



SUBJECT: Expenses excluded from the budget

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

FROM: Finance Department

Report Number: F-43-23

Wards Affected: All

File Numbers: 435-01

Date to Committee: October 30, 2023

Date to Council: November 14, 2023

Recommendation:

Receive and file finance department report F-43-23 regarding expenses excluded from the budget to meet the requirements of Regulation 284/09 Municipal Act, 2001.

PURPOSE:

An Engaging City

- Good Governance

Vision to Focus Alignment:

- Support sustainable infrastructure and a resilient environment

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.

Strategy/process

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 2024 is \$42.5 million. The City's 2024 proposed budget does not include this expense; however, funding for the acquisition of tangible capital assets in the amount of approximately \$86 million is included in the proposed budget. The difference will result in a net increase to the accumulated surplus of \$44 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 2024 Post-Employment Benefit is estimated at \$0.8M, and the increase to the WSIB liability is estimated at \$0.3M.

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 2024

It is estimated that the overall impact of these excluded expenses on the 2024 accumulated surplus will be a net increase of \$43.1 million summarized as follows (in \$000's):

Change in Post-employment benefits expenses	(846)
Change in Future WSIB expenses	(346)
Acquisition of Tangible Capital Assets	86,874
Amortization expense on Tangible Capital Assets	(42,533)
Total Estimated Impact	\$43,149

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 more accurately determined capital funding requirements. The most recent Asset Management Plan was approved by the council in 2021 which will be updated every five years, monitoring the overall health and investment needs of the City's infrastructure assets.

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

Climate Implications

Not Applicable

Engagement Matters:

Not Applicable

Conclusion:

Approval of this report by Council is needed prior to the approval of the 2024 Budget to be in compliance with O.Reg. 284/09 of the *Municipal Act 2001*.

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.