

Response to Ontario Regulation 286/09 Budget Matters – Expenses

Date: January 24, 2022

To: Budget Committee

From: Chief Financial Officer and Treasurer

Wards: All

SUMMARY

Ontario Regulation 286/09 "Budget Matters - Expenses" (Regulation) permits the City of Toronto (City) to exclude the following expenses from its annual budget:

- amortization expenses
- post-employment benefits expenses, and
- solid waste landfill closure and post-closure expenses.

In addition, the Regulation requires that the City:

- Prepare a report about the excluded expenses which contains:
 - An estimate of the change in accumulated surplus as a result of the exclusion of the above expenses, and
 - An analysis of the estimated impact of the exclusion of these expenses on future tangible capital asset funding requirements
- Adopt the report prior to the adoption of its annual budget.

This report is presented to Budget Committee and City Council in response to the Regulation.

The City's annual balanced budget outlines the funds required to support the City's anticipated operating expenses for the fiscal year, along with funds required to support the planned acquisition or development of tangible capital assets. The balanced budget, which is prepared using a cash basis of accounting versus the accrual basis used for financial reporting purposes, excludes the above expenditures, estimated at \$1.56 billion for 2022. The excluded expenses result in a reduction to the City's accumulated surplus balance. The City's accumulated surplus represents the amount the City has invested in its tangible capital assets. These expenses represent non-cash accounting expenditures required for financial reporting.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. City Council receive this report for information.

FINANCIAL IMPACT

There are no current or known future year financial impacts arising from the recommendation contained in this report.

The expenditures excluded from the City's budget do not require immediate cash outlays; rather, they represent financial reporting allocations or increases to liabilities that will be exhausted at a future date. The \$1.56 billion estimated value of these expenses for 2022 will reduce the City's accumulated surplus balance, which is comprised mainly of the net value of the City's historical investments in tangible capital assets.

The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial impact information as identified in this section.

DECISION HISTORY

As required by the Regulation, this report has been provided to Budget Committee annually since 2010. To view the last two reports on-line, please follow the hyperlinks below:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.BU15.3>
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.EX21.3>

COMMENTS

In accordance with section 228 of the City of Toronto Act, 2006 (Act), the City prepares an annual balanced budget using the cash basis of accounting; no surplus or deficit is planned, per legislative requirements that state municipalities must ensure their budgets are balanced. The annual budget generates revenues through sources such as property taxes, utility charges, and other user fees to finance planned operating and capital expenditures that require cash outflows in the applicable year.

Ontario Regulation 286/09 requires the City to estimate and report on the value of the following expenses which are required for financial statement reporting purposes under the accrual basis of accounting only, and therefore, not included in the City's annual balanced cash budget:

- Amortization of tangible capital assets: costs associated with the declining value of an asset resulting from the passage of time (the asset useful life during which benefits are derived)
- Post-employment benefit expenses: benefits earned by the City's employees in the current year, but not paid for until at, or beyond, retirement
- Solid waste landfill closure and post-closure expenses: costs associated with anticipated closure and post-closure activities, that increase in proportion to the actual usage of the landfill sites

The table below lists the expenditures excluded from the cash based balanced budget, as per Regulation 286/09:

	\$000's
Exclusions allowed by Ontario Regulation 286/09:	
Amortization of tangible capital assets	(1,392,000)
Estimated increase in post-employment benefits	(143,000)
Estimated increase in solid waste landfill closure and post-closure costs	(20,000)
Total of excluded expenses, per Ontario Regulation 286/09	(1,555,000)

Because the City's balanced budget process outlines anticipated sources of, and uses for funds in the current year, the exclusion of the above expenses does not immediately impact the City's ability to generate sufficient funding to finance its annual operating and capital expenditures.

The excluded expenses meet financial reporting requirements, based on public sector accounting standards; as a result, the value impacts the accumulated surplus reported in the City's audited financial statements. The accumulated surplus for the City represents its cumulative net investment in tangible capital assets.

The existing processes for capital requirements, through the City's Ten-Year Capital Program, and operating/capital budget approvals, provide for transparent processes to commit funds for current and future years. The combination of the City's own revenue sources, such as property taxes, and annual contributions to its reserves, progressively secure resources for future tangible capital asset requirements, in addition to anticipated payment of post-employment benefits, and solid waste landfill closure and post-closure costs.

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SIGNATURE

Heather Taylor

Chief Financial Officer and Treasurer