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## **2020 Budget Reconciliation Staff Report to Council**

Report Number: 2020-57

Department(s): Financial Services

Author(s): Mike Mayes, Director, Financial Services/Treasurer

Meeting Date: August 24, 2020

### **Recommendations**

1. That the report entitled 2020 Budget Reconciliation dated August 24, 2020 be received; and,
2. That the 2020 Budget Reconciliation be approved; and,
3. That Staff be authorized and directed to do all things necessary to give effect to this resolution.

### **Executive Summary**

The 2020 Council approved budgets (tax and rate-supported operating, and capital) along with the implied reserve and reserve funds budget derived from the Council-approved budgets, have a combined revenue amount of \$153,354,975 and an expenditure total of \$152,191,037. The adjusted budget, per the Consolidated Statement of Operations, has a revenue amount of \$154,354,975 and an expenditure amount of \$138,575,557. The difference is due to the inclusion of budgeted amortization expense, post-employment benefit expense and the exclusion of budgeted tangible capital assets that will be capitalized. These adjustments make the budget Public Sector Accounting Standard (PSAS) compliant.

### **Purpose**

The purpose of this report is to provide Council with a reconciliation of the Council approved 2020 budget as it compares to the budget that will be reported in the 2020 financial statements.

## Background

A key outcome of the annual budget is a tax rate, which Council is asked to approve. This tax rate, and other rates such as water and wastewater, are based on a “cash basis” of accounting for the most part, and therefore do not include all of the Public Sector Accounting Standards (PSAS) requirements around accrual accounting and accounting for “non-financial assets and liabilities”.

These accounting standards do not require budgets to be prepared on a PSAS basis. The Town of Newmarket, like most municipalities, continues to prepare budgets on the traditional cash basis.

The Province of Ontario introduced Ontario Regulation 284/09 (O. Reg. 284/09) that allows a municipality to exclude from their estimated expenses, costs related to amortization expense, post-employment benefit expense and solid waste landfill closure and post-closure expense. However, the regulation does require that the municipality report on the impact of these excluded costs.

## Discussion

The Council approved 2020 Budget and associated levy excluded the following:

1. The budget did not include expenses for the amortization of its tangible capital assets in the amount of \$17.2 million, as amortization is a non-cash expense.
2. Based on an actuarial review as at the end of 2019, the 2020 expense for post-retirement benefits was estimated to be \$581,806, of which \$353,951 was included in the budget.
3. No solid waste landfill closure and post-closure costs have been included, as the Town does not have responsibility for any landfill sites.

In 2019 a major change was made in the budget process – the elimination of capital carryovers and the creation of achievable capital programs. In preparing the budget for 2020, the Town included an amount of \$37.8 million in capital expenditures. Of this amount \$31.2 million has been identified as being tangible capital assets.

The attachment illustrates what the 2020 budget will look like in the Town’s consolidated financial statements in the Public Sector Accounting Board (PSAB) 3150 format.

### Post-Employment Benefits

Employee Future benefits are health and dental benefits that are provided to early retirees, future retirees and employees currently on long-term disability. An actuarial valuation was carried out as at December 31, 2019 using a discount rate of 2.8%. The liability for employee future benefits is estimated to be \$7.0 million, of which \$2.2 million has been funded for 2020. Although there is no legislative requirement to fund this liability – it may

be handled on a “pay-as-you-go” basis – the Town continues to be fiscally prudent. The liability is expected to grow to \$7.3 million in 2020.

### Amortization Expenses

Amortization, commonly referred to as depreciation, theoretically represents the annual use of the Town’s assets. Although amortization expenses should not be used to determine the impairment of an asset, it is a good tool to predict the future annual financial commitments required for asset rehabilitation. The amounts and calculations for amortization expenses are in accordance with our tangible capital asset (TCA) policy.

## **Conclusion**

The adjustments to the Council approved 2020 budget included projected amortization expense, post-employment benefit expense and budgeted tangible capital assets, capitalized. These adjustments make the budget PSAB compliant.

## **Business Plan and Strategic Plan Linkages**

This report links to Council’s Strategic Priority of Long-Term Financial Sustainability.

## **Consultation**

Not applicable.

## **Human Resource Considerations**

None.

## **Budget Impact**

This report is for information and as such, will have no direct impact on taxes, fees and charges or the use of reserves. There is no impact on the future tangible capital asset funding requirements of the municipality, as a result of the exclusion of any of the estimated expenses.

The original 2020 budget approved by Council included a surplus for the year of \$1.2 million. With the inclusion of the PSAB reporting requirements, the budget would result in a surplus of \$15.8 million.

## **Attachments**

2020 Budget Reconciliation (5 pages)

## **Approval**

Mike Mayes, CPA, CGA, DPA  
Director, Financial Services/Treasurer

Esther Armchuk, LL.B  
Commissioner, Corporate Services

## **Contact**

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