TORONTO

REPORT FOR ACTION

Response to Ontario Regulation 286/09 Budget Matters – Expenses

Date: January 30, 2023
To: City Council
From: Chief Financial Officer and Treasurer
Wards: All

SUMMARY

The City's annual balanced budget, prepared using a cash basis of accounting rather than the accrual basis used for financial reporting purposes, 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 and the principal repayment of long-term debt. As a result, Ontario Regulation 286/09 "Budget Matters - Expenses" (Regulation) specifically 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 2023 value of the excluded expenses, which represent non-cash accounting expenses required for financial reporting, is estimated to be $1.64 billion for 2023. These expenses, once recognized in the City's consolidated financial statements, will reduce the City's accumulated surplus balance. It is important to note that the City's accumulated surplus represents the City's net investment in its tangible capital assets.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. City Council receive this report for information.

FINANCIAL IMPACT

The expenses excluded from the City's cash budget may not require cash outlays in the current fiscal year. The values represent financial reporting allocations (tangible capital asset values recognized over the expected useful life of the respective assets) or changes to liabilities that will be exhausted at a future date. The $1.64 billion estimated value of these expenses for 2023 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=2021.EX21.3
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2022.BU45.3

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 permitted, per legislative requirements that state municipalities must ensure their budgets are balanced. Additionally, municipalities must also ensure that their financial performance doesn't end a year in a deficit. The annual budget generates revenues through sources such as property taxes, utility charges, and other user fees to finance planned operating and capital expenses that require cash outflows in the applicable year.

Given that the City's methodology (as is the case for all municipalities in Ontario) for preparing its budget on a cash basis differs from the accrual accounting framework required for financial reporting (Public Sector Accounting Standards, PSAS) for all public sector entities, 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, 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 City's annual balanced cash budget includes the acquisition and development of capital assets and the principal repayment of debt even though these expenditures are not recognized as an expense under the PSAS accrual accounting framework.

The table below lists the estimated 2023 expenses excluded from the City's cash based balanced budget, as per Regulation 286/09:

	$000's
Exclusions allowed by Ontario Regulation 286/09:	
Amortization of tangible capital assets	(1,481,000)
Estimated increase in post-employment benefits	(180,000)
Estimated decrease in solid waste landfill closure and post-closure costs	23,000
Total of excluded expenses, per Ontario Regulation 286/09	**(1,638,000)**

Note: Amounts in brackets represent increases to expenses, resulting from a financial allocation such as amortization, or an increase in a liability; amounts not reflected with brackets represent decreases in expenses resulting from decreases in liabilities.

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 expenses.

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 transparency in current and future year funding required for tangible capital assets. The combination of various funding sources, including the City's own revenue sources, such as property taxes, and debt, 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