

Request for Decision

Ontario Regulation 284/09 - Budget Matters

Presented To:	Finance Committee
Presented:	Monday, Dec 05, 2011
Report Date	Wednesday, Nov 30, 2011
Type:	Managers' Reports

Recommendation

That the report dated November 25, 2011 from the Chief Financial Officer/Treasurer, as required by Municipal Act Regulation 284/09, be approved.

The Public Sector Accounting Board (PSAB) has issued several new requirements for financial reporting that all municipalities had to comply with starting in the 2009 reporting period. As reported to Council and as per 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 2012 and future budgets must report to Council providing the impact of the following, which must be adopted by a resolution of Council prior to Council adopting the budget:

1. Impact of excluded expenses on the accumulated surplus, and
2. Impact on future tangible capital asset funding requirements.

Impact of Excluded Expenses on Accumulated Surplus

The Public Sector Accounting Board's (PSAB) new financial reporting requirements for the 2009 and future reporting periods incorporates the capitalization of tangible capital assets and amortization expenses in the financials 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 2012 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 purpose of this report is to identify the impact of the 2012 budget on the City's accumulated surplus after converting the 2012 budget and assumptions to the full accrual basis of accounting.

Signed By

Report Prepared By

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Recommended by the Department

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These adjustments that convert the 2012 budget prepared on the funding basis of accounting results in an estimated \$3.6 M reduction to the City's accumulated surplus. Adjustments relate to capital expenses, reserves, long term liabilities and debt repayments.

Explanations of the significant adjustments are outlined below:

1. Amortization Expense on Tangible Capital Assets

The annual financial statements now include amortization expense on tangible capital assets as required by the new PSAB standards. Although the City's 2012 Budget does not include amortization expense on tangible capital assets, provisions are made for contributions to capital and transfer to capital reserves to fund capital expenses. The 2012 budget is based on planned capital expenditures for the year. In addition, the ten year capital plan will be updated and developed in advance of the 2013 budget deliberations and will incorporate the tangible capital asset data and replacement values.

As amortization expense is not included in the budget, the impact of amortization is an estimated \$66 M reduction to the City's accumulated surplus. However, offsetting amortization is the funding for the acquisition of tangible capital assets. The estimated 2012 impact of tangible capital assets is a net of \$7.8 M reduction to the accumulated surplus.

2. Post-Employment Benefits Expenses

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 reserves associated with these liabilities. The future payments for these liabilities and expenses for some transfers to reserves are included in the 2012 budget.

The impact of post-employment benefits expense is a reduction to the accumulated surplus and is estimated to be \$1.5 M in 2012.

3. Solid Waste Landfill Closure and Post-Closure Expenses

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 for these liabilities. Capital construction costs are included in the capital budget as they are known.

The impact of solid waste landfill closure and post-closure expenses is a reduction to the accumulated surplus and is estimated to be \$277,000 in 2012.

Summary

The proposed 2012 Budget is estimated to decrease the City's accumulated surplus by \$3.6 million.

Additional work and funding is required in future years to meet the anticipated requirements to repair/replace existing/aging infrastructure and to fund the City's portion of growth-related infrastructure.

Regulation 284/09 requires this report be approved by Council and adopted by resolution prior to adoption of the 2012 Budget.