Corporation of the Township of Brock

Staff Report to the Mayor and Members of Council

From: **Trena DeBruijn**
Position: **Director of Finance/Treasurer**
Title / Subject: Financial Disclosure Requirements – O. Reg 284/09 – 2025
Date of Report: January 17, 2025
Date of Meeting: February 10, 2025
Report No: 2025-FI-003

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 principal payments.

This report meets the requirements of Ontario Regulation 284/09 regarding expenses excluded from the Township of Brock 2025 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.

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 had 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 will have an accrued benefit liability of $321,500 as of December 31, 2024. The projected liability for 2025 is $331,600.

As of December 31, 2024, the Township will have an estimated reserve of approximately $242,352 (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.

If the entire unfunded portion of expected future post-employment benefits had been funded (approximately $79,148 of the future liability is unfunded for 2024 year-end) and levied in the 2025 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).

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 2025 is approximately $4,742,000.

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 2025 are $13,559,995.

The exclusion of amortization expenses from the 2025 budget will not impact future tangible capital asset funding requirements, as the Township, in 2025, is budgeting to have tangible capital expenditures of approximately $13.5, which exceeds the amortization expenses of approximately $4.74 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).

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 2025-FI-003 be received by Council for information purposes.