



CORPORATE SERVICES *Staff Report*

REPORT NO: COR-2024-17

TO: Council

SUBMITTED BY: Dan Elliott, Interim Treasurer and Chief Financial Officer

PREPARED BY: Dan Elliott, Interim Treasurer and Chief Financial Officer

REVIEWED BY: Sharon Chambers, Chief Administrative Officer

DATE: March 25, 2024

SUBJECT: Excluded Expenses update as required of Ontario Regulation

RECOMMENDATION:

THAT Report COR-2024-17, Excluded Expenses Update as required of Ontario Regulation, be received for information.

SUMMARY:

Ontario Regulations require municipalities to be informed of items allowed to be excluded from their municipal budgets. This report satisfies the requirement for the additional information required.

BACKGROUND:

Ontario municipalities traditionally prepare their annual budgets on a modified cash basis, and not on a full accrual financial reporting requirements basis. Starting with the 2009 year-end reporting, municipalities were required to begin accounting and reporting on their fixed assets. This meant that most municipalities were reporting on amortization expenses of their assets for the first time.

The Municipal Act and regulations allow municipalities not to budget for the following:

- a) Amortization expenses

- b) Post-employment benefits expenses
- c) Solid waste landfill closure and post-closure expenses.

REPORT:

Where any of the allowable items are excluded from a budget, this report must be adopted by Council speaking to the excluded expenses. The Township of Wilmot continues to budget on a modified cash basis, and excludes amortization expenses of fixed assets from its budget.

The annual budget of a municipality is an important exercise, one that plans for current and future activities and acquisitions. A key outcome of the annual budget is a tax rate, which Council is asked to approve. This tax rate is determined on a cash basis and is not required to include the PSAB requirements of accrual accounting and accounting for non-financial assets and liabilities such as amortization expenses, post-employment benefits, and solid waste landfill and post-closure expenses.

The Township of Wilmot does not have landfill sites it manages or is responsible for. Additionally, there are no post-employment benefits applicable to the municipality which are not included in the budget. The only excluded expenses are related to the amortization of fixed assets.

Amortization Expenses

The 2022 amortization expense reported on the consolidated financial statements totaled \$6,247,553. Theoretically this amount represents the annual use of Town assets. Considering new assets coming into service in 2023 and 2024, along with the existing asset base, amortization projections are expected to exceed \$5.3million (excluding utilities assets) for 2024. The Township of Wilmot does not budget for amortization expenses; however, the Town does budget to provide to reserve(s) and Reserve Funds. In the 2024 budget a total of \$2,226,470, was transferred into Reserve(s) and/or Reserve Funds.

The modified cash basis budget for 2024 would be restated as follows:

Anticipated budget Surplus or Deficit: (balanced budget)	\$ 0
Add back transfers to reserves	2,226,470
Deduct expected annual amortization of fixed assets Levy funded assets	<u>(5,300,000)</u>
Restated budget surplus/(deficit)	(\$3,073,530)

The above information was verbally communicated to Council during prebudget briefings, and during the budget deliberations.

Amortization is an estimate of the consumption of assets during a fiscal year. The estimate is based on the historical cost of the asset rather than the estimated cost to replace it today. As mentioned in previous budget briefings and discussions, the Town's ten-year capital plan requires approximately \$10,992,000 average per year to maintain our infrastructure, while our book amortization on historical cost is \$6,300,000 (estimated for 2024 including utility assets), with actual levy funded contributions going towards infrastructure and capital of only \$2,226,470. Excluded are the contributions from water and wastewater of a further \$965,000, and federal gas tax and Ontario infrastructure grants of a further \$673,730 and \$1,077,475 respectively.

Much industry confusion exists with respect to the required timing of this report. Many say it is 60 days after receipt of annual audited financial statements, others believe it to be due prior to approval of budget. Having relied on last year's report stating 60 days after financial statements and given the time constraints to get final budget approval completed, this report was deferred. Upon clearer reading of the legislation, this report ought to have been prepared for Council in advance of the adoption of the annual budget.

Additional long-range planning and analysis needs to be completed prior to 2025 budget process. This similar report will be incorporated into the 2025 operating and capital budget process and as part of the final approval process.

ALIGNMENT WITH THE TOWNSHIP OF WILMOT STRATEGIC PLAN:

Financial reporting and compliance with legislative requirements is a foundation of responsible municipal management.

FINANCIAL CONSIDERATIONS:

There are no direct financial implications of this report. As previously reported, Council needs to ramp up its contributions to reserves aggressively, to avoid continually reporting net financial losses on its annual audited financial statements. The current program of 2.8% special levy increases for infrastructure assist in this regard. Annual reconsideration of the sufficiency of this increase is necessary, with additional information to be brought forward during the 2025 budget process.

ATTACHMENTS:

None