



REPORT

REPORT TO: Chair and Members of the Budget Committee

REPORT FROM: Duncan Robertson, CPA, CMA
Budgets & Financial Reporting Supervisor

DATE: January 7, 2019

REPORT NO.: CORPSERV-2019-0018

RE: Ontario Regulation 284/09- Budget Matters- Expenses

RECOMMENDATION:

THAT Report No. CORPSERV-2019-0018 dated January 7, 2019 regarding Ontario Regulation 284/09- Budget Matters- Expenses be received;

AND FURTHER THAT Council adopts this report, which meets the requirements of Regulation 284/09 and outlines the 2019 Operating and Capital Budgets in a format that is compliant with the Public Service Accounting Board (PSAB).

BACKGROUND:

In 2009, accounting standards and financial reporting requirements changed significantly, with the most notable change being the reporting requirements on Tangible Capital Assets (TCA). However, these new accounting standards do not require budgets to be prepared on the same basis.

The Town of Halton Hills, like many municipalities, continues to prepare budgets on a traditional cash basis. These budgets do not include the Public Sector Accounting Board (PSAB) requirements of accrual accounting and accounting for non-financial assets such as Tangible Capital Assets.

Ontario Regulation 284/09 requires municipalities that have excluded expenses in their budgets to prepare a report detailing those excluded expenses and adopt the report by resolution prior to adopting a budget for the year. Allowable excluded expenses as per Ontario Regulation 284/09 can be all or a portion of the following:

- a. Amortization expenses
- b. Post-employment benefit expenses
- c. Solid waste landfill closure and post-closure expenses

The Town excludes expenses related to amortization as they are a non-cash expense. Post-employment benefit expenses are included in the budget, therefore no adjustment is required. The post-closure solid waste landfill expenses are included in the waste management levy from the Region as they monitor the former landfill site, which was closed in 1973.

The Regulation requires the report to contain at a minimum:

- a. An estimate of the change in accumulated surplus (revenues less expenditures) of the municipality to the end of the year resulting from the exclusion of expenses
- b. An analysis of the estimated impact of the exclusion of expenses on future tangible capital asset funding requirements

In addition to these excluded expenses, the cash-based budgets prepared by the Town include certain types of transactions that need to be excluded for PSAB reporting purposes. These are not covered in Ontario Regulation 284/09; however, for purposes of transparency and consistency, the accumulated surplus contained in this report will be included as budget figures in the 2019 published financial statements, as approved by Council. As such, the following items that are included in the cash-based budget will be excluded from the PSAB-based budget:

- a. Debenture principal repayment expenditures net of recoveries
- b. Transfers to reserve funds
- c. Contributions from reserve funds
- d. Tangible Capital Asset costs
- e. Cash inflows from debenture issues reported as revenue in cash-based budget

COMMENTS:

Table 1 below outlines the changes made to convert the balanced 2019 budget prepared under the cash basis of accounting to increase the Town's accumulated surplus in the amount of \$1,337,156.

Table 1**2019 Proposed Budget - Cash Based**

Proposed 2019 Operating Budget Tax Levy	\$ 50,689,500
Proposed 2019 Operating Budget Other Revenues	\$ 23,538,681
Proposed 2019 Operating Budget Expenditures	<u>\$ (74,228,181)</u>
Surplus/(Deficit)	<u>\$ -</u>
Proposed 2019 Capital Budget Funded	\$ 21,293,300
Proposed 2019 Capital Budget Expenditures	<u>\$ (21,293,300)</u>
Surplus/(Deficit)	<u>\$ -</u>
Acton & Georgetown BIA Budget Revenues	\$ 442,560
Acton & Georgetown BIA Budget Expenditures	<u>\$ (442,560)</u>
Surplus/(Deficit)	<u>\$ -</u>
Add Revenues Excluded from Cash Based Budget	
Donated Tangible Capital Assets	\$ 1,500,000
Equity Income on Investments	<u>\$ 1,000,000</u>
Exclusion Impact on Accumulated Surplus/(Deficit)	<u>\$ 2,500,000</u>
Add Expenditures Excluded from Cash Based Budget	
Amortization Expense	<u>\$ (20,231,731)</u>
Exclusion Impact on Accumulated Surplus/(Deficit)	<u>\$ (20,231,731)</u>
Remove Non PSAB Items from Cash Based Budget	
Debenture Principal Repayments (Net of Recoveries)	\$ 4,105,467
Transfers to Reserves	\$ 9,738,326
Contribution from Reserves (Capital Budget)	\$ (7,501,206)
Contribution from Reserves (Operating Budget)	\$ (1,370,300)
Funds from Debenture Issuances	\$ (3,700,000)
Fixed Asset/TCA Expenditures	<u>\$ 17,796,600</u>
Total Impact on 2019 Accumulated Surplus/(Deficit)	<u>\$ 1,337,156</u>

Amortization of \$20,231,731 listed in Table 1 above has a major impact on the 2019 accumulated surplus amount. The amortization expense reduces the surplus amount and also reduces the net book value of the Tangible Capital Assets reported on the annual audited statement of financial position.

Fixed asset purchases of \$17,796,600, documented in Table 1 above, are lower than amortization. This suggests that the Town's assets are being replaced at a slower rate than they are declining.

Budgeted amortization amounts are based on a projection of existing assets and the associated annual amortization charge. It does not include a projection for assets not yet in service or new assets that have not as yet been recorded in the fixed asset sub-ledger.

Table 2 shows the proposed budget in PSAB format. This layout will be used in the preparation of the annual published financial statements, and will be adjusted to incorporate any budget night changes approved by Council.

Table 2	2019 PSAB Format Budget
Revenues	
Taxation (Including Supps & PILs)	\$52,429,300
User Fees & Charges	\$10,137,236
Government Transfers	
Federal	\$1,855,394
Provincial	\$2,338,200
Other Municipalities	\$720,700
Investment Income	\$1,155,000
Development Charges	\$7,605,896
Donated Tangible Capital Assets	\$1,500,000
Interest from HHCEC	\$665,000
Equity income from HHCEC	\$2,692,000
Other	\$2,505,985
	<u>\$83,604,711</u>
Expenses	
General Government	\$14,177,681
Protection Services	\$9,779,538
Transportation Services	\$30,760,949
Environmental Services	\$1,325,530
Health Services	\$187,064
Social & Family Services	\$1,269,248
Recreation & Cultural Services	\$19,694,258
Planning & Development	\$5,073,287
	<u>\$82,267,555</u>
Annual Surplus/(Deficit)	<u><u>\$1,337,156</u></u>

RELATIONSHIP TO STRATEGIC PLAN:

This report supports Council's strategic priority to provide responsive and effective municipal government by ensuring accountability and transparency of the Town's operations and that appropriate management policies, practices and procedures are in place.

FINANCIAL IMPACT:

There is no direct financial impact with this report. The intent is to describe the conversion of the cash-based proposed budget to a Public Sector Accounting Board budget format and compliance thereof.

CONSULTATION:

Consultations were held with other municipalities on the format of this report.

PUBLIC ENGAGEMENT:

There was no public engagement required in reference to this report.

SUSTAINABILITY IMPLICATIONS:

The sustainability implications of the recommendations of the report were reviewed against the requirements of the Town's Sustainability Implications Worksheet. The Worksheet is completed for substantial non-administrative reports, major projects, studies, policies and initiatives that are relevant to advancing the Town's economic, cultural, environmental and social wellbeing, and quality of life. Since this report is none of the latter, the Sustainability Implications section is not applicable.

COMMUNICATIONS:

Communicating the differences between the cash based budget and the PSAB based budget to members of Budget Committee fulfills the requirements of Ontario Regulation 284/09.

CONCLUSION:

Differences between cash and PSAB accounting of the 2019 budget are detailed in tables 1 and 2 of this report. This report fulfills the requirements of Ontario Regulation 284/09. Accounting staff will monitor actual results throughout the 2019 financial year.

Reviewed and Approved by,

A handwritten signature in black ink, appearing to read "M. J. Leighton". The signature is written in a cursive, flowing style.

Moya Jane Leighton, Manager of Accounting and Town Treasurer

A handwritten signature in black ink, appearing to read "Jane Diamanti". The signature is written in a cursive, flowing style.

Jane Diamanti, Acting CAO