



**SUBJECT:** Expenses excluded from the budget

**TO:** Corporate Services, Strategy, Risk & Accountability Cttee.

**FROM:** Finance Department

Report Number: F-39-20

Wards Affected: Not applicable

File Numbers: 435-01

Date to Committee: December 10, 2020

Date to Council: December 14, 2020

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### **Recommendation:**

Receive and file finance department report F-39-20 regarding expenses excluded from the budget to meet the requirements of Regulation 284/09 of the Municipal Act, 2001.

### **PURPOSE:**

#### **Vision to Focus Alignment:**

- Deliver customer centric services with a focus on efficiency and technology transformation
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### **Background and Discussion:**

As per Ontario Regulation 284/09, in preparing the budget for a year, a municipality may exclude the estimated expenses of all or portion of the followings:

- Amortization expenses,
- Post-employment benefit expenses, and
- Solid waste landfill and post-closure expenses.

The municipality must, prior to adopting a budget for the year that excludes any of the expenses listed above, prepare and have Council approve a report containing the following:

- (a) An estimate of the change in the accumulated surplus of the municipality or local board to the end of the year resulting from the exclusion of any of the expenses listed above, and
- (b) An analysis of the estimated impact of the exclusion of any of the expenses listed above on the future tangible capital asset funding requirements of the municipality.

As the City of Burlington does not have responsibility for landfills within their level of authority, this report focuses on amortization expenses and post employment benefits.

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## **Discussion:**

In 2009 accounting standards and reporting requirements underwent major revisions, most notably the inclusion of tangible capital asset accounting as required by the Public Sector Accounting Board (PSAB). However, the new standards do not require that budgets be prepared on the same basis. Therefore, most municipalities, including the City of Burlington, continue to prepare budgets on a cash basis, and does not include the PSAB requirements of accrual accounting and accounting for non-financial assets and liabilities such as amortization and post-employment benefits.

### **Amortization Expenses**

The projected amortization expense for 2021 is \$40.5 million. The City's 2021 proposed budget does not include this expense; however, funding for the acquisition of tangible capital assets in the amount of approximately \$72.1 million is included in the budget. The difference will result in a net increase to the accumulated surplus of \$31.6 million.

### **Post-Employment Benefits**

The City of Burlington reports the impact of post-employment benefit expenses to Council annually as part of the financial statements. The City does budget annually for the current year costs expected to be incurred but does not budget for the estimated future liability.

Post-Employment Benefits include dental & health care benefits that the City provides between the time an employee retires and the time that an employee reaches 65, as well as the potential future costs to the City as a self-insured employer under the Workplace Safety and Insurance Act, 1997.

The increase to the 2021 Post-Employment Benefit is projected at the amount of \$1.5M, a total of \$1M of Health Benefits and \$0.5M of WSIB liability.

The projection was determined through an Actuarial Review, which was completed by an independent organization evaluating the probability of events and quantifies the contingent outcomes based on industry and City of Burlington-specific experiences.

It is important to note that, while PSAB requires a municipality to disclose the liability in its financial statements, there is no requirement to fund the liability.

### **Solid waste landfill and post-closure expenses**

Currently there is no landfill under City's responsibility.

### **Impact on Accumulated Surplus in 2021**

It is estimated that the overall impact of these excluded expenses on the 2021 accumulated surplus will be a net increase of \$30.1 million summarized as follows (in \$000's):

Change in Post employment benefits expenses	(1,015)
Change in Future WSIB expenses	(534)
Acquisition of Tangible Capital Assets	72,121
Amortization expense on Tangible Capital Assets	(40,489)
<b>Total Estimated Impact</b>	<b>\$30,083</b>

### **Impact on Future Tangible Capital Asset Funding Requirements**

Amortization expense represents the reduction in the economic benefits realized by the City's assets during a fiscal accounting period. The amount of amortization expense can be used as a rough indication of what should be budgeted annually for replacement of the City's tangible capital assets.

It must be noted that amortization expense is based on the cost when assets were purchased or built and therefore it may not properly represent costs in today's dollars and using current standards. Amortization expense also does not necessarily capture the true useful life of assets, nor does it reflect the cost of any growth-related assets that may be required. Annual capital funding typically exceeds amortization expense when considering all these issues.

In recent years, the City has implemented sophisticated modeling systems for many capital categories to assist with the determination of what assets need to be repaired or replaced based on condition assessments and priority factors. These systems will continue to be refined and relied upon to determine capital funding requirements more accurately.

### **Financial Matters:**

There are no direct financial implications associated with this report. The information contained in this report will be used to meet the financial statement reporting requirements but will not result in any budget to actual variances.

#### **Total Financial Impact**

Not applicable.

#### **Source of Funding**

Not applicable.

#### **Other Resource Impacts**

Not applicable

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### **Climate Implications**

Not applicable.

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### **Conclusion:**

Approval of this report by Council is needed prior to the approval of the 2021 Budget to be in compliance with O.Reg. 284/09 of the *Municipal Act 2001*.

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Respectfully submitted,

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### **Report Approval:**

All reports are reviewed and/or approved by Department Director, the Chief Financial Officer and the Executive Director of Legal Services & Corporation Counsel.