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PILOT PROJECT - ACCOUNTING FOR CAPITAL ASSETS

The Finance and Administration Committee recommends the adoption of the recommendation contained in the following report, May 9, 2005, from the Commissioner of Finance:

1. RECOMMENDATIONS

It is recommended that:

1. Regional Council endorse development a proposal to be submitted for consideration of York Region as a pilot site for Accounting for Capital Assets project sponsored by the Ontario Municipal Benchmarking Initiative (OMBI).

2. PURPOSE

The purpose of this report is to obtain Regional Council's endorsement to have York Region participate as a pilot site for the Accounting for Capital Assets project.

3. BACKGROUND

The Ontario Benchmarking Initiative (OMBI) is a partnership of 15 municipalities in the Province of Ontario that have adopted the mission of promoting service excellence in municipal government. OMBI is a creation of the Chief Administrative Officers and City Managers of some of the largest regional and single tier municipalities in Ontario, as well as a number of the smaller ones. Member municipalities include the Cities of Sudbury, Thunder Bay, Hamilton, London, Toronto, Windsor and Ottawa, the County of Brant, the District of Muskoka and the municipal regions of Halton, Niagara, Peel, Durham, York and Waterloo. These OMBI municipalities, which represent more than eighty percent of the Province of Ontario by population, are working together to identify and share performance statistics and identify operational best practices.

Given its focus on benchmarking and municipal performance, OMBI is in a unique position to examine the issues involved in accounting for capital assets in the municipal sector. Currently, municipalities prepare their financial statements in accordance with the generally accepted accounting principles (GAAP) established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). At this time, GAAP does not address how municipalities record and report their capital assets.

4. ANALYSIS AND OPTIONS

Since the release of the PSAB research report, *Accounting for Infrastructure in the Public Sector*, the Ontario Municipal Benchmarking Initiative (OMBI) has, through its Treasurers Group, developed a capital asset accounting model that addresses the issues raised in the research report.

In order to utilize the time and effort invested by OMBI but ensure that its effort will meet the PSAB standards for fixed asset financial statement reporting, OMBI proposes to expand its Capital Assets Working Group working in conjunction with PSAB to develop a manual so that it can be used as a guide by municipalities in implementing PSAB's financial statement reporting standards and guidance in regards to capital assets. This manual will also incorporate and integrate material already developed by OMBI and PSAB.

The main rationale for an investment by the Province of Ontario in this project is that it will assist in the implementation of capital asset accounting and reporting by municipalities. It is advantageous to the Province of Ontario that this project be successful as it will ensure that future partnerships between the province and municipalities in regards to municipal capital assets are successful. This will also allow municipalities to have better information for decision-making for managing and investing in capital assets.

This project is therefore critical to effectively and efficiently maintaining and improving capital infrastructure in municipalities across the province. For this reason, the Ministry of Finance agreed to provide OMBI with up to $73,500 to develop Phase 1 of the *OMBI Municipal Guide to Accounting for Capital Assets*. This document, which provides a thorough review of options and considerations for capital asset accounting was completed in March 2005. Given the complexity and need for practical testing of the policies outlined in this document, OMBI has requested $694, 200 to conduct pilot implementations in up to five diverse municipalities of varying size and structure beginning this summer. The pilots would be completed by October 2006.

A further $87, 000 has been requested for piloting a Phase 3 education and training program, to run concurrently with the Phase 2 pilot implementations. Phase 3 will use each implementation to refine the training program, policy recommendations and implementation guidelines so that it forms a professional program that a number of professional associations can use to prepare municipalities for the requirement to report capital assets on their financial statements. The legislative requirement to report on capital assets is now expected by 2007/2008.

Phase 2 of this project will focus on the intensive application of the model through detailed municipal pilots. Pilot projects will be determined on the following basis:

- Size (population and territory)
- Geography
- Governance structure
- Expressed interest in participation
- Management/political commitment
- Successful participation in corporate-wide change initiatives
- Demonstrated operational readiness
- Extensive capital assets profile

York Region staff believes that York is an ideal candidate for this project. Our relatively young, but rapidly growing infrastructure, our position as a highly respected leader in innovative practices and our success in completing other large projects bear this out. Senior management fully supports this initiative.

5. FINANCIAL IMPLICATIONS

OMBI has applied for funding in the amount of $694,200 for Phase 2 of this project. This funding will be used by OMBI for overall project management and support as well as financial and technical expertise.

It has yet to be determined what staffing costs would be incurred by the Region for this project. A substantial amount of effort will be required in cataloguing, classifying and valuing assets. Since a significant amount of work will be done in 2006, funds will be included in the 2006 budget for this project. It is anticipated that students will be recruited extensively to perform much of the data gathering.

If selected as a pilot site, the Region will be involved in setting policy and developing procedures for broader municipal implementation of the capital asset accounting model. When the PSAB reporting requirements do come into affect in the next 3 – 4 years, the Region will be in a state of readiness to comply immediately. Historically, the Region has been proactive in implementing various PSAB reporting requirements. As a pilot site, the Region will be able to take advantage of the project management and technical expertise provided by OMBI and funded by the province. If not selected as a pilot site, the Region will still be faced with the costs of implementing the model in the near future. The Region is currently undertaking its own internal Capital Asset Management Strategy initiative and the two projects will complement each other.

6. LOCAL MUNICIPAL IMPACT

The legislative requirement to report on capital assets is expected by 2007/2008. The proposed project will ensure that municipalities:

- Understand why it is important to begin to properly account for and to also report in their financial statements their capital assets. The project will also assist municipalities in properly planning for a movement in this direction.

- Are aware of the issues, costs and risks associated with the implementation of capital asset accounting and financial statement reporting.

- Are aware of the funding issues that are associated with capital asset accounting, that is the recording of depreciation as an annual expenditure. This means that municipalities must know what, if any, impact depreciation costs will have on annual property tax rates.

- Understand what the information technology requirements of capital asset accounting and financial statement reporting are, so that they have the appropriate staff and technology that meets their needs.

- Understand the time frames that they will be subjected to in terms of having to comply with PSAB reporting standards and guidelines for capital assets.

7. CONCLUSION

The Ontario Municipal Benchmarking Initiative has, through its Treasurers Group, developed a capital asset accounting model. To test the policies outlined in the model, pilot implementations in up to five diverse municipalities of varying size will be conducted. The staff of York Region is interested in submitting a proposal to OMBI to be considered as a pilot site. Regional Council endorsement of this initiative is required as part for the Region's submission.

The Senior Management Group has reviewed this report.