

# Ontario Water Regulations 453/07 Reporting Requirements

## Overview and strategies on how to meet to the reporting requirements

For Canadian municipalities, the past two years have been more hectic than usual with a significant amount of resources directed toward PSAB 3150 compliance. However, for municipalities with water (and wastewater) systems, it is a timely exercise as the financial reporting required under the Safe Drinking Water Act (SDWA) and Ontario Regulation 453/07 incorporates a combination of asset management and PSAB components.

The SDWA was passed in December 2002 in order to address some of the recommendations made by the Walkerton Inquiry Part II report. One of the main requirements of the Act is the mandatory licensing of municipal water providers.

In order to become licensed, a municipality must satisfy five key requirements as per section 41(1):

- Obtain a drinking water works permit.
- Acceptance of the operational plan for the system based on the Drinking Water Quality Management Standard.
- Accreditation of the Operating Authority.
- Prepare and provide a financial plan.
- Obtain a permit to take water.

As noted above, a financial plan is mandatory for water systems and encouraged for wastewater systems. As such, the preparation of a

financial plan is a key requirement for licensing.

The financial plans shall be for a period of at least six years but longer planning horizons are encouraged. The financial plan is to be completed and approved by the later of July 1, 2010 and the date that is six months after the first license is issued. Financial plans may be amended and additional information beyond what is prescribed can be included if deemed necessary.

The components of the financial plans indicated by the regulation are congruent with the requirements for full accrual financial statement presentation as set out in PSAB section 1200, which states the following:

*“Financial statements should include a Statement of Financial Position, a Statement of Operations, a Statement of Change in Net Debt, and a Statement of Cash Flow.”*

Moreover, effective for the 2009 fiscal year, municipalities will be required to report additional information relating to the accounting treatment of tangible capital assets as indicated by the new requirements under PSAB 3150. Going forward, tangible capital assets will need to be capitalized so as to create an inventory of the assets owned and to account for their ability to provide future benefits. From a financial planning perspective, this change is significant for water and wastewater assets because they can represent a significant portion of a municipality's infrastructure.

### Sustainable Financial Planning

In general, sustainability refers to the ability to maintain a certain position over time. While the SDWA requires a declaration of the financial plan's sustainability; it does not give a clear definition of what would be considered sustainable. However, the Ministry of the Environment released a guideline entitled *“Towards Financially Sustainable Drinking-Water and Wastewater Systems”* that provided the following 9 principles:

*Principle #1:* Ongoing public engagement and transparency can build support for, and confidence in, financial plans and the system(s) to which they relate.

*Principle #2:* An integrated approach to planning among water, wastewater, and storm water systems is desirable given the inherent relationship among these services.

*Principle #3:* Revenues collected for the provision of water and wastewater services should ultimately be used to meet the needs of those services.

*Principle #4:* Life-cycle planning with mid-course corrections is preferable to planning over the short-term, or not planning at all.

*Principle #5:* An asset management plan is a key input to the development of a financial plan.

*Principle #6:* A sustainable level of revenue allows for

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reliable service that meets or exceeds environmental protection standards, while providing sufficient resources for future rehabilitation and replacement needs.

*Principle #7:* Ensuring users pay for the services they are provided leads to equitable outcomes and can improve conservation. In general, metering and the use of rates can help ensure users pay for services received.

*Principle #8:* Financial Plans are "living" documents that require continuous improvement. Comparing the accuracy of financial projections with actual results can lead to improved planning in the future.

*Principle #9:* Financial plans benefit from the close collaboration of various groups, including engineers, accountants, auditors, utility staff, and municipal council.

These principles help form a framework for a sustainable financial plan for water (and wastewater) systems.

The substance of the financial plan includes reporting on an inventory of current infrastructure and how it will be maintained and managed going forward (a minimum of six years). Municipalities would then be able to report on the full cost of

services and how these costs will be recovered and paid for. These principles are similar to the *Sustainable Water and Sewage Systems Act* (SWSSA) which ensure that a long-term plan for sustainable asset management is developed and that all costs for providing water and wastewater services are assessed so that there is sufficient funding for system needs.

Watson has completed extensive financial planning for water and wastewater systems on behalf of various municipalities throughout Ontario. The methodology employed has been designed to address the "full cost" principles and does so in a manner that also reflects the guiding principles toward sustainable financial planning as follows:

- A Detailed assessment of current and future capital needs including an analysis of potential funding sources (Principles 2, 4, 5, 6, 9);
- An analysis of fixed and variable operating costs in order to determine how they will be impacted by evolving infrastructure needs and system growth (Principles 2, 3, 6, 7, 9);
- A Review and recommendation on rate structures that ensure revenues

are equitable and sufficient to meet system needs (Principles 2, 3, 6, 7, 9); and

- A Public process that involves ongoing consultation with the main stakeholders including the Municipal staff, Council, the general public (specifically the users of the system) and others with the aim of gaining input and collaboration on the sustainability of the financial plan (Principles 1, 9).

Watson prepares the rate calculations on a modified cash basis as this provides the most useful and meaningful information for budgeting, long-term financial planning and other decision making purposes such as communicating to the public. The analysis is then converted to a full accrual reporting format to be used for O.Reg 453/07 reporting. The result is a sound financial plan that management can use as a tool for rate setting and system management while at the same time, fulfilling the mandatory requirements to obtain or update a water license.



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#### Questions / Comments?

If you have any questions or comments regarding this or any Watson Newsletter, please contact us. We welcome the opportunity to discuss your specific municipality's needs.

#### Have a Suggestion for Additional Newsletters?

If there is a related topic you would like covered in a future Watson Newsletter, please contact one of the Watson staff members indicated below with your ideas.

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## Watson & Associates Economists Ltd.

Watson & Associates Economists Ltd. is a firm of economists, planners and accountants which has operated in Ontario for over 25 years. With a client base of more than 250 municipalities, utility commissions and school boards, many of which are long-term repeat clients, the firm is recognized as a leader in the municipal finance/local government field. The firm has a committed twenty-five person staff that has worked together for many years. The firm's principals have participated extensively as expert witnesses on municipal finance matters at the Ontario Municipal Board for 25 years.

Watson & Associates Economists Ltd. has been engaged by a number of municipalities across the province to provide water/wastewater financial planning, development charges, PSAB 3150 compliance and asset management related services. The Watson Water & Wastewater Rate Study and Ontario Regulation 453/07 Reporting approaches have been created to assist in the development of financial plans and reporting requirements that are unique to the situations in each municipality. Watson has provided Water & Wastewater related services to a significant number of municipalities in Ontario, all differing in size and services provided (i.e. Municipalities, Towns, Townships, Cities, Regions, etc.).

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