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## **Council-In-Committee Meeting – December 14, 2021**

Subject: Drain Construction Reserve  
Report Number: CS 21-74  
Division: Corporate Services  
Department: Financial Management and Planning  
Purpose: For Decision

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### **Executive Summary:**

Annually, Norfolk County has been transferring funds to a separate account, referred to as the drain contingency job, to provide for the County's portion of drain construction projects. Upon completion and billing of drain construction projects, Norfolk County's portion of costs have been funded by transferring funds back out of the drain contingency job. Staff are now seeking to convert this job to a formal reserve in order to ensure proper accounting and reporting treatment of these funds.

### **Discussion:**

Under the current configuration the drain contingency job is set up like any other capital project, which means that it is reported as Assets Under Construction in our financial statements and falls under tangible capital assets (TCA). From an accounting perspective, this is not correct, as these funds are set aside to cover future drain construction costs and are not currently part of any asset work. The proper accounting treatment of these funds would be to have them reported on the balance sheet with all other reserves and reserve funds rather than as part of TCA. The drain contingency already operates like many of our reserves do in that levy funds are collected to cover Norfolk County's portion of drain construction projects and these funds are transferred into the drain contingency. As drain projects are undertaken and costs are incurred which are assessed to Norfolk County, funds are transferred out of the drain contingency and applied to the specific drain project as applicable.

If the drain contingency were set up as a formal reserve this practice of setting aside funds to cover future projects would not change – however the funds would be transferred into a reserve and reported correctly on the County's financial statements. This would also improve transparency and clarity in terms of the balance of the drain contingency, it would ensure that the reserve was reported to Council and reviewed in detail on a more regular basis by staff as well as undergoing a more rigorous process during the County's annual audit.

**Financial Services Comments:**

The current balance in the drain contingency job is \$1,062,185 which is annually funded by contributions from the operating budget.

The Approved 2021 Levy Budget included an allocation of \$300,000 to be transferred to the drain contingency job. This transfer is being recommended to be increased to an allocation of \$400,000 within the Preliminary 2022 Levy Budget to support current capital commitments. Further increases are anticipated in future years to continue to increase the support to this reserve.

At this time the estimated assessment to Norfolk County for the active drain construction projects is approximately \$6.3 million. Of this amount, \$2.7 million is anticipated to be funded through the drain contingency account. It is important to note this assessment excludes estimates for projects where an engineer has been hired for a drainage construction project but no formal engineer's report has been presented to Council.

Based on the current balance, sources, and commitments, the County's drain reserve will be insufficient to fund the estimated costs of drain construction projects currently underway. In order to address this balance, Financial Management and Planning will continue to recommend reserve contribution increases to the drain contingency annually. In addition, for all drain construction projects that proceed to final adoption of the engineer's report, the recommended financing source will be debentures for the County's portion. High level estimates for these issuances were included in the 2022 Capital Plan presentation. This process will continue until the reserve is no longer overcommitted.

Due to the significant progress completed on the drainage accounting project over the last few years, the County's total commitments have become more clear. However, there is a need to understand and analyze upcoming drain construction projects which will provide clarity on future financial commitments within the 10 Year Capital Plan. It is also important to support further budgetary increases to this reserve to cover the costs of ongoing projects so that they do not contribute to future deficits or lead to additional debt issuances. Staff in Financial Management and Planning are investigating options with colleagues in Engineering in regard to the best method for forecasting future County assessments for drain construction projects as part of the budget process.

**Interdepartmental Implications:**

Staff in Engineering and Financial Management and Planning have been working closely together in order to clean up a number of drainage projects and will continue to do so until these items are completed.

**Consultation(s):**

The Supervisor of Financial Operations and Internal Audits, the Treasurer, the Manager of Financial Planning and Reporting and the Drainage Superintendent were consulted in the drafting of this report.

**Strategic Plan Linkage:**

This report aligns with the 2019-2022 Council Strategic Priority "Build Solid Foundations".

**Explanation:**

Proper reporting and transparency on the treatment of these items is essential in the accurate assessment of Norfolk County's financial status.

**Conclusion:**

In order to facilitate the proper accounting treatment of funds and to ensure transparency and more readily available information for Council, staff are recommending the transfer of the balance in the drain contingency job to a formal reserve.

**Recommendation(s):**

THAT Staff Report CS 21-74 Drain Construction Reserve, be received as information;

AND THAT staff be directed to establish the Drain Construction Reserve for the purpose of funding Norfolk County's portion of drain construction projects and transfer the balance of funds in the drain contingency to form the opening balance for 2021.

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