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## **2023 Budget Reconciliation Staff Report to Council**

Report Number: 2023-42

Department(s): Financial Services

Author(s): Anita Gibson, Senior Financial Analyst, Klodiana Mebelli, Financial Analyst

Meeting Date: June 19, 2023

### **Recommendations**

1. That the report entitled 2023 Budget Reconciliation Report dated June 19, 2023, be received; and,
2. That the 2023 Budget Reconciliation be approved; and,
2. That staff be authorized and directed to do all things necessary to give effect to this resolution.

### **Executive Summary**

The 2023 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 \$182,939,604 and an expenditure total of \$186,895,780. The adjusted budget, per the Consolidated Statement of Operations, has a revenue amount of \$184,939,604 and an expenditure amount of \$148,030,871. The difference is due to the inclusion of budgeted amortization expense, post-employment benefit expense adjustment, 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 2023 budget as it compares to the budget that will be reported in the 2023 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 the Public Sector Accounting Standard (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 a 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, solid waste landfill closure, and post-closure expense. However, the regulation does require that the municipality reports on the impact of these excluded costs.

Quarterly Capital spending authority adjustments are not reflected in the capital numbers presented in the Budget reconciliation. PSAS 1200 requires the statement of operations to be presented with a comparison of the results for the accounting period with those originally planned. Planned results should be presented for the same scope of activities and on a basis consistent with that used for actual results.

## Discussion

Council approved the 2023 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 \$19.7 million, as amortization is a non-cash expense.
2. Based on an actuarial review as of December 31, 2022, the 2022 expense for post-retirement benefits was \$745,500; the 2023 expense for post-retirement benefits was estimated to be 561,900. For 2023, the current provision is higher than the estimated expenses by \$316,402.
3. No solid waste landfill closure and post-closure costs have been included, as the Town does not have responsibility for any landfill sites.

The Capital Spending Authority for 2023 was approved at \$63.1 million, of which \$62.6 million was identified as the 2023 Capital Program. Of this amount, \$58.2 million has been identified as being tangible capital assets.

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The attachment illustrates what the 2023 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 of December 31, 2022, using a discount rate of 4.60%. The liability for employee future benefits is determined to be \$8.1 million – of which \$4.0 million has been funded in 2022. 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 \$8.4 million in 2023.

## **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 2023 budget included projected amortization expense, post-employment benefit expense, and budgeted tangible capital assets, capitalized. These adjustments make the budget PSAS 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, because of the exclusion of any of the estimated expenses.

The original 2023 budget approved by Council included a deficit for the year of \$4.0 million. With the inclusion of the PSAS reporting requirements, the budget would result in a surplus of \$36.9 million.

## **Attachments**

2023 Budget Reconciliation (6 pages)

## **Approval**

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

Esther Armchuk, LL.B, Commissioner, Corporate Services

## **Contact**

For more information on this report, contact Mike Mayes, Director of Financial Services/Treasurer at 905-953-5300 ext. 2102 or via e-mail at [mmayes@newmarket.ca](mailto:mmayes@newmarket.ca)