

**2. REPORT ON 2022 BUDGET EXPENSES PURSUANT TO ONTARIO
REGULATION 284/09
RAPPORT SUR LES DÉPENSES BUDGÉTAIRES DE 2022
CONFORMÉMENT AU RÈGLEMENT DE L'ONTARIO 284/09**

COMMITTEE RECOMMENDATION

That Council adopt this report.

RECOMMANDATION DU COMITÉ

Que le Conseil adopte ce rapport.

DOCUMENTATION/DOCUMENTATION

1. Deputy City Treasurer's Report, Corporate Finance, Finance Services Department, dated November 26, 2021, (ACS2021-FSD-FIN-0028)

Rapport de la Trésorière municipale adjointe, Finances municipales, Direction générale des services des finances, daté le 26 novembre 2021, (ACS2020-FSD-FIN-0028)

2. Extract of draft Minutes, Finance and Economic Development Committee, 7 December 2021

Extrait de l'ébauche du procès-verbal, Comité des finances et du développement économique, le 7 décembre 2021

**Report to
Rapport au:**

**Finance and Economic Development Committee
Comité des finances et du développement économique
7 December 2021 / 7 décembre 2021**

**and Council
et au Conseil
8 December 2021 / 8 décembre 2021**

**Submitted on November 26, 2021
Soumis le 26 novembre 2021**

**Submitted by
Soumis par:**

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Department / Trésorière municipale adjointe, Finances municipales, Direction
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Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE File Number: ACS2021-FSD-FIN-0028

**SUBJECT: REPORT ON 2022 BUDGET EXPENSES PURSUANT TO ONTARIO
REGULATION 284/09**

**OBJET: RAPPORT SUR LES DÉPENSES BUDGÉTAIRES DE 2022
CONFORMÉMENT AU RÈGLEMENT DE L'ONTARIO 284/09**

REPORT RECOMMENDATIONS

That the Finance and Economic Development Committee recommend Council adopt this report.

RECOMMANDATIONS DU RAPPORT

Que le Comité des finances et du développement économique recommande au Conseil d'adopter ce rapport.

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 2022 accrual budget presentation to the City of Ottawa's Final Adopted 2022 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 like in the City's Budget Books.

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

	2022 Budget	2021 Budget
Revenues		
Taxes available for municipal purposes	\$2,131,221	\$2,042,047
Government transfers	1,506,625	1,507,260
Fees and user charges	915,634	852,175
Contributed tangible capital assets	393,947	419,035
Development charges	150,043	137,769
Investment income	54,479	49,846
Fines and penalties	55,675	45,800
Other revenue	43,503	49,140
Share of earnings of government business enterprise	33,800	33,300
Total Revenues	5,284,927	5,136,372
Expenses		
General government	112,946	111,450
Protection to persons and property	682,710	666,543
Roads, traffic and parking	494,424	485,354
Transit	893,716	802,234
Environmental services	537,976	515,365
Health services	273,148	236,665
Social and family services	591,099	583,314
Social housing	305,636	273,977

Recreation and cultural services	395,877	415,903
Planning and development	102,719	99,568
Total Expenses	4,390,251	4,190,373
Annual Surplus	\$894,676	\$945,999

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% 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, including 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 2022 modified accrual budget and the full accrual budget.

Table 2 – Reconciling the 2022 budget with PSAB standards (in \$000's)

Revenues	
Adopted budget operating and capital	\$5,131,970
<i>PSAB related adjustments for full accrual budgeting:</i>	
Contributed tangible capital assets	393,947
Timing differences between capital budget and spending	540,363
Consolidated entities	211,553
Reclassification of investment income	27,407
Hydro Ottawa Holding Inc. equity pickup	13,800
Transfers from reserves	(725,477)
Proceeds of debt issued	(263,875)
Reclassifications and eliminations	(44,761)
Total budgeted revenues for financial statement purposes	\$5,284,927
Expenses	
Adopted budget operating and capital	\$5,131,970
<i>PSAB related adjustments for full accrual budgeting:</i>	
Timing differences between capital budget and spending	639,918
Amortization	519,672
Consolidated entities	211,553
Obligations to be funded in future years	15,665
Employee future benefits and pension agreements	23,831
Acquisition of tangible capital assets	(1,237,600)
Transfers to reserves	(727,058)
Debt principal repayments	(141,483)
Reclassifications and eliminations	(46,217)
Total budgeted expenses for financial statement purposes	\$4,390,251
Budgeted Annual Surplus for financial statement purposes	\$894,676

The full accrual budgeting method makes adjustments to the balanced budget and therefore full accrual allows us to estimate the budgeted impact on annual surplus. The most significant difference reflects the capital asset budgeting practices that will continue to show an increase in the City's accumulated surplus because the City is setting aside funds in its 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 2022 which results in a budgeted annual surplus of \$894.7 million.

RURAL IMPLICATIONS

This report is a citywide report with no specific rural implications.

CONSULTATION

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

COMMENTS BY THE WARD COUNCILLOR(S)

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

ADVISORY COMMITTEE(S) COMMENTS

This section is not applicable.

LEGAL IMPLICATIONS

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

RISK MANAGEMENT IMPLICATIONS

There are no risk management implications associated with this report.

FINANCIAL IMPLICATIONS

There are no financial implications associated with this report. In previous years, this report was presented prior to finalization of the tax rates. Staff is advancing this report to better align with the requirements of Ontario Regulation 284/09 which requires that Council consider and adopt a report with respect to non-cash items such as fixed asset amortization expenses, employee benefits liabilities, and landfill closure costs prior to finalizing the budget for the year. The regulation requires an assessment of the impact of the excluded expenses on the change in the City's accumulated surplus, which is estimated as an increase of \$894.7 million. This represents an improvement in the City's financial position from an accrual accounting basis, indicating sufficient funding of asset renewal requirements.

ACCESSIBILITY IMPACTS

There are no accessibility impacts associated with this report.

TERM OF COUNCIL PRIORITIES

This report supports the City's on-going commitment to financial sustainability and transparency.

DISPOSITION

Once this report is adopted by Council, staff will add the 2022 accrual budget presentation to the City of Ottawa's Final Adopted 2022 Budget Book.