Report of the Finance Department

Ontario Regulation 284/09

Report No.: F-010-2024
Meeting Date: November 27, 2024

Executive Summary

Changes to the Public Sector Accounting Standards in 2009 have required municipalities to record certain transactions that are otherwise excluded from the Budget, as financial statements had to be prepared using the accrual accounting method. Given their potential impact on the taxation levy, *Ontario Regulation 284/09* allows for the exclusion of certain expenses in preparing a Budget for the year. It requires, however, that a report be prepared about these excluded expenses, illustrating their financial impact on the accumulated surplus.

The United Counties of Prescott and Russell (the "UCPR") prepare their Budget on a modified cash basis. This Report therefore reconciles the balance surplus to the estimated accrual surplus of $4,805,600 that will be reported in the UCPR's financial statements in accordance with Public Sector Accounting Standards.

Options and Recommendation

<u>Options</u>

Option 1: Approve Report F-010-2024 on excluded budgetary expenditures in accordance with *Ontario Regulation 284/09*.

Option 2: Reject Report F-010-2024 on excluded budgetary expenditures in accordance with *Ontario Regulation 284/09*. However, this Report is mandatory prior to the approval of the 2025 Budget; therefore, the rejection of this Report will delay its approval.

<u>Recommendation</u>

Whereas *Ontario Regulation 284/09* allows a municipality to exclude from its estimated expenditures all or a portion of depreciation, post-employment benefits, and solid waste landfill closure and post-closure expenses;

And whereas *Ontario Regulation 284/09* requires a municipality to report on the impact of excluded expenses;

And whereas the United Counties of Prescott and Russell's 2025 Budget excludes depreciation expenses only.

Be it resolved that Council approve Report F-010-2024 on budgetary expenditures in accordance with *Ontario Regulation 284/09*.

Background Information and Analysis

Under *Ontario Regulation 284/09*, when preparing the Budget for a year, a municipality may exclude the following expenses:

- depreciation expenses;
- post-employment benefit expenses;

- solid waste landfill closure and post-closure expenses.

Should any of the above expenses be excluded, a municipality must outline these exclusions by means of a report that shall be adopted by Council by resolution prior to adopting the Budget.

The required report must include:

- an estimate of the impact on the accumulated surplus resulting from the expenditure exclusions;
- an analysis of the estimated impact of these exclusions on the future financing needs of tangible capital assets.

The UCPR's 2025 Budget excludes most depreciation expenses, with the exception of a few estimates (i.e., Information Technology, Engineering and Building Departments). While depreciation expenses generally do not affect the property tax levy, in this case, the inclusion of a few expenses has minimal impact on the levy. Conversely, the UCPR do budget post-employment benefit expenses; however, they do not account for solid and waste landfill closure and post-closure expenses, as these fall outside the scope of regional services offered.

The UCPR prepare a balanced Budget, where estimated revenues equal total estimated operating and capital expenditures. To calculate the tax levy requirement for the year, the UCPR use the modified cash-basis method. For this reason, we must convert the Budget on an accrual basis to assess the impact of excluding depreciation expenses, as required by *Ontario Regulation 284/09*.

Financial, Legal and Operational Implications

As shown in Appendix A, once the 2025 Budget is presented on an accrual basis and includes total depreciation expenses, the accumulated surplus amounts to $4,805,600.

Local Municipal Implications

N/A

Asset Management Implications

Regular transfers to reserves and reserve funds help mitigate important tax rate fluctuations. The Asset Management Plan demonstrates our future capital needs and is an important tool to consider during long-term strategic decision-making by Council. While there is currently a significant shortfall in our infrastructure investments, budgeting based on depreciation expenses alone would not be sufficient to support our capital needs, given that it reflects the historical cost of an asset. The UCPR do budget consistent transfers to reserves and reserve funds for the replacement cost of certain assets. As such, this approach ensures funding is set aside for the future replacement of our existing assets.

Based on the UCPR’s latest Asset Management Plan, they should direct $13,291,429 in 2025 towards the replacement of tangible capital assets. Transfers to reserves and reserve funds for the future replacement of tangible capital assets in the 2025 Budget amount to $10,334,000. Included in this amount are the creation of a new Reserve for the future replacement of storm sewers, as well as an Asset Management Reserve Fund for our overall asset replenishment. Following our Asset Management Plan Review, Staff will conduct a comprehensive review of Reserves and Reserve Funds to align long-term planning with future contribution allocations. Total capital expenditures budgeted for 2025 amount to $18,344,300; as such, our 2025 Budget does include capital initiatives that help offset funding shortfalls related to depreciation and asset management requirements.

Communication Implications

N/A

Attachments

Appendix A – *Ontario Regulation 284/09* Report

Prepared by:

Valérie Parisien, Treasurer - November 19, 2024

Submitted by:

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