# Corporation of the Township of Brock

## Staff Report to the Mayor and Members of Council

**From:** **Trena DeBruijn**
**Position:** **Director of Finance**
**Title / Subject:** Ontario Regulation 284/09
**Date of Report:** February 2, 2024
**Date of Meeting:** February 12, 2024
**Report No: 2024-FI-005**

### 1.0 Issue / Origin

Ontario Regulation 284/09 permits a municipality to exclude certain expenses from its annual budget, and for the Township of Brock, these expenses would be: amortization and post-employment benefits. Other items to transfer to a Public Sector Accounting Board ("PSAB") Budget include tangible capital asset acquisitions and accounting treatment of debt principle payments.

This report meets the requirements of Ontario Regulation 284/09 regarding expenses excluded from the Township of Brock 2024 budget, and provides an analysis of the impact to the budget if these expenses were included.

This report is required annually before each year's budget is adopted by Council.

### 2.0 Background

In 2009, the Public Sector Accounting Board ("PSAB") introduced major revisions to accounting standards whereby municipalities were required to move to a full accrual basis of financial statement reporting. The most notable change was the introduction of PSAB 3150 – Tangible Capital Assets, which requires municipalities to amortize tangible capital assets over their useful life, as opposed to expensing the entire cost in the year of purchase.

The new standards, however, do not require that budgets be prepared on the same full accrual basis. As such, most municipalities, including the Township of Brock, continue to prepare budgets on a traditional basis that determines the annual property tax requirement on a cash basis without costs for non-cash transactions such as amortization.

Ontario Regulation 284/09 allows for the exclusion of the following expenses from the budget:

- Amortization expenses
- Post-employment benefits expenses
- Solid waste landfill closure and post closure (this does not apply to the Township as we do not have any active landfill within our level of authority)

Where a municipality does exclude all or a portion of these expenses from their budget, Ontario Regulation 284/09 requires the municipality to prepare a report about the excluded expenses and adopt the report by resolution. Further, the report must contain at least:

- An estimate of the change in accumulated surplus to the end of the year resulting from the exclusion of the expenses listed; and
- An analysis of the estimated impact of the exclusion of any of the expenses listed on the future tangible capital asset funding requirements.

## 3.0 Analysis

### Amortization

Amortization represents an allocation of the total cost of tangible capital asset as an annual expense over the entire useful life of that asset. Amortization is based upon historical costs and does not take into consideration the new costs of construction or the fact that construction standards have changed considerably over the years.

Amortization is *NOT* included in the calculation of the total budgeted expenses since under the Municipal Act this is not part of the tax levy requirement. The total estimated amortization expense for 2024 is approximately $4,355,000.

The Municipal Act does require the cost of any capital expenses to be included in the tax levy requirement. The total estimated TCA expenses for 2024 are $13,950,000.

The exclusion of amortization expenses from the 2024 budget will not impact future tangible capital asset funding requirements, as the Township, in 2024, is actually budgeting to have tangible capital expenditures of approximately $13.9 million, which exceeds the amortization expenses of approximately $4.35 million. The difference between capital additions in the year and the annual amortization is netted and the difference is reflected in the overall surplus/deficit (In this case, would result in a surplus).

**Post-Employment Benefits**

Post-employment benefit expenses are health care benefits that the Township provides between the time an employee retires and the time that an employee reaches age 65. The regulation does allow for the exclusion of post-employment benefits from the surplus calculations.

For the 2023 year-end statements, the Township has engaged the services of an Actuarial Consultant to calculate the post employment liability.

As of the Township most recent actuarial update (dated January 17, 2024), the Township has an accrued benefit liability of $311,400. The projected liability for 2024 and 2025 is $321,500 and $331,600, respectively.

As of December 31, 2023, the Township has a reserve of approximately $232,097.56 (unaudited) for post-employment benefits and has a policy to fund (and hold in reserve) a minimum of 50% of the accrued benefit liability. These reserve funds reduce the overall amount to be recovered in the future.

Had the entire unfunded portion of expected future post-employment benefits been funded (approximately $79,303 of the future liability is unfunded currently) and levied in the 2024 budget, the reported revenues would be higher, the annual surplus/deficit would reflect the additional revenue and the accumulated surplus would be higher (liability would be funded and funds would be retained in the accumulated surplus).

## 4.0 Related Policies / Procedures

N/A

## 5.0 Financial / Budget Assessment

There is no financial impact from this report.

### 5.1 Asset Management

N/A

## 6.0 Climate Change Impacts

N/A

## 7.0 Communications

N/A

## 8.0 Conclusion

Whether a municipality budgets for post employment benefits and amortization is a decision for council. The main purpose of the reporting requirement in Regulation 284/09 is that, if not budgeted, Council is aware of the future implications of not doing so.

## 9.0 Recommendation

That report 2024-FI-005 be received by Council for information purposes.