



Meeting Date: December 20, 2023

Submitted by: Tiffany Farrell, Director of Corporate Services

Report No: CPS-65-2023

Subject: Proposed Budget 2024 Impacts

Recommendation:

THAT the compliance report CPS-65-2023, for expenses excluded from the 2024 budget outlined in report CPS-63-2023 as a requirement of Ontario Regulation 284/09 passed under the Municipal Act, 2001 be received.

Purpose:

As required under Ontario Regulation 284/09, a municipality shall, before adopting a budget for the year that excludes the non-cash expenses listed below, prepare a report about the excluded expenses, and adopt the expenses by resolution. The report must contain an estimate of the change in the accumulated surplus of the municipality to the end of the year resulting from the exclusion of the non-cash expenses and an analysis of the estimated impact of the exclusion of any of such expenses on the future tangible capital asset funding requirements of the Municipality.

Expenses:

1. Amortization expense – estimated at \$8,714,345 excluded from the 2024 budget.
2. Post-employment benefits expenses – estimated at \$6,726.
3. Solid waste landfill closure and post-closure expenses – not applicable

Background:

As a municipality, Middlesex Centre is required to follow the accounting standards established by the Public Sector Accounting Board (PSAB). With the introduction of tangible capital asset accounting in 2009, the new accounting standards do not require budgets to be prepared on a fully accrued basis. The Municipality continues to prepare budgets on a modified accrual basis. The annual budget of a municipality is an important exercise, one which plans for current and future activities and acquisitions. A key outcome of the annual budget is a tax rate which Council is asked to approve. This tax rate is based on annual cash requirements and therefore does not include the PSAB requirements around accrual accounting and accounting for “non-financial assets and liabilities.”

Analysis

The Ontario Regulation 284/09 requires that the municipality report on the impact of these excluded costs:

1. Amortization expense
2. Post-employment benefits expenses
3. Solid waste landfill closure and post-closure expenses

Before adopting a budget for the year that excludes any of the expenses listed above, Council must adopt the report by resolution.

The Municipality of Middlesex Centre's 2024 proposed budget and associated tax levy excludes the following:

1. Amortization expenses, estimated at \$8,714,345 since amortization is a non-cash expense.
2. Post-employment benefits expense, estimated at \$6,726 since this is a non-cash expense.
3. Solid waste landfill closure and post-closure expenses are zero as the Municipality does not have responsibility for landfill sites.

Although, amortization expenses should not be used to determine the impairment of an asset, it is used to attribute the capital cost over the life of the asset and is a good tool to predict the future annual financial commitment required for asset rehabilitation. The 2024 budget includes contributions to capital replacement reserves as well as contributions for the replacement and rehabilitation of capital assets more than the \$8,714,345 of estimated amortization expense in the current year.

Table: 2024 Proposed Budget – Accrual Based

	Value (\$)
Proposed Budget Tax Levy	24,267,465
Proposed Budget Revenues	55,620,892
Proposed Budget Expenditures	79,888,357
Surplus/(Deficit)	0
Add Expenditures Excluded from Cash Based Budget	
Post-employment benefits expense	(6,726)
Amortization expense	(8,714,345)
Exclusion impact on Accumulated Surplus/(Deficit)	(8,721,071)
Remove Non PSAB Items from Cash Based Budget	
Debenture Principal Repayments	1,214,427
Transfer to Reserve Funds	17,010,052

	Value (\$)
Contributions from Reserve Funds	(33,669,029)
Contributions from Development Charges	(1,195,120)
Funds from Debenture Issuances	(1,300,000)
Fixed Asset/TCA Expenditures	30,567,143
Total Impact on 2023 Accumulated Surplus/(Deficit)	3,906,402

Overall, amortization listed above has a major impact on the 2024 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 \$30,576,143 documented above are higher than the amortization. This is positive as the municipality's assets are not declining at a faster rate than they are being replaced.

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

Strategic Plan:

This matter aligns with following strategic priorities:

Legislative Requirement

Attachments:

N/A