

## Request for Decision

### Ontario Regulation 284/09 - Budget Matters

Presented To:	Finance and Administration Committee
Presented:	Wednesday, Jan 27, 2016
Report Date	Thursday, Jan 07, 2016
Type:	Routine Management Reports

### Recommendation

THAT the City of Greater Sudbury approves the report titled "Ontario Regulation 284/09 - Budget Matters" from the Acting Chief Financial Officer/City Treasurer, as required by Municipal Act Regulation 284/09.

### Background

As detailed in the annual audited financial statements, the equity of a municipality is defined as "accumulated surplus". The accumulated surplus consists mainly of:

- Equity in Tangible Capital Assets
- Reserves and Reserve Funds
- Capital Funds
- Less Unfunded Liabilities such as Employee Future Benefits and Post Closure Landfill Sites

Ontario Regulation 284/09 states that for budget purposes, municipalities may continue to exclude amortization, post-employment benefits, and solid waste landfill closure and post-closure expenses.

Further, Ontario Regulation 284/09 requires that municipalities that have excluded expenses in the annual budget must report them to Council.

The purpose of this report is to identify the impact of the 2016 budget on the City's accumulated surplus after converting the 2016 budget and assumptions to the full accrual basis of accounting.

The following is a summary of the consolidated budget (modified cash basis) from the Consolidated Budget tab in the 2016 Budget binder to a full accrual basis of accounting.

#### Signed By

##### Report Prepared By

Apryl Lukezic  
Co-ordinator of Budgets  
*Digitally Signed Jan 7, 16*

##### Recommended by the Department

Ed Stankiewicz  
Acting Chief Financial Officer/City Treasurer  
*Digitally Signed Jan 13, 16*

##### Recommended by the C.A.O.

Kevin Fowke  
Acting Chief Administrative Officer  
*Digitally Signed Jan 14, 16*

Impact of items that will increase (decrease) the 2016 accumulated surplus:

1. Post Employment Benefit Expense	(\$ 1.2) million
2. Landfill closure and post closure expense	(\$ 1.9) million
3. Principal portion of external debt payments	\$ 8.8 million
4. Capital and reserve related	\$ 23.3 million

Estimate of the Budgeted Increase in Accumulated Surplus \$ 29.0 million

Note – all adjustments in above table are estimates, and exclude the related entities which are consolidated in the City's financial statements.

The Public Sector Accounting Board's (PSAB) new financial reporting requirement incorporates the capitalization of tangible capital assets and amortization expenses in the financial statements for all municipalities in Canada. For budget purposes, Ontario Regulation 284/09 allows municipalities to exclude the expenses identified above from the budget. The City of Greater Sudbury's 2016 budget, like all past budgets, was completed on a funding basis where operating and capital budgets are balanced. Accordingly, on a funding basis, there is no projected impact to the City's accumulated surplus.

The adjustments above convert the 2016 budget from the modified cash basis of accounting to the accrual method of accounting and results in an estimated increase of \$29 million to the City's accumulated surplus.

Explanations of the significant adjustments in the table above are outlined below:

#### 1. Post Employment Benefit Expense

PSAB standards do not require liabilities associated with post-employment benefits to be fully funded by setting aside any portion of the accumulated surplus as reserves and reserve funds. The City's financial statements report liabilities and expenses relating to post-employment benefits while the City's budget includes estimated expenditures based on expected cash payments to be made during the year for retirement benefit plans, sick leave benefit plans, long-term disability plans, Workplace Safety and Insurance Act benefits, vacation agreements and retirement plans. The City has some reserve funds associated with these liabilities. The future payments for those liabilities and expenses for some transfers to reserve funds are included in the 2016 budget.

The estimated impact of post-employment benefits expense is an increase to Modified Cash Budget and a decrease to the accumulated surplus of \$1.2 million.

#### 2. Landfill Closure and Post Closure Expense

The PSAB standards do not require liabilities associated with solid waste landfill closure and post-closure care activities to be fully funded by setting aside any portion of the accumulated surplus as reserves and reserve funds. The City's financial statements report liabilities for landfill closure and post-closure. The City does not maintain a reserve fund for these liabilities. Capital construction costs are included in the capital budget as they are known and planned to be incurred.

The estimated impact of solid waste landfill closure and post-closure expenses is an increase to the Modified Cash Budget and a decrease to the accumulated surplus of approximately \$1.9 million (which is based on the change in the liability in 2014 year end audited financial statements).

#### 3. Principal Portion of External Debt Payments

External debt payments of \$8.8 million are included within the operating budget however for PSAB purposes these are a reduction of the City's outstanding debt, and must be removed from expenses.

The estimated impact of the principal portion of external debt payments of \$8.8 million is an increase to the accumulated surplus.

#### 4. Capital and Reserve Related Adjustments

There are adjustments related to capital and reserves, mainly due to capital expenditures recorded as assets on the balance sheet and amortized over its estimated useful life with the corresponding amortization expense that would decrease the accumulated surplus. This is offset by the removal of contribution to/from reserves and capital in the Budget as well as the recording of external funding and revenues relating to the capital assets.

Overall, the reason that the capital and reserve related adjustments results in an increase to the accumulated surplus is the funding recorded as revenue whereas capital assets are recorded as assets and amortized (expensed) over its useful life on the financial statements as opposed to expenses in the Budget.

The estimated impact of all capital and reserve related adjustments is an increase to the accumulated surplus of \$23.3 million.

#### Summary

When the 2016 modified cash budget is converted to the full accrual basis of accounting, the budgeted impact on the City's accumulated surplus is an estimated increase of \$29 million.

This is mainly attributed to budgeted capital transactions which exceed the amortization calculated based on historical costs in accrual accounting. As Council is aware, annual sustainable funding levels (based on replacement costs) for the City's capital assets, greatly exceed historical amortization and existing funding levels included in the 2016 Budget.

Regulation 284/09 requires this report be approved by Council and adopted by resolution prior to adoption of the 2016 Budget.