

# Staff Report



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To	<b>City Council</b>
Service Area	Corporate Services
Date	Thursday, December 2, 2021
Subject	<b>Budget Impacts per Ontario Regulations 284/09 and Budget – Public Sector Accounting Standards Reconciliation 2022</b>

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## Recommendation

That the Budget Impacts per Ontario Regulation 284/09 and Budget - Public Sector Accounting Standards Reconciliation for the 2022 budget be approved.

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## Executive Summary

### Purpose of Report

To provide a reconciliation between the 2022 City of Guelph budget and the Public Sector Accounting Standards (PSAS) budget in accordance with Ontario Regulation 284/09. The PSAS budget is presented in the audited financial statements to enable PSAS budget to actual comparison.

### Key Findings

This report is required annually by legislation. Ontario Regulation 284/09 requires a report to be presented to Council outlining the impact of amortization of tangible capital assets (TCA), post-employment benefit costs and landfill post-closure costs if they are not included in the City's budget. There is also a requirement to report the approved budget on a PSAS basis in the audited financial statements. The audited financial statements are prepared in accordance with PSAS, which must exclude debt principal payments, discretionary reserve and reserve fund transfers and other capital-related expenditures from the Statement of Operations. The PSAS adjusted 2022 budget is included in this report as Attachment-1. The reconciliation shows both the required adjustments under Ontario Regulation 284/09, as well as the additional adjustments for full accrual accounting, resulting in a 2022 estimated PSAS surplus of \$72,915,466 (2021 - \$153,819,413) for audited financial statement purposes.

### Financial Implications

There are no direct financial implications associated with this report. The intent of this report is to estimate the 2022 PSAS compliant budget based on the 2022 draft budget that is before Council for approval.

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## Report

The budget is a spending control document, a revenue rate setting document, and the means to calculate the tax levy; it is prepared on a modified cash basis because

including non-cash expenditures such as amortization in the budget would inflate the total expenses and complicate the tax rate calculation. The audited financial statements are prepared in accordance with PSAS, which requires full accrual accounting. The audited financial statements capitalize TCA purchases and record amortization expense, include estimates of various liabilities (employee future benefits, contaminated sites and landfill post-closure costs), and differs from the budget in accounting treatment for debt principal repayments and transfers to and from discretionary reserves and reserve funds.

This report restates the budget in accordance with PSAS for comparability to the PSAS compliant actual results in the audited financial statements.

## **Reconciliation Summary**

The 2022 City of Guelph Operating Budget vs. (Unconsolidated) Public Sector Accounting Standards Reconciliation, Attachment-1, shows the reconciliation of the City's 2022 draft budget to the budget restated in accordance with PSAS and presents the estimated PSAS budgeted annual surplus for the 2022 year-end.

This reconciliation shows both the required adjustments under Ontario Regulation 284/09, as well as the additional adjustments for PSAS accrual accounting, resulting in a 2022 estimated surplus of \$72,915,466 (2021 - \$153,819,413).

Any changes Council makes to the draft 2022 budget will be updated in the attachment after budget approval. There is no requirement for staff to bring back an updated report to Council with these changes.

## **Adjustments to Revenues for Financial Statement Purposes**

The 2022 budgeted transfers from reserve and reserve funds are estimated to be \$98,439,280 and represent the amount to be transferred from reserves to fund expenditures, the majority of which relate to capital project costs. Such transfers are not considered revenue under PSAS, as these funds are recorded as revenue at the time they are received as part of tax, user fee, or grant revenues.

Contributed subdivision assets are non-cash accounting revenues recognized when the City takes ownership of new subdivision infrastructure within the City limits. They are not included in budgeted revenue, but they are considered revenue for audited financial statement purposes. The City budgets for the costs of maintenance and replacement of these assets in the year when the service is required. The estimated figure for contributed subdivision assets in 2022 is \$6,400,000.

## **Adjustments to Expenses for Financial Statement Purposes**

Just as transfers out of discretionary reserves and reserve funds do not qualify as revenue under PSAS, transfers to discretionary reserves and reserve funds do not meet the definition of expenses under PSAS. The 2022 budgeted transfers to reserves and reserve funds are estimated to be \$82,710,693.

Capital expenditures are amounts budgeted to be spent on capital projects in the City's capital budget. Most capital acquisition costs are not considered expenses under PSAS and they are capitalized on the Statement of Financial Position and expensed over the useful life of the assets through amortization expense. The total estimated capital expenditures for 2022 are \$131,423,650.

Debt principal payments are included in the City's operating budget in order to raise the tax revenue required to pay the principal portion of the current year's debt obligations. The total estimated debt principal payments for 2022 are \$11,902,403. These payments are not considered an expense under PSAS, as debt principal is recorded as a reduction of the City's debt liability on the Statement of Financial Position.

The City budgets for the current year costs related to the closure of its landfill site in 2003. Under PSAS, the City recognizes a liability in the financial statements which amounts to the present value of costs related to monitoring the closed landfill site for 35 years from the date of closure. Each year this liability estimate is updated and results in a non-cash adjustment under PSAS. The 2022 estimated change in the landfill post-closure liability will result in a reduction of expenses under PSAS of \$297,000.

The liability for contaminated sites works the same way as the landfill post-closure liability, and results in a non-cash expense or recovery on the audited financial statements. The budget includes the annual remediation costs expected for contaminated sites management for the budget year and the reserve transfers required to cover the City's cost for contaminated sites over time. The 2022 estimate of the change in contaminated sites liability is an expense decrease of \$1,060,000.

The Tax Increment Based Grant (TIBG) programs are included as a transfer to reserves in the City's operating budget in order to set aside the funds required to cover the long-term obligations for commitments made by Council under the program. Under PSAS, a liability must be recorded when the grant is finalized after property reassessment, resulting in a non-cash expense being included in the audited financial statements in that year. The 2022 estimate for the change in the TIBG liability is an increase of \$2,139,000, which will result in an expense being recorded in the audited financial statements.

Employee future benefits encompass four categories of benefits: health and dental benefits to be paid to employees after early retirement up to the age of 65 (retiree benefits); health and dental benefits to be paid to former employees on long-term disability for more than two years (post-employment benefits); sick leave benefits to be paid out to first responders under the terms of their collective agreements; and WSIB benefits which the City administers on a self-insured basis as a Schedule II employer. Retiree and post-employment benefit costs, and WSIB costs payable in the budget year are included in the City's budget. The City also maintains reserves to mitigate future benefit and WSIB cost increases, and to fund sick leave payouts. The estimated increase in the employee future benefits liability in 2022 is \$5,300,000.

The 2022 TCA amortization expense is estimated to be \$55,000,000. Amortization is an accounting allocation that recognizes the cost of assets over their useful lives rather than in the year the asset was purchased.

### **Financial Implications**

There are no direct financial implications associated with this report. The intent of this report is to estimate the reconciliation of the 2022 proposed budget to a PSAS compliant budget used in the preparation of the audited financial statements.

## **Strategic Plan Alignment**

This report aligns with the City's Working Together for our Future pillar to ensure compliance with regulations and transparent financial communications to Council and the community.

## **Attachments**

Attachment-1 2022 City of Guelph Operating Budget (Unconsolidated) Public Sector Accounting Standards Reconciliation

## **Departmental Approval**

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## **Report Author**

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## **This report was approved by:**

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## **This report was recommended by:**

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