



Staff Report

Report To: Dan Best, Chief Administrative Officer
From: **Sandy Becker, Financial Services
Manager/Treasurer**
Date: December 18 2017
Report: FIN.17.27
Subject: Ontario Regulation 284/09 – 2018 Budget

Recommendations:

That South Huron Council receives the report from S. Becker, Financial Services Manager/Treasurer re: Ontario Regulation 284/09 – 2018 Budget

And that South Huron Council adopts this report which meets the requirements of Regulation 284/09 Budget Matters.

Purpose:

The purpose of this staff report is to meet reporting requirements under regulation 284/09.

Background and Analysis:

In 2009, accounting standards and financial reporting requirements changed significantly, with the most notable change being that of the requirement to report on Tangible Capital Assets (TCA). However, these new accounting standards did not require budgets to be prepared on the same basis.

The Municipality of South Huron, like many municipalities continues to prepare budgets on the traditional cash basis. The tax rate is set based on a fund basis of accounting and therefore does not include the Public Sector

Accounting Board (PSAB) requirements of accrual accounting and accounting for non-financial assets and liabilities.

Ontario Regulation 284/09 allows a municipality to exclude from their estimated expenses costs related to amortization expense, post-employment benefit expenses and landfill closure and post closure expenses. However, the regulation requires municipalities that have excluded these expenses in their budgets prepare a report about those excluded expenses and adopt the report by resolution, before adopting a budget for the year.

The municipality excludes amortization expenses as they are a non-cash expense. Post-employment benefit expenses are included in the budget, therefore no adjustment is required. The landfill closure and post closure costs are estimated at \$5.5 million. The municipality includes an annual contribution to perpetual reserve fund for this liability. The contribution included in the 2018 budget is \$105,000, which is calculated based on the fee structure adopted March 2, 2015.

In addition to these excluded expenses, the cash based budgets prepared include certain types of transactions that need to be excluded for PSAB reporting purposes. These are not covered in Ontario Regulation 284/09, however for transparency purposes the following items that are included in the cash based budget will be excluded from the PSAB based budget:

- a. Debenture principal repayment expenditures
- b. Transfers to reserve funds
- c. Contributions from reserve funds
- d. Tangible capital asset costs
- e. Cash inflows from debenture issues reported as revenue in cash based budget

Operational Considerations:

No alternatives are presented related to the proposed recommendation.

South Huron's Strategic Plan:

Section 6.2.2 of the Municipality of South Huron 2015- 2019 Strategic Plan identifies key priorities and strategic directions. The following elements are supported by the actions outlined in this report:

- ✓ Transparent, Accountable, and Collaborative Governance

Financial Impact:

There is no direct financial impact. The following table outlines the high level adjustments made to convert the 2018 proposed budget prepared under the fund basis of accounting to an estimated \$1,749,582 surplus on a full accrual basis.

PSAB 3150 Reconciliation

Revenues

Operating Budget Taxation Budgets	\$ 11,943,513.00
Operating Budget Other Revenues	\$ 7,213,204.00
<i>Less:</i>	
Transfer from Reserves	\$ (293,106.00)
Total Revenues	\$ 18,863,611.00

Expenses

Operating	\$ 17,603,674.00
Capital	\$ 11,314,840.00
<i>Less:</i>	
Capital Expenses	\$ (11,314,840.00)
Debt principal payments	\$ (797,526.00)
Transfer to reserves	\$ (2,511,058.00)
Total Expenses	\$ 14,295,090.00

Annual Surplus; before exclusions \$ 4,568,521.00

Exclusions:

Amortization Expense	\$ 2,818,939.00
Total Exclusions	\$ 2,818,939.00

Projected Annual surplus; after exclusions \$ 1,749,582.00

Amortization of TCA estimated at \$2.8M for 2018 is included in the full accrual budget process. The impact of including the amortization expense is an estimated \$2.8M reduction to the municipality's accumulated surplus.

TCA amortization is based on the cost of these assets when they were first built or purchased. It should be noted that this does not reflect the cost to repair or replace these assets in today's dollars. The municipality has adopted a phase-in plan for contribution of revenues to offset TCA

amortization. Revenues to offset full TCA amortization would be a significant contribution working towards ensuring that a municipality has sufficient funds to repair and replace existing infrastructure.

Legal Impact:

There are no legal implications for the Corporation resulting from the proposed recommendation.

Staffing Impact:

There are no staffing implications for the Corporation resulting from the proposed recommendation.

Policies/Legislation:

Ontario Regulation 284/09 – Budget Matters

Consultation:

Chief Administrative Officer

Related Documents:

Respectfully submitted,

Sandy Becker, Financial Services Manager/Treasurer