

Ontario Regulation 284/09 Budgeting Matters



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Upcoming Newsletters

Municipal budgeting approaches could result in additional reporting requirements.

The introduction of full accrual reporting in Canadian municipalities has initiated a number of significant changes. Of particular note is the introduction of tangible capital asset accounting and corresponding changes to Financial Statement and Financial Information Return (FIR) reporting. These changes have introduced non-cash expenses to financial reporting, creating a gap between municipal budgeting and financial statement reporting requirements.

Currently, many municipalities budget on a cash basis. This concept of revenues and expenses are more in line with cash inflows and outflows that are projected for the year. Introducing non-cash expenses (such as amortization on tangible capital assets) brings forward the issue of whether or not to budget for these non-cash amounts each year.

Moreover, PSAB section 1200 requires municipalities to present budget information on the Financial Statements each year (Statement of Operations and Statement of Changes in Net Financial Assets/Debt). Furthermore, PSAB section 1200 also requires municipalities to disclose this budget information in a format consistent with year-end results. If a reconciliation is needed to provide the budget in that format, then that reconciliation must be disclosed as part of the Financial Statements.

Due to this change in external reporting the *Municipal Act, 2001* has been amended, through Ontario Regulation 284/09, to reflect the new definition of ex-

penses for budgeting purposes. This definition is now consistent with full accrual reporting definitions.

Balanced budgeting was a requirement of the *Municipal Act* in the past and remains just as important moving forward. The only difference is that municipalities can now choose if they want to fully fund, partially fund or not fund the following expenses:

- Amortization expense;
- Post-employment benefits expense; and
- Solid waste landfill closure and post-closure expenses.

Amortization expense is a new concept for municipalities, and represents the use of existing tangible capital assets for a given year. Funding amortization could be viewed as partial funding for the ultimate replacement of these assets in the future.

Post-employment benefits and solid waste landfill closure and post-closure expenses have been typically shown as a "future amount to be recovered" on a municipality's financial statements (where applicable). Also, it is common for reserves/reserve funds to be established to fund these future expenses. These costs have been recognized from a financial statement reporting standpoint in the past and are now being included from a budgeting perspective.

Deciding to partially fund or not fund these aforementioned items will result in additional reporting require-

ments under Ontario Regulation 284/09, and will require a specific Council resolution.

For 2010, the reporting requirements (discussed below) must have been completed and adopted within sixty days of Council receiving its audited financial statements for 2009. For 2011 and subsequent years, the reporting requirements must be completed and adopted before adopting the budget for that year.

Reporting Requirements

Under Ontario Regulation 284/09, a report must be prepared for Council which focuses on the non-cash expenses not reported in the budget (either in whole or in part). At a minimum, the report must address the following:

- The estimated change in accumulated surplus of the municipality or local board to the end of the year as a result of excluding the expenses.
- An analysis of the estimated impact of excluding the expenses on future tangible capital asset funding requirements.

To determine the impact of excluded expenses on accumulated surplus, the first step is to understand the components of accumulated surplus and how they individually impact the total balance. Major components of accumulated surplus include:

- Investments in tangible capital assets;
- Reserve and reserve fund balances;

- Future amounts to be recovered (negative impact); and
- Annual surpluses/deficits of various funds.

Amortization

Deciding not to fully fund amortization expense will have an impact on the funding available to replace the assets in the future, and will therefore negatively impact accumulated surplus through:

- Decreased reserve/reserve fund balances; and
- Deferred tangible capital asset investments.

However, even if amortization is fully funded, it would be beneficial to compare existing capital funding levels to required future funding levels in order to address the second reporting requirement of Ontario Regulation 284/09 (i.e. impact on future tangible capital asset funding). For example, given your municipality's capital funding strategy, how much should you be investing into tangible capital assets each year (i.e. actual asset purchases/construction and saving for future purchase/construction)? This question is best answered through

asset management related analysis, such as quantifying your municipality's infrastructure funding deficit.

Post-Employment Benefit and Landfill Closure/Post-Closure Expenses

In determining the impact of not funding post-employment benefits and landfill closure/post-closure expenses, consideration should be made for the anticipated expenses (i.e. current and future) in comparison to current budget and reserve/reserve fund levels. For example, a municipality with a fully funded post-employment benefit reserve will have no impact on accumulated surplus, given that the reserve balance and the "future amount to be recovered" for post-employment benefit costs would net to zero. However, in an unfunded or partially funded post-employment benefit scenario, the impact on accumulated surplus would be quantified by examining the following:

- Increase/decrease in the future amount to be recovered due to the change in anticipated post-employment benefit costs for the year; and
- Increase/decrease in reserve/reserve fund balances dedicated to

fund post-employment benefit costs.

The complexity of the reporting requirements under Ontario Regulation 284/09 are dependent on how applicable amortization, post-employment benefit and solid waste landfill closure and post-closure expenses are to your municipality. A smaller municipality with very few of these expenses may be able to meet the reporting requirements with more of a higher level report. However, best practices would suggest using asset management methodologies when reporting on funding amortization and estimating the impact on future tangible capital asset funding requirements.

Watson & Associates has assisted numerous municipalities with full accrual implementation, accumulated surplus reconciliations, financial statement reporting, and best practices in conforming to PSAB. As well, our team has a developed expertise with budgeting and long-term forecasting, which provides a solid foundation for addressing these new reporting requirements. Our approaches have been adopted in municipalities for over 25 years. For more information on this approach or to discuss Ontario Regulation 284/09, please feel free to contact us.



4304 Village Centre Court
Mississauga Ontario
L4Z 1S2
Tel: (905) 272-3600
Fax: (905) 272-3602

Visit our website:
www.watson-econ.ca

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.

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 budgeting & long-term forecasting, water/wastewater financial planning, development charges, PSAB 3150 compliance and asset management related services. The Watson PSAB compliance and reporting approaches have been created to assist in the development of strategies that are unique to the situations in each municipality. Watson has provided 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.).

Contacts:

Dan Wilson, BBA, CA
Manager, Municipal Finance
wilson@watson-econ.ca
905-272-3600 x 233

Gary Scandlan, BA, PLE
Associate Director
scandlan@watson-econ.ca
905-272-3600 x 226

Andrew Grunda, MBA, CMA
Associate Director
grunda@watson-econ.ca
905-272-3600 x 229