

**Subject: Report on 2024 budget expenses pursuant to Ontario Regulation
284/09**

File Number: ACS2023-FCS-FIN-0011

**Report to Finance and Corporate Services Committee on 5 December 2023
and Council 6 December 2023**

**Submitted on November 24, 2023 by Isabelle Jasmin, Deputy City Treasurer,
Corporate Finance, Finance and Corporate Services Department**

**Contact Person: Luke Senecal, Manager Accounting & Reporting, Corporate
Finance, Finance and Corporate Services Department**

613-580-2424 ext. 22356, Luke.Senecal@ottawa.ca

Ward: Citywide

**Objet : Rapport sur les dépenses budgétaires de 2024 conformément au
règlement de l'Ontario 284/09**

Dossier : ACS2023-FCS-FIN-0011

Rapport au Comité des finances et des services organisationnels

le 5 décembre 2023

et au Conseil le 6 décembre 2023

**Soumis le 24 novembre 2023 par Isabelle Jasmin, Trésorière municipale adjointe,
Services des finances municipales, Direction générale des finances et des
services organisationnels**

**Personne ressource : Luke Senecal, Gestionnaire, Comptabilité et Rapports,
Services des finances municipales, Direction générale des finances et des
services organisationnels**

613-580-2424 poste 22356, Luke.Senecal@ottawa.ca

Quartier : À l'échelle de la ville

REPORT RECOMMENDATION(S)

That the Finance and Corporate Services Committee recommend that Council:

1. **Adopt this report in accordance with Ontario Regulation 284/09.**
2. **Approve that the Chief Financial Officer (CFO) / City Treasurer be delegated the authority to adjust the accrual budget to include any budget changes approved by Council as part of the final adopted budget, and to include the accrual budget presentation within the City of Ottawa's final adopted 2024 budget book, for information purposes.**

RECOMMANDATION(S) DU RAPPORT

Que le Comité des finances et des services organisationnels recommande au Conseil:

1. **D'adopter ce rapport conformément au règlement de l'Ontario 284/09.**
2. **D'approuver que le directeur financier / trésorier municipal soit délégué le pouvoir d'ajuster le budget d'exercice pour inclure toutes modifications budgétaire approuvé par le Conseil dans le cadre du budget final adopté, et inclure la présentation finale du budget d'exercice au livre budgétaire final de 2024 adopté par la Ville d'Ottawa, à titre d'information.**

BACKGROUND

The *Municipal Act* requires that municipalities prepare balanced budgets. This means that municipalities need to have or raise sufficient funds each year, through the setting of tax rates, water rates, and user fees, in order to cover their operating and capital spending requirements for the year.

Ontario Regulation 284/09 permits municipalities to exclude a portion or all of the following expenses from their annual budgets:

- Amortization expenses (related to tangible capital assets)
- Employment benefit expenses
- Solid waste landfill closure and post-closure expenses.

The legislation requires that Council consider and adopt a report with respect to non-cash items that have been excluded from the annual budget such as fixed asset amortization expenses, employee benefits liabilities, and landfill closure costs, prior to finalizing the budget for the year. The report must identify any impacts of these differences on the change in the City's accumulated surplus.

Once adopted by Council, staff will add the 2024 accrual budget presentation to the City of Ottawa's Final Adopted 2024 Budget Book.

DISCUSSION

Budgeting on a Modified Accrual Versus Full Accrual Basis

There are differences between how municipalities set out their spending plans at the beginning of the year in their budgets and how they report on their results in their financial statements at year-end. The City of Ottawa, like other municipalities, prepares its annual budget on a modified accrual basis, with no anticipated surplus or deficit.

Modified accrual accounting treats certain cash items (such as borrowings, the initial cost of assets, and debt repayments) as revenues and expenses, but recognizes these expenses and other transactions at the time they are incurred, not when the cash is received or paid.

Financial Statements are prepared on a different basis. The Province requires that municipalities follow the accounting standards set by the Public Sector Accounting Board (PSAB) for governments in Canada, which recommends that financial statements be prepared on a full accrual basis.

Full Accrual Budget Presentation

Table 1 below shows the City's budgeted operating results on the full accrual basis. These are presented in the same way the actual results are reported in the year-end financial statements, which is by function as opposed to by Service Area as reported in the City's Budget Books.

Table 1 – Full Accrual Budget Consolidated Statement of Operations and Accumulated Surplus (in \$000's)

	2024 Budget	2023 Budget
Revenues		
Taxes available for municipal purposes	\$2,328,811	\$2,230,703
Government transfers	1,437,681	1,548,222
Fees and user charges	1,026,615	980,069
Contributed tangible capital assets	459,877	441,038
Development charges	173,322	190,694
Investment income	59,638	61,283
Fines and penalties	99,948	59,038
Other revenue	41,647	40,429
Share of earnings of government business enterprise	37,500	34,300
Total Revenues	5,665,039	5,585,776

	2024 Budget	2023 Budget
Expenses		
General government	118,316	114,877
Protection to persons and property	723,344	687,250
Roads, traffic and parking	479,704	464,888
Transit	825,653	793,699
Environmental services	518,400	500,852
Health services	230,813	260,398
Social and family services	803,594	782,176
Social housing	366,990	359,543
Recreation and cultural services	414,233	399,722
Planning and development	105,731	94,839
Total Expenses	4,586,778	4,458,244
Annual Surplus	\$1,078,261	\$1,127,532

Reconciliation Between Modified Accrual and Full Accrual Budgets

There are several ways in which the modified accrual budget differs from the full accrual budget:

1. **Consolidated Entities:** Financial reporting includes most financial transactions of related entities, such as corporations owned by the City. The exceptions are transactions between related entities and the City, which are eliminated from the consolidated financial statements.
 - Ottawa Community Housing Corporation (OCHC) and other related entities are not included in the City's budget whereas these entities are included in the City's annual consolidated financial statements. These entities have balanced budgets and therefore their budgeted revenues and their budgeted expenses are added to revenues and expenses accordingly for full accrual budgeting purposes.
 - Hydro Ottawa is 100 per cent owned by the City of Ottawa. The modified accrual budget includes the dividends that the City receives from Hydro Ottawa. The full accrual budget includes the Hydro Ottawa equity pickup as an addition to revenues.
2. **Amortization:** The modified accrual budget treats capital spending as an expense in the year it occurs. Under the full accrual method, assets such as vehicles or buildings, which are expected to last more than one year, are

“capitalized”. The asset is amortized over its expected service life and therefore that annual amount of amortization is recorded as an expense each year.

- 3. *Post-Employment Benefits:*** The defined benefit plans relating to post-retirement and post-employment provide a variety of benefits to retirees and long-term disabled employees based upon contractual agreements with various bargaining units. The benefits include income, medical, dental, life insurance, workers’ compensation, and sick leave benefits. For modified accrual budget purposes, the City estimates the amount of cash that will be paid out for these benefits in the year. In the full accrual budget, post-employment benefits are employee benefits that have been earned in the current year but will be paid in the future as employees retire.
- 4. *Future Liabilities:*** These items have incurred obligations in the current year but are to be paid out in future years. Examples include landfill closure and post-closure liabilities, contaminated sites, brownfields, accrued interest, and contingent legal liabilities. These items are added as an expense in the full accrual budgeting presentation.
- 5. *Contributed Assets:*** These are tangible capital assets that are donated, contributed, or transferred from another organization. Contributed assets are not part of the modified accrual budget because they do not require cash. Contributed assets are added as revenue to the full accrual budget.
- 6. *Timing Differences Between Capital Budget and Spending:*** Budgets established for tangible capital asset acquisitions are on a project-oriented basis, the costs of which may be carried over one or more fiscal years. Whereas amounts were budgeted for on a project-oriented basis, the full accrual budget uses amounts based on estimated spend during the year to reflect the same basis of accounting that was used to report the actual results.
- 7. *Acquisition of Tangible Capital Assets:*** The modified accrual budget treats capital spending as an expense in the year it occurs. Under the full accrual method, qualified spending on tangible capital assets can be capitalized and amortized over the life of the asset instead of recognizing the entire cost in the year it occurred. Some capital spending in the modified accrual budget is reclassified at year-end as an expense. The impact is estimated in the full accrual budget.

8. Transfers To/From Reserves: Transfers from reserves and the proceeds of borrowing are not revenues, so they are removed from that category in moving from modified to full accrual. This has the effect of reducing budgeted revenues in full accrual and thus reducing the annual surplus, all other things being equal. Transfers and contributions into reserves and repayments of debt are not expenses under full accrual, so they are removed from expenses. This has the effect of reducing budgeted spending and thus increasing the surplus under full accrual.

Table 2 below shows a reconciliation between the 2024 modified accrual budget and the full accrual budget.

Table 2 – Reconciling the 2024 budget with PSAB standards (in \$000's)

Revenues	
Adopted budget operating and capital	\$5,840,971
<i>PSAB related adjustments for full accrual budgeting:</i>	
Contributed tangible capital assets	459,877
Timing differences between capital budget and spending	372,604
Consolidated entities	236,963
Reclassification of investment income	26,500
Hydro Ottawa Holding Inc. equity pickup	14,900
Transfers from reserves	(854,368)
Proceeds of debt issued	(397,930)
Reclassifications and eliminations	(34,478)
Total budgeted revenues for financial statement purposes	\$5,665,039
Expenses	
Adopted budget operating and capital	\$5,840,971
<i>PSAB related adjustments for full accrual budgeting:</i>	
Timing differences between capital budget and spending	103,867
Amortization	444,241
Consolidated entities	236,963
Obligations to be funded in future years	4,356
Employee future benefits and pension agreements	21,989
Acquisition of tangible capital assets	(1,072,000)
Transfers to reserves	(798,032)
Debt principal repayments	(161,038)
Reclassifications and eliminations	(34,539)
Total budgeted expenses for financial statement purposes	\$4,586,778
Budgeted annual surplus for financial statement purposes	\$1,078,261

The full accrual budgeting method includes adjustments to the balanced budget which provides an estimate of the budgeted annual surplus on an accrual basis. The most significant difference between the balanced budget and the estimated accrual budget is that the accrual budget reflects the capital asset budgeting practices of setting aside funds in the capital budget for the acquisition and renewal of assets at a rate that is greater than the amounts required to recognize historical capital costs based on amortization expenses.

Table 2 shows the full accrual adjustments for 2024 which results in a budgeted annual surplus of \$1.08 billion. This represents an improvement in the City's financial position from an accrual accounting basis.

FINANCIAL IMPLICATIONS

There are no financial implications associated with this report.

LEGAL IMPLICATIONS

There are no legal impediments to approving the recommendations in this report.

COMMENTS BY THE WARD COUNCILLOR(S)

This is a citywide report and does not require comments by Ward Councillors.

CONSULTATION

This report is administrative in nature and therefore no consultation was required.

ACCESSIBILITY IMPACTS

Finance and Corporate Services adheres to the requirements of the *Accessibility for Ontarians with Disabilities Act, (2005)* in its operations, programs and initiatives. This report is administrative in nature and has no associated accessibility impacts.

ASSET MANAGEMENT IMPLICATIONS

There are no asset management implications associated with this report.

RISK MANAGEMENT IMPLICATIONS

There are no risk management implications associated with this report.

RURAL IMPLICATIONS

This report is a city-wide report with no specific rural implications.

TERM OF COUNCIL PRIORITIES

This report supports the City's ongoing commitments for the current 2023 - 2026 Term of Council Priorities of: a city that has affordable housing and is more livable for all; a city that is more connected with reliable, safe, and accessible mobility options; a city that is green and resilient; and a city with a diversified and prosperous economy. The report also promotes the City's commitment to financial sustainability and transparency.

DISPOSITION

Once this report and the final 2024 Operating and Capital Budget are adopted by Council, staff will reflect any final changes approved by Council and add the 2024 accrual budget presentation to the City of Ottawa's Final Adopted 2024 Budget Book.