

To:	Warden Halliday and Members of Grey County Council
Committee Date:	January 11, 2018
Subject / Report No:	FR-CW-03-18
Title:	Ontario Regulation 284/09 – 2018 Budget
Prepared by:	Kevin Wepler, Director of Finance
Reviewed by:	Kim Wingrove, CAO
Lower Tier(s) Affected:	
Status:	Recommendation adopted by Committee as presented per Resolution CW27-18; Endorsed by County Council January 25, 2018 per Resolution CC18-18;

Recommendation

1. That Report FR-CW-03-18 regarding Ontario Regulation 284/09 – 2018 Budget be received for information.

Executive Summary

Ontario Regulation 284/09 requires that Council receive a report with respect to noncash 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 2018 budget.

Background and Discussion

Accounting standards and reporting requirements changed dramatically with the introduction of tangible capital assets accounting and reporting. The new accounting standards, however, do not require 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 2018 budget for Revenue and Expenditures is being considered by Council on January 11, 2018 and this budget presentation will exclude the following expenses:

1. The budget excludes the amortization of tangible capital assets (a non-cash expense) but includes transfers of tax levy funding to capital projects and reserves for tangible capital asset renewal – the amount of these transfers is GREATER than the annual estimated amortization of capital assets.
2. The budget excludes future post-employment benefit expense but includes the current year's expense for eligible retired employees.
3. The budget does not include any solid waste landfill closure and post-closure expenses as the County of Grey does not have landfill sites and therefore is not subject to these costs.

The actual amortization costs for 2016 as per the audited statements was \$13,924,239 and in comparison the estimated amortization for 2017 totals \$13,236,342. The total gross capital expenditures proposed in the 2018 budget are estimated at \$29,821,361. 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 requirements 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 of the excluded expenses on the change on 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 consolidated financial statements. It shows 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 purchase of new assets and the rehabilitation of existing assets.

At the end of 2016, the County's consolidated surplus was reported at \$211.1 million. The \$211.1 million was comprised of the following: \$173.4 million invested in tangible capital assets (net of debt) and available to service future generations; \$46.1 million in funds set aside in reserves; \$8.5 million in unfunded liabilities and other items. The 2016 accumulated surplus increased by \$0.8 million from the 2015 reported amount as a result of the investment in capital assets during the year.

The impact of the capital asset budgeting has been estimated by staff for 2018 to continue to show an increase in the County's accumulated surplus with the County providing funds in its capital budget for the acquisition and renewal of assets at a rate that is greater than the amounts required to fund historical based amortization expenses and any interest on debt that

may be issued to fund a portion of the capital program. However, historical cost amortization expenses are not an accurate determination of the amount of renewal investment that should be made in the 2018 budget and future budget years. The County will need to continue to increase its investment in asset renewal, in accordance with its current asset management plan and any future established asset management strategic policies or strategies.

Legal and Legislated Requirements

As noted in the report, Ontario Regulation 284/09 requires that Council receive a report with respect to noncash 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.

Financial and Resource Implications

There is no direct financial implications associated with this report. Non-financial asset information will be reported in the 2017 annual audited financial statements. Other financial implications are discussed in the body of this report.

Relevant Consultation

This report is administrative in nature and no consultation was required.

Appendices and Attachments

None