Operating use the following guidelines for the establishment and replenishment of Unappropriated Surplus and Appropriations of Surplus on a priority basis. These priorities may change from time to time.

#### **Environmental Emergencies**

- Highest priority based on public safety and demand nature of expenditures;
- A business case is required to justify expenditures of these Appropriations of Surplus. Amounts in excess of the appropriation's resources or ability to replenish will be drawn from Unappropriated Surplus;
- The replenishment period is targeted at between 1 and 3 years and the business case must set out the percentage to be repaid, as a first step, from adjustments in related departmental programs;
- The balance of replenishment must be drawn from unrelated departmental programs where feasible, and
- Where replenishment cannot be fully accomplished by the above steps, the balance would be drawn from Unappropriated Surplus.

#### **Self Insurance**

- Replenishment or contributions will come from the annual general operating budget to reinstate the minimum balance in not less than 3 years;
- A claim that draws the account below the ability to replenish to the minimum balance in a three-year period may be supported by a draw on Unappropriated Surplus, and

- Annual operating budget contributions will be discontinued when the balance reaches the maximum required. Resulting excess general operating funds would be applied to "top up" other Appropriations of Surplus or Unappropriated Surplus to meet minimum balances with any residual being contributed, annually, to the Capital Legacy Fund.

## Revenue Stabilization

- These appropriations are intended to stabilize the impacts of cyclical revenue downturns that are largely temporary and within the City's ability to adjust to in the short-term. Amounts in excess of this capacity would be drawn from Unappropriated Surplus;
- Business cases requesting use of these funds require that the replenishment methods be specified. These would include future departmental cost or service level adjustments or additional revenue generation necessary to "top up" the accounts over a three-year period;
- Departmental cost or service level adjustments would not be automatically reinstated, and
- Replenishment would be drawn from Unappropriated Surplus if replenishment of balances to specified minimum levels could not be achieved in 3-year period.

## Operating Contingency

- These appropriations are intended for operating cost increases or non-environmental operating emergencies that are largely temporary and within the City's ability to adjust to in the short-term. Amounts in excess of this capacity would be drawn from Unappropriated Surplus;
- These appropriations are also intended to temporarily assist with start-up costs that are the result of the promotion of non-traditional methods and alternative service delivery mechanisms that will reduce on-going costs and/or enhance non-tax revenue generation;
- Business cases requesting use of these funds require that the replenishment methods be specified. These would include future departmental cost or service level adjustments or additional revenue generation necessary to "top up" the accounts over a three-year period;
- Departmental cost or service level adjustments would not be automatically reinstated, and
- Replenishment would be drawn from Unappropriated Surplus if replenishment of balances to specified minimum levels could not be achieved in 3-year period.

## Infrastructure Replacement

This priority pertains only to the Water and Sewer/Drainage Operating Funds and is used for the following:

- Replenishment or contributions will come from the Annual Water Operating Budget to build and maintain adequate funds for scheduled replacement of water mains, pumping equipment, technology and other infrastructure, and
- The requirements for infrastructure replacement shall be reviewed on an annual basis.

## General Operating Unappropriated Surplus

- Replenishment from annual operating surpluses after replenishment needs of priorities 1 to 4 are satisfied;
- Contributions from the unexpended portion of operating budget contributions to Self Insurance after priorities 1 to 4 are satisfied, and
- Where these sources are insufficient to replenish Surplus, Council should consider additional revenue generation and budgetary cost controls.

### 6.2 Reserve Fund(s)

## Capital Legacy Fund

- Replenishment period, annual contributions and sources based on business case submissions;
- One-time general operating savings or revenues in excess of that required to satisfy other replenishment priorities would be used to replenish the account minimum or "build" the fund for future capital financing, and
- Additional contributions from excess annual general operating budget contributions to Self Insurance.

## Equipment Replacement Reserve

- Minimum levels are established based on life cycle replacement schedules, and
- Replenishment is derived from annual, monthly or hourly charges against the capital projects and operating programs, which use these assets in combination with interest earned on the unexpended reserve balance.

## Local Improvement Revolving Fund

- Minimum levels established by the requirements for financing Council approved local improvement initiatives by borrowing from this reserve, and
- Replenishment represents repayments of internal borrowing with contributions by local improvement levies to private citizens and City contributions by debt charge contributions through the annual General Operating Budget.

## Other Statutory and By-Law Reserves

- This category includes Reserves established by Provincial statute or City by-law for specialized purposes derived, primarily, from developer contributions that do not require replenishment except by way of interest earned on the unexpended balance, e.g. Affordable Housing Reserve, Neighbourhood Concept Plans and Parkland Cash In Lieu.

## SECTION 7: POLICY ADMINISTRATION

The General Manager, Finance and Technology shall be responsible for:

- Ensuring that the Reserves, Unappropriated Surplus and Appropriations of Surplus are established and maintained in compliance with this Policy;
- Conducting an annual review of the Reserves, Unappropriated Surplus and Appropriations of Surplus and reporting the results of such review to City Council, and
- Recommending any revision or amendment to this Policy, as may be from time to time required, as a result of changes in applicable statutes, accounting standards or economic conditions.

## SECTION 8: MINIMUM AND MAXIMUM BALANCES

FUND	Description	Minimum	Maximum
In each of: a) General Operating; b) Water Operating, & c) Sewer/Drainage Fund	Environmental Emergencies	1.0% of budgeted departmental expenditures	2.0% of budgeted departmental expenditures
	Self Insurance – <b>Note 1</b>	0.5% of total assets recorded on balance sheet	1.5% of total assets recorded on balance sheet
	Revenue Stabilization	5.0% of budgeted non-tax	10.0% of budgeted non-tax



		revenues	revenues
	Operating Contingency	1.5% of budgeted departmental expenditures	3.0% of budgeted departmental expenditures
	Unappropriated Surplus	4.0% of total budgeted expenditures	6.0% of total budgeted expenditures
In each of: a) Water Operating, and b) Sewer/Drainage Fund	Infrastructure Replacement	1.0% of Capital Assets recorded on Balance Sheet	5.0% of Capital Assets recorded on Balance Sheet
Reserve Funds <b>Note 2</b>	Capital Legacy	No minimum or maximum required	
	Equipment Replacement	Based on life cycle of equipment - to be reviewed every 3 years	
	Local Improvement Revolving	100% of current commitment to Capital Programs	100% of Five-Year commitment to Capital Programs

**Note 1:** Actuarial forecast to be conducted every 5 years. Balance of Self Insurance Reserve to be adjusted based on the results.

**Note 2:** Includes only those reserves that are established at the discretion of Council.