

Staff Report



To	Committee of the Whole
Service Area	Corporate Services
Date	Tuesday, February 6, 2024
Subject	Budget Impacts per Ontario Regulation 284/09 and Budget – Public Sector Accounting Standards Reconciliation 2024

Recommendation

That the Budget Impacts per Ontario Regulation 284-09 and Budget - Public Sector Accounting Standards Reconciliation for the 2024 budget be approved.

Executive Summary

Purpose of Report

To provide a reconciliation between the 2024 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 (which is now considered an asset retirement obligation) 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 2023 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 2024 estimated PSAS surplus of \$82,828,704 (2023 - \$54,252,740) for audited financial statement purposes.

Strategic Plan Alignment

This report aligns with the maintain the City's healthy financial position objective of the Foundations theme of the Future Guelph strategic plan. This reconciliation between the City's budget and the PSAS budget is required to ensure compliance with regulations and provide transparent financial communications to Council and the community. Budgets are a spending control and revenue rate setting document that is required to maintain the City's healthy financial position.

Future Guelph Theme

Foundations

Future Guelph Objectives

Foundations: Maintain the City's healthy financial position

Financial Implications

There are no direct financial implications associated with this report. The intent of this report is to estimate the 2024 PSAS compliant budget based on the 2024 approved by Council.

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 asset retirement obligations), 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 2024 City of Guelph Operating Budget - (Unconsolidated) Public Sector Accounting Standards Reconciliation, Attachment-1, shows the reconciliation of the City's 2024 budget as tabled, to the budget restated in accordance with PSAS and presents the estimated PSAS budgeted annual surplus for the 2024 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 2024 estimated surplus of \$82,828,704 (2023 - \$54,252,740).

Adjustments to Revenues for Financial Statement Purposes

The 2024 budgeted transfers from reserve and reserve funds are estimated to be \$160,616,000 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.

The City budgeted to receive \$1,176,000 in principal on loans made to related parties (The Elliot Community and Wellington-Dufferin-Guelph Public Health Unit) in 2024. The City includes this as revenue in the operating budget. However, under PSAS, this is considered a reduction of a loan receivable asset.

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 2024 is \$1,300,000.

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 2024 budgeted transfers to reserves and reserve funds are estimated to be \$122,156,000.

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 2024 are \$167,851,704.

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 2024 are \$10,159,000. 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 50 years from the date of closure. Each year this liability estimate is updated and results in a non-cash adjustment under PSAS. The 2024 estimated change in the landfill post-closure liability will result in a reduction of expenses under PSAS of \$126,000. As of 2023, PSAS now includes the landfill liability under a new accounting standard PS 3280 – Asset Retirement Obligations. As such the landfill liability is now referred to as an asset retirement obligation going forward.

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 Workplace Safety Insurance Board (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 2024 is \$1,042,000.

The 2024 TCA amortization expense is estimated to be \$55,976,000. 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 2024 proposed budget to a PSAS compliant budget used in the preparation of the audited financial statements.

Attachments

Attachment-1 2024 City of Guelph Operating Budget - (Unconsolidated) Public Sector Accounting Standards Reconciliation

Departmental Approval

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