TORONTO

REPORT FOR ACTION

Response to Ontario Regulation 286/09 Budget Matters – Expenses

Date: January 10, 2024
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. 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 balanced 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 balanced budget.

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

The 2024 value of the excluded expenses, which represent non-cash accounting expenses required for financial reporting, is estimated to be $1.72 billion for 2024. 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 settled at a future date. The estimated value of these expenses ($1.72 billion) for 2024 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.

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:

https://secure.toronto.ca/council/agenda-item.do?item=2023.CC4.2
https://secure.toronto.ca/council/agenda-item.do?item=2022.EX30.3

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 expenses that require cash outflows in the applicable year.

Given that the City's methodology for preparing its budget differs from the accounting framework required for financial reporting (Public Sector Accounting Standards, PSAS), 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. Previous estimates aligned the recognition of costs with the amount of landfill used during the year. This proration technique is no longer allowed under PSAS. Instead, the City is required to recognize its total costs upfront. Fiscal 2022 and 2023's estimates were also restated to conform with the new valuation methodology.

The table below lists the estimated 2024 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	(1,581,000)
Estimated increase in post-employment benefits	(182,000)
Estimated decrease in asset retirement obligations for solid waste landfill closure and post-closure costs	43,000
Total of excluded expenses, per Ontario Regulation 286/09	**(1,720,000)**

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.

As 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. In addition, the amounts disclosed in the above table were determined based on accrual accounting requirements and therefore, are not intended to represent the expenditures included in the City's budget submissions.

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 Budget and Plan, 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

Stephen Conforti
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