



Town of Newmarket
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2021 Budget Reconciliation Staff Report to Council

Report Number: 2021-44

Department(s): Financial Services

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Meeting Date: June 14, 2021

Recommendations

1. That the report entitled 2021 Budget Reconciliation dated June 14, 2021 be received; and,
2. That the adjustments to the Council approved 2021 budget be adopted; and,
3. That Staff be authorized and directed to do all things necessary to give effect to this resolution.

Executive Summary

The 2021 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 \$153,798,989 and an expenditure total of \$156,443,850. The adjusted budget, per the Consolidated Statement of Operations, has a revenue amount of \$154,798,989 and an expenditure amount of \$136,967,817. 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 2021 budget as it compares to the budget that will be reported in the 2021 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 2021 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 \$18.0 million, as amortization is a non-cash expense.
2. Based on an actuarial review as at the end of 2019, the 2021 expense for post-retirement benefits was estimated to be \$633,159, of which \$405,304 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. The total Capital spending authority for 2021 was approved at \$37.9 million, of which \$36.3 million was identified as 2021 total Capital Programs. In May 3, 2021 council approved as part of the Q1 2021 Financial report an additional \$5.3 million to the year’s capital spending authority resulting in a total capital program budget of \$41.6 million. Of this amount, \$37.9 million has been identified as being tangible capital assets.

The attachment illustrates what the 2021 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 \$7.3 million, of which \$1.9 million has been funded for 2021. 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 \$7.7 million in 2021.

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 2021 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

There is no relationship to the strategic plan as this is a compliance report under the Municipal Act, 2001.

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 2021 budget approved by Council included a deficit for the year of \$2.6 million. With the inclusion of the PSAB reporting requirements, the budget would result in a surplus of \$17.8 million.

Attachments

2021 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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