

To:	Warden McQueen and Members of Grey County Council
Committee Date:	January 23, 2020
Subject / Report No:	FR-CW-05-20
Title:	Ontario Regulation 284/09 – 2020 Budget
Prepared by:	Mary Lou Spicer, Deputy Treasurer
Reviewed by:	Kevin Wepler, Director of Corporate Services
Lower Tier(s) Affected:	Not applicable
Status:	Recommendation adopted by Committee as presented per Resolution CW26-20; Endorsed by County Council February 13, 2020 per Resolution CC23-20;

Recommendation

1. That Report **FR-CW-05-20** regarding **Ontario Regulation 284/09 – 2020 Budget** be received for information.

Executive Summary

Ontario Regulation 284/09 requires that Council receive a report with respect to non-cash items such as expenses related to capital asset amortization, post-employment benefits, and solid waste landfill closure and post-closure costs being excluded from the annual budget.

This report is being brought forward prior to the finalization of the 2020 budget.

Background and Discussion

When public sector accounting board standards changed with the introduction of tangible capital asset accounting and reporting, there was no change requiring that budgets be prepared on the same basis. The County of Grey like most municipalities continues to prepare budgets on the traditional cash-basis.

Ontario Regulation 284/09 allows municipalities to exclude from the annual budget expenses related to capital asset amortization, post-employment benefits, and solid waste landfill closure and post-closure costs. If municipalities do not budget for these expenses, a report is to be submitted to council with respect to the exclusions.

The County of Grey's 2020 budget for Revenue and Expenditures is being considered by Council on February 7, 2020 and this budget presentation will exclude the following expenses:

1. Amortization of tangible capital assets (a non-cash expense). The budget does include transfers of tax levy funding for capital projects and transfers to reserve for capital asset renewal. The amount of these transfers is GREATER than the annual estimated amortization of capital assets.
2. Future post-employment benefit expenses. The budget includes the estimated current year's expense for eligible retired employees.
3. Solid waste landfill closure and post-closure expenses. Landfill sites are not held at the County level.

The actual amortization costs for 2018 as per the audited financial statements was \$10,171,642 and in comparison, the estimated amortization for 2019 totals \$10,659,000. The total gross capital expenditures proposed in the 2020 budget are estimated at \$32,555,300. Included in these gross expenditures is funding being allocated to reserves for future capital spending to assist in providing funding for the lifecycle replacement of the County's capital assets.

Notwithstanding the financial statement requirements, the County will continue to:

- Manage capital investments and tax levy requirements in order to try and provide sufficient contributions to maintain lifecycle replacement and rehabilitation requirement of its capital assets.
- Budget for the current year cost of post-employment benefits in each year's operating budget.

The regulation also requires an assessment of the impact on the excluded expenses on the change in the County's accumulated surplus. This analysis would show if the County's financial position is deteriorating due to increasing liabilities and underfunded asset renewal requirements.

The term "accumulated surplus" is used in the audited financial statements. The financial statements show the assets of the municipality, net of all liabilities that will be available to provide services to future generations. The accumulated surplus changes on an annual basis based on accounting surplus or deficit for each year. The accounting surplus represents the amount of revenue recorded during the year which is in excess of operating expenses, amortization and interest expense. Any surplus is available for capital including the repayment of debt principal, the purchases of new assets and the rehabilitation of existing assets.

At the end of 2018, the County's consolidated surplus was reported at \$230.5 million, an increase of \$15.1 million over 2017 as the result of the investment in capital assets during the year. The \$230.5 million was comprised of the following: \$189.3 million invested in tangible capital assets (net of debt) and available to service future generations; \$48.1 million in funds set aside in reserves; \$7.0 million in unfunded liabilities and other items. The \$48.1 million in reserves is set aside for the following purposes: \$1.9 million in working funds, \$3.1 million for insurance, sick leave and WSIB, \$11.4 million for current purposes and \$31.7 million for future capital requirements. The Transportation Services Department holds 29.7% or \$9.4 million of the \$31.7 million in reserves for capital purposes; these reserves are held for activities such as unscheduled maintenance and construction, future construction projects, structure and culvert rehabilitation, depots and equipment/vehicle replacement. Funds totaling \$4.3 million have been set aside for the future redevelopment of Rockwood Terrace.

Staff utilizes tools such as building condition assessments, bridge and culvert studies, pavement condition evaluation and equipment/vehicle replacement schedules. These tools assist in prioritizing projects, developing the annual ten year capital forecast and determining the funds that need to be set aside for the future.

Legal and Legislated Requirements

As noted in the report, Ontario Regulation 284/09 requires that Council receive a report with respect to non-cash items such as expenses related to capital asset amortization, post-employment benefits and solid waste landfill closure and post-closure costs that are not being included in the annual budget.

Financial and Resource Implications

There are no direct financial implications associated with this report. Non-financial asset information will be reported in the 2019 annual audited financial statements. Other financial implications are discussed in the body of this report.

Relevant Consultation

- Internal – This report is administrative in nature and no consultation was required.
- External

Appendices and Attachments

None