

Town of Whitby

Staff Report

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Report Title: Reporting Requirement Per Ontario Regulation 284/09 – 2023 Budget

Report to: Council

Date of meeting: February 16, 2023

Report Number: FS 04-23

Department(s) Responsible:

Financial Services Department

Submitted by:

Fuwing Wong, Commissioner, Financial Services/Treasurer x 4314

Acknowledged by M. Gaskell, Chief Administrative Officer

For additional information, contact:

Ruby Zhang, Senior Manager, Treasury Services x 2801

1. Recommendation:

1. That Report FS 04-23 of the Commissioner of Financial Services/ Treasurer be received as information;
2. That the full accrual accounting items identified in Report FS 04-23 be approved and included as budget figures in the December 31, 2023 audited financial statements;
3. That the Treasurer be authorized to make the required amendments to the budget figures in the Town's audited financial statements for any technical adjustments or amendments to the Town's budget approved by Council.

2. Highlights:

- The Town of Whitby is required, under the Public Sector Accounting Board rules, to prepare financial statements on the full accrual basis of accounting, which includes recording the costs of Tangible Capital Assets ("TCA") and related amortization, post-employment retirement benefits, and solid waste landfill closure and post-closure expenses.

- Ontario Regulation 284/09 authorizes municipalities to continue to prepare their annual budgets on the fund accounting basis. However, the Regulation requires that a report be prepared, prior to Council's approval the budget, to advise Council of the anticipated full accrual accounting impact of the revenues and expenses proposed in the budget.
- The proposed 2023 Budget adjusted for full accrual basis of accounting is estimated to result in a \$125 million increase in the Town's accumulated surplus.
- The full accrual figures in this report, based on the proposed budget, will be used as 2023 budget figures in the 2023 financial statements.
- The Treasurer will adjust the full accrual basis of accounting budget figures in the Town's financial statements to reflect any Council approved adjustments to the Town's approved 2023 budget in staff report FS 06-23 or any required technical adjustments to the budget.

3. Background:

The Town prepares two main financial documents; an annual budget and annual financial statements.

Generally accepted accounting principles for local governments is set by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada. Public Sector Accounting Board regulations requires that municipalities prepare annual financial statements using the full accrual basis of accounting. Prior to 2009, municipal budgets and financial statements were prepared on the fund basis of accounting where revenues and expenditures are balanced, tangible capital asset expenditures are not capitalized, and amortization (previously referred to as depreciation) expense was not reflected.

Starting in 2010, municipal financial statements were required to be prepared on the full accrual basis of accounting which is similar to the private sector. However, Ontario Regulation 284/09 allowed municipalities to continue to budget on the fund accounting basis. Continuing to budget on a fund accounting basis allows municipalities to communicate, in an easy-to-understand fashion, increases in expenditures and revenues and any necessary property tax increases related to municipal budgets. The Regulation requires the municipality to disclose the full accrual impact of the proposed budget prior to Council approval of the budget. The regulation specifically requires the following adjustments:

- costs of Tangible Capital Assets and related amortization;
- post-employment retirement benefits; and
- solid waste landfill closure and post-closure expenses

Like most municipalities in Ontario, the Town of Whitby continues to prepare budgets on a fund accounting basis and prepares an Ontario Regulation 284/09 report prior to Council's approval of the budget.

4. Discussion:

The Public Sector Accounting Board has several requirements for financial reporting that all municipalities have to comply with, from 2009 onward after the introduction of PSAB Section 3150 – Tangible Capital Assets.

In addition to other full accrual accounting calculation and disclosure, the PSAB financial reporting requirements for the 2009 and future reporting periods incorporate the capitalization of TCA and amortization expenses in the financials for municipalities.

Tangible capital assets include land, buildings, vehicles, equipment and all road related infrastructure owned and assumed by the Town.

Given that the recording of TCA and related amortization are non-cash items, there is no financial impact from the exclusion of these items from the operating and capital budgets.

The Town of Whitby, like many municipalities, continues to prepare budgets on the traditional fund basis of accounting. That is, annually, Council approves a (fund accounting) budget where revenues and expenses must balance. The tax rate is set based on a fund basis of accounting and therefore does not include the non-cash items described above.

As per Ontario Regulation 284/09, Ontario municipalities may continue to exclude TCA amortization, post post-employment retirement benefits, and solid waste landfill closure and post-closure costs for budget purposes but must annually prepare a report to Council to inform Council of the impacts of these items before Council considers and approves the budget.

The change in the estimated accumulated surplus of the Town of Whitby resulting from the exclusion of the remaining expenses from the budget is \$125 million as summarized below:

	2023 (\$ estimated in thousands)
PSAB Additions to Budget Expenses	
Tangible Capital Asset Amortization	27,660
Post-Employment Benefits	1,035
Net Budget Transfer from Reserves	12,696
Total PSAB Additions	41,391
PSAB Reductions to Budget due to investment in assets	
Tangible Capital Asset Acquisitions	(164,855)
Debt Principal Payments	(1,117)
Total PSAB Reductions	(165,972)
Decrease (Increase) in Accumulated Surplus	(124,581)

There are no adjustments above related to the Town's obligation for closed landfill sites as these costs are included within the 2023 budget in staff report FS 06-23.

5. Financial Considerations:

There is no financial impact on the tax levy from the exclusion of these expenses from the Operating and Capital Budgets.

During high growth periods when assets are assumed or when significant capital projects occur, an increase in accumulated surpluses can be expected. Increases in assets increases the annual levels of amortization and investments are required to maintain the Town's assets. It is important for municipalities to ensure that an asset management plan is in place and financed through sustainable funding to maintain these assets.

According to the Town's current Municipal Asset Management Plan, the 10-year annual average funding requirement is approximately \$33 million. The ongoing asset management contribution included in the proposed 2023 operating budget approximately is \$27 million comprised of \$22.4 million of tax-based funding and which is further supported through annual Canada Community Building Fund (formerly known as Federal Gas Tax Fund) of \$4.2 million and \$0.3 million of user fee based contribution.

The full accrual figures noted in this report were calculated based on the proposed 2023 Budget in staff report FS 06-23 and will be used as the budget figures in the Town's 2023 financial statements. As part of the budget process, Council may adjust the budget prior to approval. It is recommended that the Treasurer be authorized to make required amendments to the full accrual basis of accounting budget figures as a result of any budget amendments approved by Council or based on required technical adjustments to the budget.

6. Communication and Public Engagement:

N/A

7. Input from Departments/Sources:

N/A

8. Strategic Priorities:

N/A

9. Attachments:

N/A